Colfax CORP
Form S-1/A
April 04, 2008
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As filed with the Securities and Exchange Commission on April 4, 2008

Registration No. 333-148486

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 2

to

Form S-1

REGISTRATION STATEMENT UNDER

THE SECURITIES ACT OF 1933

Colfax Corporation

(Exact name of registrant as specified in its charter)

Delaware	**3561**	**54-1887631**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification Number)**

8730 Stony Point Parkway, Suite 150

Richmond, VA 23235

(804) 560-4070

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)

John A. Young

President and Chief Executive Officer

8730 Stony Point Parkway, Suite 150

Richmond, VA 23235

(804) 560-4070

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date hereof.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. ¨

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 þ	Smaller reporting company ¨

(Do not check if a smaller reporting company)

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	**Proposed maximum aggregate offering price (1)**	**Amount of Registration Fee (2)**
Common Stock, $0.001 par value per share	$ 345,000,000	$ 13,559

(1) Estimated solely for the purpose of calculating the amount of the registration fee pursuant to Rule 457(a) under the Securities Act of 1933, as amended.
(2) Calculated pursuant to Rule 457(a) based on an estimate of the proposed maximum aggregate offering price. $1,769 has been paid herewith. $11,790 was paid with the initial filing of the Registration Statement.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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Subject To Completion

Preliminary Prospectus dated April 4, 2008

PROSPECTUS

Shares

Common Stock

This is Colfax Corporation s initial public offering. Colfax Corporation is selling shares of common stock and the selling stockholders identified in this prospectus are selling an additional shares. The number of shares sold by the selling stockholders is based upon an assumed offering price of $ per share, the midpoint of the price range set forth below. We will not receive any proceeds from the sale of shares by the selling stockholders.

We expect the public offering price to be between $ and $ per share. Currently, no public market exists for the shares. After pricing of the offering, we expect that the shares will trade on the New York Stock Exchange under the symbol CFX.

Investing in the common stock involves risks that are described in the Risk Factors section beginning on page 11 of this prospectus.

	Per Share	Total
Public offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to Colfax Corporation	$	$
Proceeds, before expenses, to the selling stockholders(1)		

(1) We have agreed to reimburse the selling stockholders for the underwriting discount on the shares sold by them.

The underwriters may also purchase up to an additional shares from us at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus to cover overallotments.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The shares will be ready for delivery on or about , 2008.

Merrill Lynch & Co.

Lehman Brothers

UBS Investment Bank

Robert W. Baird & Co.

Banc of America Securities LLC

Deutsche Bank Securities

KeyBanc Capital Markets

The date of this prospectus is , 2008

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You should rely only on the information contained in this prospectus or any free writing prospectus prepared by or on behalf of us. We, the selling stockholders and the underwriters have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

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PROSPECTUS SUMMARY

This summary is qualified in its entirety by the more detailed information and the consolidated financial statements and related notes appearing elsewhere in this prospectus. This summary may not contain all of the information that you should consider before investing in our common stock. You should read the entire prospectus carefully, including the section entitled Risk Factors, our consolidated financial statements and the related notes, before making an investment decision. Unless otherwise indicated, references in this prospectus to Colfax, the company, we, our and us refer to Colfax Corporation and its subsidiaries. In this prospectus, we present Adjusted EBITDA, which we consider a key indicator of financial performance. We believe that Adjusted EBITDA facilitates operating performance comparisons between periods and companies by excluding differences related to capital structures (affecting interest expense), tax positions, as well as the financial impact of discontinued operations and legacy asbestos (income) expense which are not indicative of our revenue and profit generating activities. Adjusted EBITDA is not a measurement of financial performance under generally accepted accounting principles (GAAP) and should not be considered as an alternative to net income as an indicator of operating performance or as an alternative to cash flow from operating activities or as a measure of liquidity or any other measure of performance derived in accordance with GAAP. Please see note (3) to Summary Consolidated Financial and Other Information for a description of how we use Adjusted EBITDA, its limitations and a reconciliation of this non-GAAP financial measure to GAAP net income. We define Adjusted EBITDA as net income before the effects of interest expense, taxes, depreciation, amortization, discontinued operations and legacy asbestos (income) expense.

Our Business

We are a global supplier of a broad range of fluid handling products, including pumps, fluid handling systems and specialty valves. We believe that we are a leading manufacturer of rotary positive displacement pumps, which include screw pumps, gear pumps and progressive cavity pumps. We have a global manufacturing footprint, with production facilities in Europe, North America and Asia, as well as worldwide sales and distribution channels. Our products serve a variety of applications in five strategic markets: commercial marine, oil and gas, power generation, global navy and general industrial. We design and engineer our products to high quality and reliability standards for use in critical fluid handling applications where performance is paramount. We also offer customized fluid handling solutions to meet individual customer needs based on our in-depth technical knowledge of the applications in which our products are used. Our products are marketed principally under the Allweiler, Fairmount, Houttuin, Imo, LSC, Portland Valve, Tushaco, Warren and Zenith brand names. We believe that our brands are widely known and have a premium position in our industry. Allweiler, Houttuin, Imo and Warren are among the oldest and most recognized brands in the markets in which we participate, with Allweiler dating back to 1860. For the years ended December 31, 2007 and December 31, 2006, we had net sales of $506.3 million and $393.6 million, net income of $64.9 million and $0.1 million and Adjusted EBITDA of $88.2 million and $64.8 million, respectively.

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, marine and governmental customers such as Alfa Laval, Cummins, General Dynamics, Hyundai Heavy Industries, Siemens, Solar Turbines, Thyssenkrupp, the U.S. Navy and various sovereign navies around the world. We have a large installed base, which, combined with the critical nature of the applications in which our products are used, leads to a tendency for our customers to replace like for like products. This tendency leads to significant aftermarket demand for replacement products as well as for spare parts and maintenance service.

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We employ a comprehensive set of tools and processes known 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.

We have an experienced management team that has established a focused industrial manufacturing business with strong market positions within the fluid handling industry. We believe we are well positioned to continue to grow by enhancing our product offerings and expanding our customer base in each of our strategic markets. We also have successfully completed and integrated several acquisitions and expect to continue to pursue acquisitions of complementary businesses that will broaden our product portfolio, expand our geographic footprint or enhance our position in our strategic markets.

Our Market Opportunity

The global fluid handling industry is highly fragmented, with over 10,000 companies competing across numerous markets and sectors of the economy. Because fluid handling products often are used 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.

We believe there is strong growth potential for our products and services in our strategic markets, which are global in nature and have a need for highly engineered, critical fluid handling solutions. We believe that our global presence positions us to compete successfully in all of our markets throughout the world.

Our Competitive Strengths

We believe that the following competitive strengths position us as a premium provider of fluid handling products and will contribute to our future growth:

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 79 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 lower 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.

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Large Installed Base Generating Aftermarket Sales and Service. With a product 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 for our customers to replace like for like products. This tendency leads to significant aftermarket demand for replacement products as well as spare parts and for repair and maintenance service. In the year ended December 31, 2007, we estimate that approximately 25% 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 66% of our sales in 2007 were derived from operations outside of the U.S. In addition, no single customer represented more than 3% of our sales during that 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 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.

Our 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 is a strategic planning and execution methodology designed to achieve world-class excellence in all aspects of our business. 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.

Execute Market Focused Strategies. We believe that our five strategic markets are attractive due to their ongoing capital expenditure requirements, growth rates and global nature.

Commercial Marine We intend to continue to increase our installed base of products and grow our aftermarket sales and service revenues. We also intend to expand our capabilities in the Asia Pacific region by utilizing our Chinese and Indian facilities to offer locally manufactured products, reduce production costs and provide local customer service and support.

Oil and Gas We intend to continue our strategy of offering oil and gas customers increased efficiency and lower total cost of ownership by replacing legacy products currently in use with our more efficient products. We also intend to capture the growing need for complex turnkey systems through the development of solutions that can undertake the difficult task of handling varying mixtures of heavy crude oil, natural gas and water at the same time. We intend to continue to target the fast growing oil and gas markets around the world, including Asia and developing nations.

Power Generation We intend to use our extensive expertise in power generation applications to continue our growth as a provider of turnkey systems in this market. We also intend to use our global presence to strengthen relationships with large original equipment manufacturers.

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Global Navy We intend to continue to design, develop and manufacture high value fluid handling systems to meet the needs of evolving naval requirements worldwide. For example, we are currently working with the U.S. Navy to incorporate advanced electronics and controls into our products, and we are also focused on expanding our repair and service capabilities for naval customers.

General Industrial We intend to continue to apply our application expertise to supply our customers in diverse industries such as chemicals, pulp and paper processing and commercial construction 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 utilizing our global presence and sales channels to sell our solutions worldwide.

Target Fast Growing Regions by Leveraging Our Global Manufacturing, Sales and Distribution Network. We intend to continue to utilize 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 increased our global reach to serve our customers by maintaining a local presence in numerous markets and investing in sales and marketing capabilities worldwide. For example, we have recently expanded our manufacturing capabilities by establishing a plant in China and acquiring an Indian manufacturer of fluid handling products.

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.

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. Part of our strategy is to continue to seek a greater share of overall project value by providing complete systems and solutions, particularly where we control project design.

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 believe that we can identify a number of attractive acquisition candidates in the future and that strategic acquisition growth will give us a competitive advantage over small competitors through greater purchasing power, a larger global sales and distribution network and a broader portfolio of products and services.

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Other Information

Company Information

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. **The contents of our website are not a part of this prospectus.**

Trademarks

We have rights to a variety of trade names, service marks and trademarks for use in our business, including Colfax, Allweiler, Fairmount, Houttuin, Imo, LSC, Portland Valve, Tushaco, Warren and Zenith in the U.S. and, where appropriate, in other countries. This prospectus also includes product names and other trade names and service marks owned by us and other companies. The trade names and service marks of other companies are the property of those other companies.

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The Offering

Common stock offered by us	shares
Common stock offered by the selling stockholders	shares[(1)]
Common stock outstanding after the offering	shares
Use of proceeds	We estimate that our net proceeds from this offering will be approximately $ million based on the midpoint of the price range set forth on the cover page of this prospectus. We intend to use these net proceeds to repay $ million of indebtedness outstanding under our credit facility, to pay dividends to existing preferred stockholders that have been declared but unpaid in the amount of $35.1 million, to pay special bonuses of $ million to certain of our executives under previously adopted executive compensation plans, approximately $ million to reimburse the selling stockholders for the underwriting discount incurred on the shares sold by them in this offering and the balance, if any, for working capital and other general corporate purposes.

We will not receive any of the proceeds from the sale of shares by the selling stockholders. See Use of Proceeds below.

Affiliates of Merrill Lynch, Pierce, Fenner & Smith Incorporated, which we refer to as Merrill Lynch, UBS Securities LLC and Banc of America Securities LLC, underwriters in this offering, are lenders under our credit facility. The affiliates of Merrill Lynch and Banc of America Securities LLC will receive $ million and $ million, respectively, of the proceeds used to pay a portion of the indebtedness outstanding under our credit facility. See Underwriting Other Relationships. See Use of Proceeds.

Reserved shares	At our request, the underwriters have reserved for sale, at the initial public offering price, up to shares offered by this prospectus for sale to some of our directors, officers, employees, distributors, customers, business associates and related persons. See Underwriting.
Proposed NYSE symbol	CFX

(1) The estimated number of shares of common stock offered by the selling stockholders is based upon an assumed offering price of $ per share, the midpoint of the price range set forth on the cover page of this prospectus. The number of shares offered by the selling stockholders is calculated by dividing $ million by the initial per share offering price. Assuming an increase or decrease of one dollar from the assumed offering price of $, the number of shares offered by the selling stockholders would decrease or increase by and , respectively.

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Risk factors	See Risk Factors and other information included in this prospectus for a discussion of factors that you should carefully consider before deciding to invest in shares of the common stock.

The number of shares outstanding after the offering excludes shares reserved for issuance under our 2008 omnibus incentive plan. Unless we indicate otherwise, the information in this prospectus:

- reflects a - for -1 split of our outstanding common stock that occurred on , 2008;
- assumes the conversion of all of our outstanding preferred stock into common stock upon completion of this offering;
- assumes the application of the net proceeds of this offering in the manner described in Use of Proceeds ;
- assumes the filing of our restated certificate of incorporation and the adoption of our amended and restated bylaws immediately before the completion of this offering;
- assumes that the initial public offering price of the common stock will be $ per share, which is the midpoint of the price range set forth on the cover page of this prospectus; and
- assumes that the underwriters do not exercise their overallotment option.

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Summary Consolidated Financial and Other Information

The following table sets forth our summary consolidated financial and other information as of the dates for the periods indicated. The financial data for each of the three years in the period ended December 31, 2007 are derived from our consolidated financial statements, which have been audited by Ernst & Young LLP.

You should read this information in conjunction with the consolidated financial statements and the notes to those consolidated financial statements and Management s Discussion and Analysis of Financial Condition and Results of Operations appearing elsewhere in this prospectus.

	Year ended December 31,		
Dollars in thousands, except per share amounts	**2007**	**2006**	**2005**
Statement of Operations Data:			
Net sales	$ 506,305	$ 393,604	$ 345,478
Cost of sales	330,714	256,806	222,353
Gross profit	175,591	136,798	123,125
Selling, general and administrative expenses	98,500	80,103	74,594
Research and development expenses	4,162	3,336	2,855
Legacy asbestos (income) expense	(50,346)	33,816	18,112
Operating income	123,275	19,543	27,564
Interest expense	19,246	14,186	9,026
Provision for income taxes	39,147	3,866	6,907
Income from continuing operations	64,882	1,491	11,631
Net income	64,882	94	12,247
Earnings (loss) per share from continuing operations basic and diluted[(1)]	23,983	915	(1,209)

	As of December 31, 2007[(2)]	
Dollars in thousands	**Actual**	**As Adjusted**
Balance Sheet Data:		
Goodwill and intangibles, net	$ 185,353	
Asbestos insurance asset, including current portion	305,228	
Total assets	896,540	
Asbestos liability, including current portion	376,233	
Total debt, including current portion	206,493	

	Year ended December 31,		
Dollars in thousands	**2007**	**2006**	**2005**
Other Data:			
Adjusted EBITDA[(3)]	$ 88,168	$ 64,840	$ 57,106

(1) Computed based on income from continuing operations available to holders of common stock.

(2) As adjusted to give effect to our sale of common stock in this offering at an assumed offering price of $ per share, which is the midpoint of the price range set forth on the cover page of this prospectus, and the receipt and application of the net proceeds thereof as described under Use of Proceeds.

(3) We consider Adjusted EBITDA a key indicator of financial performance. We define Adjusted EBITDA as net income before the effects of interest expense, taxes, depreciation, amortization, discontinued operations and legacy asbestos (income) expense. We believe that Adjusted EBITDA is useful to investors because it facilitates

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operating performance comparisons between periods and companies by excluding differences related to capital structures (affecting interest expense), tax positions, as well as the financial impact of discontinued operations and legacy asbestos (income) expense which are not indicative of our revenue and profit generating activities. We use Adjusted EBITDA to facilitate comparisons of our operating performance on a consistent basis that, when viewed with our GAAP results and the following reconciliation, we believe provides a more complete understanding of factors and trends affecting our business than GAAP measures alone. Adjusted EBITDA assists us in comparing our operating performance on a consistent basis because it removes the impact of our capital structure (primarily interest charges), asset base (primarily depreciation and amortization) and items outside the control of our operating management team (taxes and legacy asbestos (income) expense). Because Adjusted EBITDA facilitates comparisons of our historical operating performance considering only our revenue and profit generating activities, we use Adjusted EBITDA and Adjusted EBITDA margins in our internal management reporting, budgeting and forecasting processes, in comparing our operating results across our business as well as to those of our competitors and other companies in our industry, as an internal profitability measure, as a component in evaluating our ability and the desirability of making capital expenditures and significant acquisitions, and as an element in determining executive compensation. Further, Adjusted EBITDA and similar measures are widely used by investors, rating agencies and securities analysts as a key measure of financial performance and debt-service capabilities.

Adjusted EBITDA is not a measurement of financial performance under GAAP and should not be considered as an alternative to net income as an indicator of operating performance or as an alternative to cash flow from operating activities or as a measure of liquidity or any other measure of performance derived in accordance with GAAP. Because Adjusted EBITDA is calculated before recurring cash charges including interest expense, taxes and asbestos related liability and litigation costs, and is not adjusted for capital expenditures or other recurring cash requirements of the business, it should not be considered as a measure of discretionary cash available to invest in the growth of the business. See Management s Discussion and Analysis of Financial Condition and Results of Operations Key Performance Measures for a discussion of other material limitations to the use of Adjusted EBITDA as an analytical tool. We compensate for these limitations by relying primarily on our GAAP results and by using Adjusted EBITDA only supplementally. We believe that consideration of Adjusted EBITDA, together with a careful review of our results reported under GAAP, including net income, is the most informed method of analyzing our company.

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The following table reconciles net income to Adjusted EBITDA:

	Year ended December 31,		
Dollars in thousands	**2007**	**2006**	**2005**
Net income	$ 64,882	$ 94	$ 12,247
Interest expense	19,246	14,186	9,026
Provision for income taxes	39,147	3,866	6,907
Discontinued operations expense (income)		1,397	(616)
Depreciation and amortization	15,239	11,481	11,430
Legacy asbestos (income) expense[(1)]	(50,346)	33,816	18,112
Adjusted EBITDA	$ 88,168	$ 64,840	$ 57,106

(1) Legacy asbestos (income) expense includes all asbestos-related costs and is comprised of 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, actual defense costs expensed in the period, as well as legal costs related to the actions against two of our subsidiaries respective insurers and a former parent company of one of the subsidiaries. See Management s Discussion and Analysis of Financial Condition and Results of Operations Asbestos-Related Litigation and Critical Accounting Estimates Asbestos Liabilities and Insurance Assets for a discussion of our expectations regarding future asbestos-related expenses.

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RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risks described below, together with the other information in this prospectus, before making an investment decision. 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.

Risks Related to Our Business

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, 2007, we derived approximately 66% of our sales from operations outside of the U.S. with 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, 2007, approximately 66% 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.

A significant portion of our revenues and income are denominated in Euros and Swedish Kronor. Consequently, depreciation of the Euro or Krona 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 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 some 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.

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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 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 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.

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.

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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 or if the additional capital is not available at all, 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. If we fail to obtain sufficient additional capital in the future, that failure will limit our ability to implement our business strategy. 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 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.

Changes in the general economy 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. 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.

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 operation 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.

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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.

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 terrorist-sponsoring states, and may be subject to increasingly restrictive 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 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 terrorist-sponsoring states 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.

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 44% of our employees are represented by foreign trade unions. If the representation committees responsible for negotiating with these unions on our behalf are unsuccessful at 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 January 31, 2008, we had approximately 2,059 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.

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Although we have not experienced any 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 strict 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 non-compliance 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 your investment 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 of 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. In addition, the independent registered public accounting firm auditing a public company s financial statements must also attest to, and report on, the operating effectiveness of the company s internal controls. 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 do not timely complete our assessment or if our internal controls are not designed or operating effectively as required by Section 404, 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 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.

Risks Related to This Offering

Some of our stockholders may exert significant influence over us.

As of December 31, 2007, two of our directors and principal stockholders, Mitchell P. Rales and Steven M. Rales, beneficially owned 170,213.81 shares and 170,213.81 shares of our preferred stock, respectively, which, on an as-converted basis, represent an aggregate of approximately % of our outstanding common stock. This approximate percentage is calculated using an assumed offering price of $ per share, the midpoint of the price range set forth on the cover page of this prospectus. Assuming an increase or decrease of one dollar in the initial offering price from the assumed offering price of $, this percentage will decrease or increase, by % and %, respectively. Further, after a -for-1 split of our outstanding common stock that occurred on , 2008, Mitchell and Steven Rales currently each beneficially owns an additional shares and shares, respectively, of our common stock. All shares of our preferred stock being converted into common stock are expected to be sold in this offering. Therefore, the beneficial ownership of each of Mitchell Rales and Steven Rales after this offering is anticipated to be reduced to approximately % and %, respectively, of our outstanding shares. Even after this offering, however, the level of ownership of these stockholders, and the service of Mitchell Rales on our board of directors, will enable them to continue 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.

We intend to use a large portion of the net proceeds of this offering to repay indebtedness outstanding under our existing credit facility, pay previously declared and unpaid dividends, reimburse the selling stockholders for the underwriting discount on the shares sold by them and pay bonuses to certain executives.

We have broad discretion to determine how to use the net proceeds of this offering, and have elected to apply $ million of the proceeds to repay indebtedness outstanding under our credit facility, $35.1 million of the proceeds to pay previously declared and unpaid dividends to existing preferred stockholders, approximately $ million of the proceeds to reimburse the selling stockholders for the underwriting discount on the shares sold by them and $ of the proceeds to pay special bonuses to certain of our executives under previously adopted executive compensation plans.

Using a large portion of the net proceeds of this offering in the manner described above means that we will only have available a small portion of the proceeds of the offering for use for other corporate purposes. As a result, we may need to seek additional debt or equity financing to fund operations and future growth. If we are not able to incur additional debt or sell additional equity on favorable terms, we may be unable to fund operations or expand our business, which could adversely affect our financial condition.

Future sales of our shares after this offering, or the perception that such sales could occur, could negatively affect the market price of our stock.

Future sales of a substantial amount of our common stock in the public market following this offering, or the perception that such sales could occur, could adversely affect the market price of our common stock. Upon completion of this offering, we will have outstanding shares of our common stock (or shares if the underwriters exercise their option to purchase additional shares in full). Beginning approximately 180 days after completion of this offering, except for any shares acquired by our affiliates, as that term is defined in Rule 144 under the Securities Act, any of these shares may be resold immediately in the public market. We cannot predict the effect that future sales made under Rule 144, Rule 701 or otherwise will have on the market price of our common stock.

We have no intention of paying cash dividends on our common stock in the foreseeable future.

We currently expect to retain future earnings, if any, to finance operations and our acquisition strategy, and do not anticipate paying any cash dividends for the foreseeable future. Therefore, you may not receive any return on an investment in our common stock unless you sell your common stock for a price greater that the price that you paid for it.

Investors in this offering will experience immediate dilution in combined net tangible book value per share.

The initial public offering price per share will significantly exceed the combined net tangible book value per share of our common stock. As a result, investors in this offering will experience immediate dilution of

$ in combined net tangible book value per share based on an initial public offering price of $, which is the midpoint of our expected price range. This dilution occurs in large part because our earlier investors paid substantially less than the initial public offering price when they purchased their shares. Investors in this offering may also experience additional dilution as a result of shares of common stock that may be issued in connection with a future acquisition.

Our common stock has no prior public market, and our stock price could be volatile and could decline after this offering.

Before this offering, our common stock had no public market. We will negotiate the initial public offering price per share with the representatives of the underwriters and, therefore, that price may not be indicative of the market price of our common stock after the offering. We cannot assure you that an active public market for our common stock will develop after this offering, or that if it does develop, it will be sustained. In the absence of a public trading market, you may not be able to liquidate your investment in our common stock. In addition, the market price of our common stock could be subject to significant fluctuations after this offering. Among the factors that could affect our stock price are:

- quarterly variations in our operating results;
- changes in sales or earnings estimates or publication of research reports by analysts;
- speculation in the press or investment community;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- actions by institutional stockholders or other large stockholders;
- product liability, including asbestos, lawsuits against us;
- changes in accounting principles;
- general market conditions; and
- domestic and international, political and economic factors unrelated to our performance that affect our production facilities or our markets.

In particular, we cannot assure you that you will be able to resell your shares at or above the initial public offering price. The stock markets have experienced extreme volatility in recent years that has been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our common stock. In the past, following periods of volatility in the market price of a company s securities, class action litigation has often been instituted against the company. Any litigation of this type brought against us could result in substantial costs and a diversion of our management s attention and resources, which would harm our business, operating results and financial condition.

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 certificate of incorporation and 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.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus, including the sections entitled Prospectus Summary, Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations (including, in particular, the sections therein labeled Outlook and Asbestos-Related Litigation) and Business, contains forward-looking statements. These statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ materially from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. These risks and other factors include:

- risks associated with our international operations;
- significant movements in foreign currency exchange rates;
- the competitive environment in our industry;
- our ability to identify and successfully integrate attractive acquisition targets;
- the amount of and our ability to estimate our asbestos-related liabilities;
- 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;
- the level of capital investment and expenditures by our customers in our strategic markets;
- our ability to expand our business in our targeted markets;
- our ability to cross-sell our product portfolio to existing customers;
- our financial performance; and
- others risks and factors listed under Risk Factors and elsewhere in this prospectus.

In some cases, you can identify forward-looking statements by terminology such as may, will, should, expects, intends, plans, anticipate believes, estimates, predicts, potential, continue or the negative of these terms or other comparable terminology. Although we believe that th expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise after the date of this prospectus.

INDUSTRY AND MARKET DATA

Industry and market data used in this prospectus are based on independent industry publications from sources such as The Freedonia Group, Elsevier, European Industrial Forecasting, the Hydraulic Institute and other publicly available information.

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USE OF PROCEEDS

We estimate that we will receive $ million in net proceeds from our sale of the shares of common stock sold by us in the offering (or approximately $ million if the underwriters exercise their overallotment option in full). Our estimated net proceeds from the offering represent the amount we expect to receive after the underwriting discount and our payment of the other expenses of the offering payable by us. We estimate that the selling stockholders will receive $ million in proceeds from their sale of shares of common stock in the offering. We will not receive any proceeds from the sale of shares by the selling stockholders. For purposes of estimating our net proceeds, we have assumed that the initial public offering price of the common stock will be $, which is the midpoint of the price range set forth on the cover page of this prospectus.

We intend to use $ million of the proceeds we receive from this offering to pay indebtedness outstanding under our credit facility. As of December 31, 2007, we had approximately $205.3 million principal amount, along with accrued interest, outstanding under our credit facility. The weighted average interest rate at December 31, 2007 of our indebtedness under the credit facility was 7.4%. Within our credit facility, the revolving line of credit expires on May 30, 2010 and the term loan matures on December 19, 2011. We also intend to use $35.1 million of the proceeds of this offering to pay to existing preferred stockholders dividends that have been declared but unpaid due to the restrictions on payment of dividends contained in our credit facility. Mitchell Rales and Steven Rales, and certain entities controlled entirely by them, currently own all of our outstanding preferred stock. We will also use approximately $ million of the proceeds of this offering to pay amounts due, as a result of this offering, to participants in our 2001 Employee Appreciation Rights Plan (the 2001 Plan) and our 2006 Executive Stock Rights Plan (the 2006 Plan), which are bonus plans for certain executive officers. See Management Compensation Discussion and Analysis for additional information concerning these plans, including amounts to be paid to certain executive officers under the 2001 Plan and the 2006 Plan as a result of this offering. In addition, we intend to use approximately $ of our net proceeds from this offering to reimburse the selling stockholders for the underwriting discount on the shares sold by them. We intend to use the balance of the net proceeds, if any, for working capital and other general corporate purposes, which may include funding for possible acquisitions. We have no agreement with respect to any future acquisition, although we assess opportunities on an ongoing basis and from time to time hold discussions with other companies regarding potential transactions.

Affiliates of Merrill Lynch, UBS Securities LLC and Banc of America Securities LLC, underwriters in this offering, are parties to our credit facility. The affiliates of Merrill Lynch and Banc of America Securities LLC will receive $ million and $ million, respectively, of the proceeds used to pay a portion of the indebtedness outstanding under the Term B and Term C loans under our credit facility. See Underwriting Other Relationships.

DIVIDEND POLICY

We intend to retain our earnings for use in the operation and expansion of our business and we do not anticipate paying any dividends on the common stock in the foreseeable future. Payment of future dividends, if any, will be determined in the sole discretion of our board of directors and will depend upon, among other things, the future earnings, operations, capital requirements and general financial condition and prevailing business and economic conditions, as well as statutory restrictions on our ability to pay dividends.

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CAPITALIZATION

The following table shows, as of December 31, 2007 our capitalization:

- on an actual basis;
- on a pro forma basis to reflect the automatic conversion of all of our outstanding preferred stock into shares of common stock upon completion of this offering based upon an assumed public offering price of $ per share, the midpoint of the price range set forth on the cover page of this prospectus; and
- on a pro forma as adjusted basis to reflect (i) the sale of common stock by us in this offering at an assumed public offering price of $ per share, the midpoint of the price range set forth on the cover page of this prospectus, after the deduction of the estimated underwriting discount and offering expenses payable by us and (ii) the application of the net proceeds of this offering in the manner described under Use of Proceeds.

The share data in the table below are based on shares outstanding as of December 31, 2007. The number of outstanding shares as of that date excludes shares of common stock reserved for future issuance under our 2008 omnibus incentive plan.

You should read this table in conjunction with our consolidated financial statements and the related notes and Management s Discussion and Analysis of Financial Condition and Results of Operations appearing elsewhere in this prospectus.

	December 31, 2007		
(in thousands, except per share data)	**Actual**	**Pro Forma**	**Pro Forma, As Adjusted**
Total debt, including current portion	$ 206,493	$	$
Shareholders equity (deficit):			
Preferred stock, undesignated, $0.001 par value per share; 256,785 shares authorized; 174,784.828 shares issued and outstanding actual, 0 shares issued and outstanding pro forma and pro forma as adjusted	1		
Common stock, $0.001 par value per share; 1,632 shares authorized actual, shares authorized pro forma and pro forma as adjusted; 1,628.874 shares issued and outstanding actual, shares issued and outstanding pro forma and shares issued and outstanding pro forma as adjusted	1		
Additional paid-in capital	201,681		
Retained earnings (deficit)	(109,238)		
Accumulated other comprehensive loss	(39,394)		
Total shareholders equity (deficit)	53,051		
Total capitalization	$ 259,544	$	$

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DILUTION

Purchasers of the common stock in the offering will suffer an immediate and substantial dilution in net tangible book value per share. Dilution is the amount by which the initial public offering price paid by purchasers of shares of our common stock exceeds the net tangible book value per share of our common stock after the offering. Net tangible book value represents the amount of our total tangible assets reduced by our total liabilities. Tangible assets equal our total assets less goodwill and intangible assets. Net tangible book value per share represents our net tangible book value divided by the number of shares of common stock outstanding. As of December 31, 2007, our net tangible book value was $ million and our net tangible book value per share was $.

After giving effect to the sale of shares of common stock in the offering by us at an initial public offering price of $ per share, which is the midpoint of the price range set forth on the cover page of this prospectus, the assumed conversion of all shares of preferred stock based upon the same assumed initial public offering price and the application of the estimated net proceeds of this offering to us, our adjusted net tangible book value as of December 31, 2007 would have been $ million, or $ per share. This represents an immediate in net tangible book value of $ per share to existing stockholders and an immediate dilution of $ per share to new investors purchasing shares in the offering. The following table illustrates this per share dilution:

		Per Share
Assumed initial public offering price per share		$
Net tangible book value per share as of December 31, 2007	$	
Pro forma net tangible book value per share as of December 31, 2007		
Increase in combined net tangible book value per share attributable to new investors		
Adjusted net tangible book value per share after this offering		
Dilution per share to new investors		$

A $1.00 increase (decrease) in the assumed initial public offering price of $ per share would increase (decrease) our adjusted net tangible book value after the offering by approximately $ million and dilution per share to new investors by approximately $, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions.

If the underwriters exercise in full their option to purchase additional shares, the adjusted net tangible book value per share after the offering would be $ per share, the increase in net tangible book value per share to existing stockholders would be $ per share and the dilution to new investors would be $ per share.

The following table summarizes as of December 31, 2007, after giving effect to the conversion of all outstanding shares of convertible preferred stock into an aggregate of shares of common stock upon the closing of this offering, the number of shares of common stock purchased, the total consideration paid and the average price per share paid, or to be paid, by existing stockholders and by new investors purchasing common stock in this offering. The calculation below is based on an assumed initial public offering price of $ per share, which is the midpoint of the price range listed on the cover page of this prospectus, before deduction of estimated underwriting discounts and commissions and offering expenses payable by us:

	Shares Purchased		Total Consideration		Average Price
	Number	Percent	Amount	Percent	Per Share
Existing stockholders		%	$	%	$
New investors					$
Total		100%	$	100%	

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The share data in the table above are based on shares outstanding as of December 31, 2007. The number of outstanding shares at that date excludes shares of common stock reserved for future issuance under our 2008 omnibus incentive plan.

A $1.00 increase (decrease) in the assumed initial public offering price of $ per share would increase (decrease) the total consideration paid by new investors by $ million and increase (decrease) the percentage of total consideration paid by new investors by approximately %, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same.

If the underwriters exercise in full their option to purchase additional shares, the percentage of shares of common stock held by existing stockholders will decrease to approximately % of the total number of shares of our common stock outstanding after this offering and will increase the number of shares held by new investors to , or % of the total number of shares of our common stock outstanding after this offering.

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SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The following table contains selected historical financial and other data for each of the five years in the period ended December 31, 2007. The financial data for each of the five years in the period ended December 31, 2007 are derived from our consolidated financial statements, which have been audited by Ernst & Young LLP.

In reviewing the following information, it should be noted that we acquired the net assets of Zenith Pump (Zenith) on June 30, 2004, the net assets of Portland Valve Inc. (Portland Valve) on August 6, 2004, Tushaco Pump Private Limited (Tushaco) on August 9, 2005, Lubrication Systems Company of Texas (LSC) on January 31, 2007, and Fairmount Automation Inc. on November 29, 2007, and we divested our power transmission business on November 30, 2004.

You should read this information in conjunction with the consolidated financial statements and the notes to those consolidated financial statements and Management s Discussion and Analysis of Financial Condition and Results of Operations appearing elsewhere in this prospectus.

	Year ended December 31,				
Dollars in thousands, except per share amounts	**2007**	**2006**	**2005**	**2004**	**2003[(1)]**
Statement of Operations Data:					
Net sales	$ 506,305	$ 393,604	$ 345,478	$ 309,653	$ 266,698
Cost of sales	330,714	256,806	222,353	197,907	167,104
Gross profit	175,591	136,798	123,125	111,746	99,594
Selling, general and administrative expenses	98,500	80,103	74,594	77,434	72,058
Research and development expenses	4,162	3,336	2,855	3,175	3,072
Legacy asbestos (income) expense	(50,346)	33,816	18,112	29,412	20,132
Operating income	123,275	19,543	27,564	1,725	4,332
Interest expense	19,246	14,186	9,026	6,918	6,941
Provision (benefit) for income taxes	39,147	3,866	6,907	(6,010)	8,687
Income (loss) from continuing operations	64,882	1,491	11,631	817	(11,296)
Net income (loss)	64,882	94	12,247	57,306	(15,678)
Earnings (loss) per share from continuing operations basic and diluted[(2)]	23,983	915	(1,209)	(8,314)	(6,925)

	December 31,				
Dollars in thousands	**2007**	**2006**	**2005**	**2004**	**2003**
Balance Sheet Data:					
Goodwill and intangibles, net	$ 185,353	$ 154,231	$ 149,793	$ 152,681	$ 132,395
Asbestos insurance asset, including current portion	305,228	297,106	261,941	193,386	158,506
Total assets	896,540	797,226	700,574	707,881	700,829
Asbestos liability, including current portion	376,233	388,920	338,535	266,668	211,643
Total debt, including current portion	206,493	188,720	158,454	125,051	179,938

	Year ended December 31,				
Dollars in thousands	**2007**	**2006**	**2005**	**2004**	**2003[(1)]**
Other Data:					
Adjusted EBITDA[(3)]	$ 88,168	$ 64,840	$ 57,106	$ 41,009	$ 31,329

(1) Financial data for periods prior to May 30, 2003 are presented on a combined basis. On that date, through a series of capital contributions and exchanges of equity securities by the current shareholders, entities that were previously under common ownership became subsidiaries of Colfax Corporation.

(2) Computed based upon income from continuing operations available to holders of common stock.

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(3) We consider Adjusted EBITDA a key indicator of financial performance. We define Adjusted EBITDA as net income before the effects of interest expense, taxes, depreciation, amortization, discontinued operations and legacy asbestos (income) expense. We believe that Adjusted EBITDA is useful to investors because it facilitates operating performance comparisons between periods and companies by excluding differences related to capital structures (affecting interest expense), tax positions, as well as the financial impact of discontinued operations and legacy asbestos (income) expense which are not indicative of our revenue and profit generating activities. We use Adjusted EBITDA to facilitate comparisons of our operating performance on a consistent basis that, when viewed with our GAAP results and the following reconciliation, we believe provides a more complete understanding of factors and trends affecting our business than GAAP measures alone. Adjusted EBITDA assists us in comparing our operating performance on a consistent basis because it removes the impact of our capital structure (primarily interest charges), asset base (primarily depreciation and amortization) and items outside the control of our operating management team (taxes and legacy asbestos (income) expense). Because Adjusted EBITDA facilitates comparisons of our historical operating performance considering only our revenue and profit generating activities, we use Adjusted EBITDA and Adjusted EBITDA margins in our internal management reporting, budgeting and forecasting processes, in comparing our operating results across our business as well as to those of our competitors and other companies in our industry, as an internal profitability measure, as a component in evaluating our ability and the desirability of making capital expenditures and significant acquisitions, and as an element in determining executive compensation. Further, Adjusted EBITDA and similar measures are widely used by investors, rating agencies and securities analysts as a key measure of financial performance and debt-service capabilities.

Adjusted EBITDA is not a measurement of financial performance under GAAP and should not be considered as an alternative to net income as an indicator of operating performance or as an alternative to cash flow from operating activities or as a measure of liquidity or any other measure of performance derived in accordance with GAAP. Because Adjusted EBITDA is calculated before recurring cash charges including interest expense, taxes and asbestos related liability and litigation costs and is not adjusted for capital expenditures or other recurring cash requirements of the business, it should not be considered as a measure of discretionary cash available to invest in the growth of the business. See Management s Discussion and Analysis of Financial Condition and Results of Operations Key Performance Measures for a discussion of the other material limitations to the use of Adjusted EBITDA as an analytical tool. We compensate for these limitations by relying primarily on our GAAP results and by using Adjusted EBITDA only supplementally.

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We believe that consideration of Adjusted EBITDA, together with a careful review of our results reported under GAAP, including net income, is the most informed method of analyzing our company.

The following table reconciles net income (loss) to Adjusted EBITDA:

	Year ended December 31,				
Dollars in thousands	**2007**	**2006**	**2005**	**2004**	**2003**
Net income (loss)	$ 64,882	$ 94	$ 12,247	$ 57,306	$ (15,678)
Interest expense	19,246	14,186	9,026	6,918	6,941
Provision (benefit) for income taxes	39,147	3,866	6,907	(6,010)	8,687
Discontinued operations expense (income)		1,397	(616)	(56,489)	4,382
Depreciation and amortization	15,239	11,481	11,430	9,872	6,865
Legacy asbestos (income) expense[(1)]	(50,346)	33,816	18,112	29,412	20,132
Adjusted EBITDA	$ 88,168	$ 64,840	$ 57,106	$ 41,009	$ 31,329

(1) Legacy asbestos (income) expense includes all asbestos-related costs and is comprised of 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, actual defense costs expensed in the period, as well as legal costs related to the actions against two of our subsidiaries respective insurers and a former parent company of one of the subsidiaries. See Management s Discussion and Analysis of Financial Condition and Results of Operations Asbestos-Related Litigation and Critical Accounting Estimates Asbestos Liabilities and Insurance Assets for a discussion of our expectations regarding future asbestos-related expenses.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read together with Selected Consolidated Financial and Other Data, Risk Factors and the financial statements and related notes included elsewhere in this prospectus. 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

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

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

Key Factors and Risks Affecting 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, our estimates concerning the availability of insurance proceeds to cover asbestos litigation expenses and liabilities, the amounts of asbestos litigation expenses and liabilities, the general economic conditions within our five strategic markets, 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

For the year ended December 31, 2007, approximately 66% of our sales were derived from operations outside of the U.S. As measured by sales, we manufacture most of our products outside of the United States. We sell our products through over 300 direct sales and marketing associates and more than 450 authorized distributors in 79 countries. 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 limits the impact that any one country or economy could have on our consolidated results.

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Foreign Currency Fluctuations

A significant portion of our sales, approximately 66% for the year ended December 31, 2007, is 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 the relationship of these currencies to the U.S. dollar may impact our profitability. In some markets, sales are denominated in currencies other than the local currency for that business, which may result in both margin fluctuations and transaction gains and losses.

Asbestos Liabilities and Related 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. See Asbestos-Related Litigation for further information. 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 related defense costs. 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 and the outcome of legal action against our insurance carriers and their continued solvency.

We have projected our subsidiaries future asbestos-related liability costs with regard to pending and future unasserted claims, and we record this liability on our balance sheet as a long term and short term liability. We also record an asset representing projected insurance recoveries for asbestos liabilities. See Critical Accounting Policies Asbestos Liabilities and Insurance Assets for a description of the factors used to project the asbestos-related liabilities and insurance coverage recorded on our balance sheet. Our insurance asset is recorded at the amount of insurance recoveries that are deemed probable. For one of our subsidiaries the expected recovery percentage is 87.5% of the liability and defense costs. For the other subsidiary the expected recovery percentage is 67% of the liability and defense costs after exhaustion of primary and umbrella layers of insurance. See Critical Accounting Policies Asbestos Liabilities and Insurance Assets.

We record all asbestos-related costs in Legacy asbestos (income) expense which is comprised of 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, actual defense costs expensed in the period, as well as legal costs related to the actions against two of our subsidiaries respective insurers and a former parent company of one of the subsidiaries.

In 2004 the primary insurance carrier of one of our subsidiaries ceased payments alleging that its policies were exhausted. See Asbestos-Related Litigation for further information. As a result, in 2004, the subsidiary began making substantially all of the payments required to cover liability and defense costs for the asbestos-related lawsuits while pursuing a lawsuit against the insurers. We began recording an insurance receivable for any amounts we paid above an estimated asset recovery percentage for a given period. In 2007, certain of the insurance carriers agreed to settle with the subsidiary by reimbursing the subsidiary for amounts the subsidiary paid for liability and defense costs in the past as well as entering into formal agreements detailing the payment of future liability and defense costs in an agreed to allocation for that insurer. See Asbestos-Related Litigation. We have begun applying such reimbursements for past costs toward paying down the receivables and have taken into income amounts reimbursed which were not part of the receivable. See Liquidity and Capital Resources Comparative Cash Flows.

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. While demand within each of these strategic markets can be cyclical, the diversity of these markets limits 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 produce 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 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. Our 2008 pricing strategy includes passing through raw material price increases to our customers as well as identifying additional price increase opportunities.

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 a significant component of our profitability.

Strategic Acquisitions

We complement our organic growth with strategic acquisitions. Acquisitions significantly affect our reported results and can make period to period comparisons of results difficult. As a consequence, we report our sales growth between periods both from organic sales 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.

In June 2004, we acquired the assets of Zenith Pump (Zenith), a leading manufacturer of precision metering pumps for the general industrial market. Shortly thereafter, in August 2004, we acquired the net assets of Portland Valve, Inc. (Portland Valve), a manufacturer of specialty valves used primarily for naval applications.

In August 2005, we acquired Tushaco Pumps Private Limited (Tushaco), a leading manufacturer of rotary positive displacement pumps in India. The acquisition of Tushaco provided us with an established presence to serve the South Asian market. Tushaco s manufacturing and design experience also enables us to utilize its products as a low cost supplier to our other operations and to optimize our global engineering resources.

In January 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.

Most recently, in November 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.

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Outlook

We believe that we are well positioned to continue to grow organically by enhancing our product offerings and expanding our customer base in each of our strategic markets. During 2007, we experienced strong demand in the majority of our strategic markets, and we expect favorable market conditions to continue throughout 2008 as follows:

- In the commercial marine industry, we expect growth in international trade and high demand for crude oil to continue to create demand for container ships and tankers.

- We expect activity within the global oil and gas market to remain favorable as capacity constraints and increased global demand keep oil and gas prices elevated.

- In the power generation industry, we expect activity in Asia and the Middle East to be robust as economic growth continues to drive significant investment in energy infrastructure projects.

- In the global navy industry, we expect that sovereign nations outside of the U.S. will continue to expand their fleets as they address national security concerns. In the U.S., we expect Congress to continue to appropriate funds for new ship construction for the next generation of naval vessels as older classes are decommissioned. We also expect increased demand for integrated fluid handling systems and solutions 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.

- In the general industrial market, we expect that the continued economic development of regions throughout the world will continue to drive increased capital investment and will benefit local suppliers as well as international exporters of fluid handling equipment.

Our global manufacturing sales and distribution network allows us to target fast growing regions throughout the world. Our greenfield production facility in Wuxi, China that we opened during 2005 became fully operational during 2006. In addition, our Indian business demonstrated strong growth and expanded our presence in the South Asia region. We intend to leverage our investments in India and China to substantially 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 high margins on aftermarket parts and service. For the year ended December 31, 2007, aftermarket sales and services represented approximately 25% 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.

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. Organic sales and margin is defined as the sales and margin from existing businesses excluding the impact of acquisitions and foreign exchange rates. Also, orders and order backlog are highly indicative of our future revenue and thus a key measure of anticipated performance.

We measure financial performance through upper quartile ranking in our peer group of industrial fluid handling companies. Analysts for our industry track many financial and non-financial performance measures such as revenue growth, gross profit margin, Adjusted EBITDA margin and net working capital as a percentage of sales.

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We consider Adjusted EBITDA and Adjusted EBITDA margin as key indicators of financial performance. We define Adjusted EBITDA as net income before the effects of interest expense, taxes, depreciation, amortization, discontinued operations and legacy asbestos (income) expense. Adjusted EBITDA margin is defined as Adjusted EBITDA as a percentage of sales. We believe that Adjusted EBITDA is useful to investors because it facilitates operating performance comparisons between periods and companies by excluding differences related to capital structures (affecting interest expense), tax positions, as well as the financial impact of discontinued operations and legacy asbestos (income) expense which are not indicative of our revenue and profit generating activities. We use Adjusted EBITDA to facilitate comparisons of our operating performance on a consistent basis that, when viewed with our GAAP results and the reconciliation set forth below, we believe provides a more complete understanding of factors and trends affecting our business than GAAP measures alone. Adjusted EBITDA assists us in comparing our operating performance on a consistent basis because it removes the impact of our capital structure (primarily interest charges), asset base (primarily depreciation and amortization) and items outside the control of our operating management team (taxes and legacy asbestos (income) expense). Because Adjusted EBITDA facilitates comparisons of our historical operating performance considering only our revenue and profit generating activities, we use Adjusted EBITDA and Adjusted EBITDA margins in our internal management reporting, budgeting and forecasting processes, in comparing our operating results across our business as well as to those of our competitors and other companies in our industry, as an internal profitability measure, as a component in evaluating our ability and the desirability of making capital expenditures and significant acquisitions, and as an element in determining executive compensation. Further, Adjusted EBITDA and similar measures are widely used by investors, rating agencies and securities analysts as a key measure of financial performance and debt-service capabilities.

Adjusted EBITDA is not a measurement of financial performance under generally accepted accounting principles (GAAP) and should not be considered as an alternative to net income as an indicator of operating performance or as an alternative to cash flow from operating activities as a measure of liquidity or any other measure of performance derived in accordance with GAAP. Because Adjusted EBITDA is calculated before recurring cash charges including interest expense, taxes and asbestos related liability and litigation costs, and is not adjusted for capital expenditures or other recurring cash requirements of the business, it should not be considered as a measure of discretionary cash available to invest in the growth of the business. There are a number of material limitations to the use of Adjusted EBITDA as an analytical tool, including the following:

- Adjusted EBITDA does not reflect our interest expense;

- Adjusted EBITDA does not reflect our tax expense or the cash requirements to pay our taxes;

- although depreciation and amortization are non-cash expenses in the period recorded, the assets being depreciated and amortized may have to be replaced in the future, and Adjusted EBITDA does not reflect the cash requirements for such replacement;

- Adjusted EBITDA does not reflect our asbestos-related costs or the cash requirements to pay the asbestos related liability that is not covered by insurance or cash requirements to pay the asbestos litigation costs;

- Adjusted EBITDA excludes costs for legacy asbestos (income) expense that will continue to be a significant recurring item for the foreseeable future; and

- the items we exclude from Adjusted EBITDA may differ from the items our competitors or peer companies exclude when they report Adjusted EBITDA.

We compensate for these limitations by relying primarily on our GAAP results and by using Adjusted EBITDA supplementally. We believe that consideration of Adjusted EBITDA, together with a careful review of our results reported under GAAP, including net income, is the most informed method of analyzing our company.

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Asbestos-Related Litigation

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

In 2003, one of our subsidiaries brought an action in the New Jersey Superior Court, Mercer County, against a large number of its insurers and its former parent to resolve a variety of disputes concerning insurance coverage for the asbestos personal injury claims asserted against it. In 2004, its primary insurance carrier ceased payments alleging that its policies were exhausted. The subsidiary requested proof of exhaustion which the primary carrier refused to provide. Thereafter, most of the subsidiary s excess and umbrella carriers also refused to provide payments for a variety of reasons, including reliance upon the lack of evidence of exhaustion and other timing and allocation defenses. The insurance companies have not contested coverage. As a result, in 2004, the subsidiary began making substantially all of the payments required to cover liability and defense costs for the asbestos-related lawsuits while pursuing a lawsuit against the insurers. In addition, in this lawsuit, the subsidiary alleges that its former parent is responsible for any coverage that would have been provided by any insurance company that is insolvent.

In 2007, certain of the insurance carriers agreed to settle with the subsidiary by reimbursing the subsidiary for amounts the subsidiary paid for liability and defense costs in the past as well as entering into formal agreements detailing the payment of future liability and defense costs in an agreed to allocation for that insurer. In addition, a number of non-settling insurance carriers have made payments of significant amounts for liability and defense costs paid by the subsidiary in the past and continue to pay a share of liability and defense costs as they are incurred. As a result, the subsidiary s insurance carriers are once again paying a portion of the subsidiary s current asbestos-related costs and have reimbursed a significant portion of the costs incurred while coverage was being disputed. We believe that costs will continue to be paid by these insurance carriers. Trial currently is scheduled for April 2008. Although impossible to predict with certainty, we believe that all or substantially all of the insurers that are defendants in the coverage litigation will be ordered to provide coverage in accordance with their policies.

To date, our other subsidiary involved in asbestos litigation has had all of its liability and defense costs, covered in full by its primary and umbrella insurance carrier, subject to approximately $7.5 million in deductibles under its primary policies. The subsidiary has a substantial amount of excess insurance available to it from solvent carriers. The subsidiary is currently in litigation in the Delaware Chancery Court with its primary and umbrella insurer and with a third-party company concerning the availability of insurance under certain policies issued to the then-parent of both the subsidiary and the third-party company. While coverage for the claims is not in dispute, the third-party company is seeking a partition of the insurance policy limits for its sole benefit. We believe that this action is without merit. The subsidiary has also brought an action against all of its insurers in Massachusetts Superior Court. In that action, the subsidiary primarily seeks declaratory relief regarding the excess insurers obligations to fund in full the defense and settlement of the asbestos lawsuits following the exhaustion of the underlying umbrella policies.

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Seasonality

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

Results of Operations

Sales and Orders

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

	Sales		Orders		Backlog at
(Amounts in millions)	**$**	**%**	**$**	**%**	**Period End**
Year Ending December 31, 2005	**$ 345.5**		**$ 370.4**		**$ 118.3**
Components of Growth:					
Organic	40.7	11.8%	65.6	17.7%	
Acquisitions	4.8	1.4%	4.4	1.2%	
Foreign Currency Translation	2.6	0.8%	1.9	0.5%	
Total Growth	48.1	13.9%	71.9	19.4%	
Year Ending December 31, 2006	**$ 393.6**		**$ 442.3**		**$ 179.3**
Components of Growth:					
Organic	53.3	13.5%	77.7	17.6%	
Acquisitions	31.3	8.0%	27.2	6.1%	
Foreign Currency Translation	28.1	7.1%	34.3	7.8%	
Total Growth	112.7	28.6%	139.2	31.5%	
Year Ending December 31, 2007	**$ 506.3**		**$ 581.5**		**$ 292.8**

(Amounts in millions)	**2007**	**2006**	**2005**
Net sales by product:			
Pumps, including aftermarket parts and service	441.7	360.0	313.2
Systems, including installation service	48.4	16.1	14.6
Valves	9.5	11.3	12.8
Other	6.7	6.2	4.9
Total net sales	$ 506.3	$ 393.6	$ 345.5

As detailed above, for the year ended December 31, 2007, sales 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 Fairmont 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. Organic growth 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.

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, which consists of unfilled orders, as of December 31, 2007 of

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$292.8 million increased $113.5 million, or 63.3%, as compared to $179.3 million at December 31, 2006. Organic order growth was primarily attributable to strong growth in our strategic end markets, most notably the oil and gas, commercial marine and power generation markets.

Sales for the year ended December 31, 2006 of $393.6 million were $48.1 million, or 13.9%, higher than the $345.5 million recorded in the prior year. Of the $48.1 million increase, $40.7 million was organic growth attributable to increased volume and demand in the general industrial, commercial marine, power generation and oil and gas end markets, $4.8 million was due to the acquisition of Tushaco on August 9, 2005 and $2.6 million was due to the positive impact of foreign exchange rates. By product, pump sales grew $46.8 million, or 14.9%. System sales grew $1.5 million, or 10.3%.

Orders for the year ended December 31, 2006 of $442.3 million increased $71.9 million, or 19.4%, as compared to $370.4 million for the year ended December 31, 2005. Backlog of $179.3 million at December 31, 2006 increased $61.0 million, or 51.6%, compared to $118.3 million at December 31, 2005. Both increased orders and backlog were attributable primarily to strong organic growth in our strategic end markets, especially the oil and gas, power generation and commercial marine end-markets.

Gross Profit

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

	Year Ended December 31,		
(Amounts in millions)	**2007**	**2006**	**2005**
Gross profit	$ 175.6	$ 136.8	$ 123.1
Gross profit margin	34.7%	34.8%	35.6%

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 organic growth, $13.2 million was due to the acquisition of LSC on January 31, 2007 and Fairmont on November 29, 2007 and $9.0 million was due to the impact of foreign exchange rates. Gross profit margin was 34.7% for the year ended December 31, 2007 consistent with 34.8% for the year ended December 31, 2006.

For the year ended December 31, 2006, gross profit increased by $13.7 million, or 11.1%, to $136.8 million from $123.1 million in the prior year. Of the $13.7 million increase, $11.1 million was attributable to organic growth, $1.7 million was due to the acquisition of Tushaco on August 9, 2005 and $0.9 million was due to the impact of foreign exchange rates. Gross profit margin declined from 35.6% to 34.8%, largely as a result of product mix. A significant portion of our organic growth in the year ended December 31, 2006 was from fluid handling products that are used in commercial marine applications and which have a lower gross profit margin than the average for our other products.

Selling, General and Administrative Expenses (SG&A)

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

	Year Ended December 31,		
(Amounts in millions)	**2007**	**2006**	**2005**
SG&A expenses	$ 98.5	$ 80.1	$ 74.6
SG&A expenses as a percent of sales	19.5%	20.4%	21.6%

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 Fairmont and $4.8 million was due to the impact of

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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.

For the year ended December 31, 2006, selling, general and administrative expenses increased $5.5 million to $80.1 million compared to $74.6 million for the year ended December 31, 2005. The increase was primarily due to $8.4 million of legacy legal expenses incurred during 2006 and a $4.0 million increase in variable selling expenses, especially commissions, driven by higher sales volume. These increases were offset in part by a one-time $9.1 million gain in 2006 on the settlement of the other post-employment benefits liability retained as part of the sale of the power transmission business in 2004. Also contributing to the increase was the recognition of a $2.1 million gain on the settlement of a cross currency swap agreement in 2005. Legacy legal expense relates to reserves established at one of our subsidiaries to settle legal matters related to businesses that were divested prior to our acquisition of the subsidiary. Selling, general and administrative expenses as a percent of sales decreased since costs that are primarily fixed in nature such as administrative salaries, rent and depreciation grew only marginally, approximately 3.0%, compared to the 13.9% growth in sales. Expansion of our Asian operations, through our Tushaco and Wuxi operations, increased total selling, general and administrative expenses by approximately $2.3 million from 2005 to 2006.

Legacy Asbestos (Income) Expense

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

	Year Ended December 31,		
(Amounts in millions)	**2007**	**2006**	**2005**
Legacy asbestos (income) expense	$ (50.3)	$ 33.8	$ 18.1
Legacy asbestos (income) expense as a percent of sales	(9.9)%	8.6%	5.2%

Legacy asbestos (income) expense for the year ended December 31, 2007 decreased $84.1 million from $33.8 million for the year ended December 31, 2006 period to $(50.3) million in the current period. This decrease resulted primarily from revaluation of the insurance asset and from recording a receivable due from our insurers for past cost paid by us, offset to a small degree by the increased cost of litigation against those insurers, as well as a $8.5 million gain related to cash settlements received from certain insurers related to insurance policies which were 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 in the Superior Court of New Jersey, Mercer County. These court rulings, which occurred in late 2007 as a result of grants of partial summary judgment on two motions, determined that New Jersey law applies and that payments made for asbestos-related liability and defense cost paid below deductibles levels eroded policy limits in certain primary policies. These decisions allowed us to determine that the principles outlined in the case of Carter-Wallace, Inc. v. Admiral Ins. Co., 154 N.J. 312 (N.J. 1998) would be used to allocate responsibility among the insurers. We increased the insurance asset according to the calculation outlined by these principles.

We had historically recorded an insurance receivable for any amounts we paid above an estimated asset recovery percentage for a given period. In early 2008, the Superior Court of New Jersey, Mercer County, granted a partial summary judgment ruling that the principles outlined in the case of Carter-Wallace, Inc. v. Admiral Ins. Co., 154 N.J. 312 (N.J. 1998) would be used to allocate shares among insurers and directed a Special Allocation Master to determine the specific portion of past and future cost attributable to each of the subsidiaries insurance polices. These rulings and the receipt in the fourth quarter of 2007 of approximately $49.4 million of past cost from our insurers, allowed us to determine the probable amount of insurance available for past costs. As a result, in the fourth quarter of 2007, the subsidiary recorded an insurance receivable of $44.7 million for all past liability and defense cost for which recovery is probable. See Asbestos-Related Litigation above and Critical Accounting Estimates Asbestos Liabilities and Insurance Assets below for a further discussion of recent developments in asbestos litigation.

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For the year ended December 31, 2006, legacy asbestos expense increased $15.7 million to $33.8 million from $18.1 million for the year ended December 31, 2005. This increase was primarily due to $9.4 million of increased liability costs and $8.2 million of increased legal costs related to pursuing actions against our asbestos insurers.

Operating Income

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

	Year Ended December 31,		
(Amounts in millions)	**2007**	**2006**	**2005**
Operating income	$ 123.3	$ 19.5	$ 27.6
Operating margin	24.4%	5.0%	8.0%

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 a $84.1 million decrease in legacy asbestos expenses and a $38.8 million increase in gross profit offset in part by a $18.4 million increase in selling, general and administrative expenses. Operating margin increased from 5.0% for the year ended December 31, 2006 to 24.4% for the year ended December 31, 2007.

For the year ended December 31, 2006, operating income declined approximately $8.1 million to $19.5 million from $27.6 million for the year ended December 31, 2005. This decline was primarily due to a $15.7 million increase in legacy asbestos expenses and a $5.5 million increase in selling, general and administrative expenses offset in part by a $13.7 million increase in gross profit. Operating margin decreased from 8.0% in 2005 to 5.0% in 2006.

Adjusted EBITDA

The following table reconciles the GAAP measure of net income to Adjusted EBITDA for the years ended December 31, 2007, 2006 and 2005. See Key Performance Measures above for a discussion of how we use Adjusted EBITDA, and its limitations.

	Year Ended December 31,		
(Amounts in millions)	**2007**	**2006**	**2005**
Net income	$ 64.9	$ 0.1	$ 12.2
Interest expense	19.2	14.2	9.0
Provision for income taxes	39.1	3.9	6.9
Discontinued operations expense (income)		1.4	(0.6)
Depreciation and amortization	15.2	11.5	11.4
Legacy asbestos (income) expense[1]	(50.3)	33.8	18.1
Rounding	0.1	(0.1)	0.1
Adjusted EBITDA	$ 88.2	$ 64.8	$ 57.1
Adjusted EBITDA margin	17.4%	16.5%	16.5%

(1) Legacy asbestos (income) expense includes all asbestos-related costs and is comprised of 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, actual defense costs expensed in the period, as well as legal costs related to the actions against two of our subsidiaries respective insurers and a former parent company of one of the subsidiaries. See Asbestos-Related Litigation above and Critical Accounting Estimates Asbestos Liabilities and Insurance Assets below for a further discussion of legacy asbestos expenses.

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For the year ended December 31, 2007, Adjusted EBITDA increased by $23.4 million to $88.2 million, or 17.4% of sales, from $64.8 million, or 16.5% of sales for the year ended December 31, 2006. This increase was primarily due to organic growth in our key end markets, especially commercial marine and oil and gas, the acquisition of LSC and the positive effect of foreign exchange rates. Of the $23.4 million increase, organic growth contributed $11.2 million, or 2.2% of sales.

For the year ended December 31, 2006 Adjusted EBITDA increased $7.7 million to $64.8 million, or 16.5% of sales, from $57.1 million, or 16.5% of sales in the comparable 2005 period. This increase was primarily due to increased demand in our key end markets and the positive effect of foreign exchange rates. Of the $7.7 million increase, organic growth contributed $5.7 million or 1.4% of sales.

Interest Expense

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

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 6.85% in 2006 to 7.42% 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 an interest rate collar.

Interest expense of $14.2 million for the year ended December 31, 2006 was approximately $5.2 million higher than 2005. The increase in interest expense in 2006 was primarily due to higher debt levels during the year, due to borrowings incurred to pre-fund our domestic defined benefit pension obligation of $18.8 million and cash paid for asbestos claims of $32.7 million. An increase in the weighted average interest rate on our variable rate borrowings from 5.68% in 2005 to 6.85% in 2006 contributed approximately $2.0 million to the increase in interest expense, excluding the $0.4 million favorable impact of an increase in the fair value of our $90.0 million notional value interest rate collar. Please see Quantitative and Qualitative Disclosures about Market Risk below for a further discussion of the interest rate collar.

Provision for Income Taxes

Our effective tax rate can be affected 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. Notably, under APB 23, we must recognize U.S. deferred income taxes for foreign earnings considered not permanently reinvested in the local jurisdiction 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, 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 deferred tax benefits recognized by our German subsidiary as a result of the German tax rate reduction from approximately 38% to 29.0% to be effective on January 1, 2008.

For the year ended December 31, 2006, our effective income tax rate was 72.2% as compared to an effective tax rate of 37.3% for the year ended December 31, 2005. Our 2006 effective tax rate was significantly higher than the U.S. federal statutory rate of 35% primarily due to state taxes and the inclusion of undistributed foreign earnings of a foreign subsidiary that was considered not permanently reinvested as a deferred tax expense in accordance with APB 23. Deferred income taxes for 2005 also included a deferred tax expense for

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undistributed foreign earnings in accordance with APB 23. However, these amounts were offset by the net reduction of certain valuation allowances and other tax reserves.

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, pension plan funding and asbestos liabilities. If additional funds are needed for strategic acquisitions or other corporate purposes, we believe we could raise additional funds in the form of debt or equity.

Borrowings

Our existing credit facility at December 31, 2007 consists of a $50.0 million revolver, a Term B loan of $176.7 million that bears interest at LIBOR plus 2.25%, or 7.1% at December 31, 2007, and a Term C loan of 19.5 million that bears interest at EURIBOR plus 2.25%, or 7.0% at December 31, 2007.

The $50.0 million revolver contains a $25.0 million letter of credit sub-facility and a Euro sub-facility in which Euro borrowing capacity is limited to $30.0 million. The annual commitment fee on the revolver is 0.5% and the administrative agent receives a fee of $0.2 million per annum. Interest rate margins for the revolver are based on our leverage ratio calculated at each quarter-end. At December 31, 2007, the USD Prime and Swing Line based revolvers bear interest at Prime plus 1.50%, or 8.75%. At December 31, 2007, the USD LIBOR-based revolver bears interest at LIBOR plus 2.50% and the Euro revolver bears interest at EURIBOR plus 2.00%. There was no outstanding balance on the Euro, USD LIBOR, USD Prime and Swing Line based revolvers at December 31, 2007.

On January 3, 2007, we amended our credit facility to increase the 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. Additionally, in August 2007, we amended the revolving credit facility to extend the maturity date from May 30, 2008 to May 30, 2010.

The Term B loan, as amended on January 3, 2007, has approximately $0.4 million due on a quarterly basis on the last day of each March, June, September and December beginning with March 31, 2007 and ending September 30, 2011, and one installment of approximately $170.0 million payable on December 19, 2011. The Term C loan, as amended on January 3, 2007, has approximately 0.1 million due on a quarterly basis on the last day of each March, June, September and December beginning with March 31, 2007 and ending September 30, 2011, and one installment of approximately 18.4 million payable on December 19, 2011.

On December 31, 2007, there was $205.3 million outstanding on the Term B and Term C loans, no outstanding balance on the revolving lines of credit, and $18.7 million on the letter of credit sub-facility. The weighted average interest rate at December 31, 2007 was 7.4%.

Outstanding borrowings under these credit facilities will be paid in part from the proceeds of this offering. Upon the completion of this offering, we expect to enter into a new credit facility consisting of a $150.0 million revolver and a term loan of $100.0 million, and draw down amounts sufficient to pay any outstanding balance on our existing credit facility after the application of proceeds from this offering. The $150.0 million revolver will contain a $50.0 million letter of credit sub-facility, a $25.0 million Swingline loan sub-facility, and a Euro sub-facility for which Euro borrowing capacity is limited to the loan value of foreign collateral. Both the term loan and the revolver will initially bear interest at either LIBOR plus 2.50% or at the Base Rate (the higher of the Bank of America prime rate or the Federal Funds rate plus 0.50%) plus 1.50%. Thereafter, interest rate margins for the credit facility will be calculated based on our consolidated leverage ratio. Each Swingline loan will bear interest at the Base Rate plus the interest rate margin calculated for the credit facility, and borrowings

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under the Euro sub-facility will bear interest at LIBOR plus the interest rate margin calculated for the credit facility. The term loan and revolver will bear interest, upon our election, at either the Base Rate or LIBOR plus the interest rate margin calculated for the credit facility. The annual commitment fee on the revolver will be 0.5% and the administrative agent will initially receive a fee of $50,000. We expect to have sufficient funds available to meet our ongoing liquidity requirements for at least the next 12 months.

Comparative Cash Flows

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

	Year Ended December 31,		
(Amounts in millions)	**2007**	**2006**	**2005**
Net cash provided by (used in) operating activities	**$ 74.5**	**$ (17.4)**	**$ (7.8)**
Purchases of fixed assets	(13.7)	(10.2)	(7.1)
Net cash paid for acquisitions	(33.0)		(11.4)
Other sources, net	0.2	0.1	0.1
Net cash used in investing operations	**$ (46.5)**	**$ (10.1)**	**$ (18.4)**
Proceeds and repayments of borrowings, net	14.7	26.9	35.6
Payment of deferred stock issuance costs	(1.2)		
Payments made for loan costs	(1.4)		(0.4)
Dividends paid			(18.7)
Redemption of stock			(82.0)
Other uses, net	(0.4)	(0.3)	(0.4)
Net cash provided by (used in) financing activities	**$ 11.7**	**$ 26.6**	**$ (65.9)**

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

In all periods presented, cash paid for asbestos liabilities (excluding cash received from settlements with our asbestos insurance carriers), including both the disposition of claims and legal expenses related to litigation against our insurers, was a significant cash outflow. Excluding the impact of cash paid for asbestos liabilities, all periods presented above would have had positive cash flow from operations.

For the years ended December 31, 2007, 2006 and 2005 net cash (received) paid for asbestos liabilities, net of insurance settlements received, was $(22.5) million, $32.7 million and $21.1 million, respectively. Of these amounts, $16.1 million, $9.0 million and $2.3 million related to litigation costs against our insurers paid in 2007, 2006 and 2005, respectively. During 2007, we received approximately $65.5 million from certain insurers of which $49.4 million represents reimbursement of past costs while $16.1 million represents settlement in full for future costs not yet incurred by the subsidiary.

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, 2007, 2006 and 2005, cash contributions for defined benefit plans were $6.7 million, $11.0 million and $23.7 million, respectively.

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Changes in net working capital also affected the operating cash flows for the years presented. We define net working capital as trade receivables plus inventories less accounts payable, excluding the effects of acquisitions and foreign currency translation.

Net working capital increased $6.3 million from December 31, 2006 to December 31, 2007. This increase was primarily due to increases in inventories and trade receivables due to growth in sales volume.

Net working capital increased $13.8 million from December 31, 2005 to December 31, 2006. Net trade receivables increased primarily due to higher fourth quarter sales volume in 2006. Net inventories and accounts payable increased primarily to support the sales backlog at the end of 2006.

Net working capital as a percentage of sales is a key ratio that we use to measure working capital efficiency. For the years ended December 31, 2007, 2006 and 2005, net working capital as a percentage of sales was 17.3%, 20.7% and 20.5%, respectively.

LSC produced operating cash flows of approximately $5.5 million for the year ended December 31, 2007.

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 expect capital spending of approximately $13.6 million in 2008. We 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 Fairmont for a purchase price of $3.3 million, net of cash acquired.

During the year ended December 31, 2005, we acquired Tushaco for $11.4 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.

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

During 2007, we have paid deferred stock issuance costs of $1.2 million for costs incurred related to this offering.

During the year ended December 31, 2005, $100.0 million of proceeds from the 2004 sale of the power transmission business were used towards the $82.0 million redemption of preferred stock and an $18.7 million dividend payment. The remaining cash proceeds of $73.3 million were used to retire domestic senior term debt in the amount of $47.8 million, reduce the amount outstanding on our revolving credit facility by $22.5 million and pay transaction associated fees in the amount of $3.0 million.

We paid loan costs during the years ended December 31, 2007 and 2005 of $1.4 million and $0.4 million, respectively. Dividends of $12.2 million, $ 13.7 million and $9.2 million declared on December 31, 2007, May 15, 2007 and December 31, 2005 have not been paid because those payments were restricted by our credit facility.

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Contractual Obligations

The following table is a summary of contractual obligations as of December 31, 2007 (in millions):

Payments Due by Period	Total	Less Than One Year	1-3 Years	3-5 Years	More Than 5 Years
Term Loan B	$ 176.7	$ 1.8	$ 3.6	$ 171.3	$
Term Loan C	28.6	0.4	0.8	27.4	
Interest Payments on Long-Term Debt(1)	57.6	14.8	29.0	13.8	
Capital Leases	1.2	0.5	0.6	0.1	
Operating Leases	10.0	3.8	4.7	1.5	
Total	$ 274.1	$ 21.3	$ 38.7	$ 214.1	$

(1) Variable interest payments are estimated using static rates of 7.13% and 7.02% for the Term B and C loans, respectively.

We have cash funding requirements associated with our pension and other post-retirement benefit plans, which are estimated to be approximately $3.2 million for the year ending December 31, 2008. We have no binding purchase obligations as of December 31, 2007.

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 $18.7 million at December 31, 2007 and future operating lease payments of $10.0 million.

Effects of This Offering on Liquidity and Contractual Obligations

We estimate that we will receive approximately $ million in net proceeds from the sale of shares of common stock, which is the midpoint of the price range set forth on the cover page of this prospectus. We intend to use approximately $ of the proceeds we receive from this offering to pay indebtedness outstanding under our credit facility. As of December 31, 2007, we had approximately $205.3 million principal amount, along with accrued interest, outstanding under our credit facility. We also intend to use $35.1 million of the proceeds of this offering to pay dividends to existing preferred stockholders that have been declared but unpaid due to the restrictions on payment of dividends contained in our credit facility. We will also use an estimated $ of the proceeds of this offering to pay amounts due, as a result of this offering, to participants in our 2001 Employee Appreciation Rights Plan and our 2006 Executive Stock Rights Plan, which are bonus plans for certain executive officers. This estimate is subject to final reevaluation as of the effective date of this offering. See Compensation Discussion and Analysis for additional information concerning these plans. We intend to use the balance of the net proceeds, if any, for working capital and other general corporate purposes.

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.

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Information concerning market risk for the year ended December 31, 2007 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, 2007 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 2007 would have increased our interest cost by approximately $2.2 million. In order to mitigate this risk, on July 1, 2005 we entered into an interest rate collar with an aggregate notional value of $90.0 million whereby we exchanged our LIBOR-based variable rate interest for a ceiling of 4.75% and a floor of approximately 3.40%. The LIBOR-based interest can vary between the ceiling and floor based on market conditions. The fair value of the collar agreement, based on third-party quotes, was approximately $0.1 million and $0.8 million as of December 31, 2007 and 2006 respectively. We have not elected hedge accounting for the collar agreement, and therefore movements in the fair value are recognized in income as a component of interest expense. The collar agreement expires on July 1, 2008.

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 2007 approximately 66% of our sales were derived from operations outside the U.S., with approximately 63% 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. The Euro-denominated Term C loan at December 31, 2007 provides a natural hedge to a portion of our European net asset position. 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, income before taxes and discontinued operations for 2007, assuming a 10% increase in average foreign exchange rates compared to the U.S. dollar, 2007 income before income taxes would have increased by $4.9 million.

Commodity Price Risk

We are exposed to changes in the prices of raw materials used in our production processes. Commodity futures contracts are periodically used to manage such exposure. As of December 31, 2007, we had copper futures contracts with a notional value of $3.1 million. The fair value of the contract as of December 31, 2007 was a liability of $0.2 million. As of December 31, 2007, we had a nickel futures contract with a notional value of $1.1 million. The fair value of the contract was a liability of $0.2 million, as of December 31, 2007. We have not elected hedge accounting for futures contracts, and therefore movements in the fair value are recorded to cost of sales.

Critical Accounting Estimates

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

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

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financial statements. For a detailed discussion on the application of these and other accounting policies, see Note 1 of 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.

In most instances, the subsidiaries settle asbestos claims for amounts management considers reasonable given the facts and circumstances of each claim. The annual average settlement payment per asbestos claimant has fluctuated during the past several years, and 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 arose. 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,		
	2007	2006	2005
Claims unresolved at the beginning of the period	50,020	59,217	65,165
Claims filed(2)	6,861	5,992	8,540
Claims resolved(3)	(19,327)	(15,189)	(14,488)
Claims unresolved at the end of the period	37,554	50,020	59,217
Average cost of resolved claims (4)	$ 5,232	$ 6,194	$ 8,896

(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 also 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. This methodology is based upon risk equations, exposed population estimates, mortality rates, and other demographic statistics. In applying the Nicholson methodology for each subsidiary we performed: 1) an analysis of the estimated population likely to have been exposed or claim to have been exposed to products manufactured by the subsidiaries based upon national studies undertaken of the population of workers believed to have been exposed to asbestos; 2) the use of epidemiological and demographic studies to estimate the number of potentially exposed people that would be likely to develop asbestos-related diseases in each year; 3) an analysis of the subsidiaries recent claims history to estimate likely filing rates for these diseases; and 4) an analysis of the historical asbestos liability costs to develop average values, which vary by disease type, jurisdiction and the nature of claim, to determine an estimate of costs likely to be associated with currently pending and projected asbestos claims. Our projections based upon the Nicholson methodology estimate both claims and the estimated cash outflows related to the resolution of such claims for periods up to and including the endpoint of asbestos studies referred to in item 2) above. It is our policy to record a liability for asbestos-related liability costs for the longest period of time that we can reasonably estimate.

Projecting future asbestos-related liability costs is subject to numerous variables that are difficult to predict, including the number of claims that might be received, the type and severity of the disease alleged by each claimant, the latency period associated with asbestos exposure, dismissal rates, costs of medical treatment, the financial resources of other companies that are co-defendants in the claims, funds available in post-bankruptcy trusts, uncertainties surrounding the litigation process from jurisdiction to jurisdiction and from case to case, and the impact of potential changes in legislative or judicial standards, including potential tort reform. Furthermore, any projections with respect to these variables are subject to even greater uncertainty as the projection period lengthens. These trend factors have both positive and negative effects on the dynamics of asbestos litigation in the tort system and the related best estimate of our asbestos liability, and these effects do not move in linear fashion but rather change over multiple year periods. Accordingly our management monitors these trend factors over time and periodically assesses whether an alternative forecast period is appropriate. Taking these factors into account and the inherent uncertainties, 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 have 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.

We assessed the subsidiaries existing insurance arrangements and agreements, determined the applicability of insurance coverage for existing and expected future claims, analyzed publicly available information bearing on the current creditworthiness and solvency of the various insurers and employed such insurance allocation methodologies as we believed appropriate to ascertain the probable insurance recoveries for asbestos liabilities. The analysis took into account self-insurance reserves, policy exclusions, pending litigation, liability caps and gaps in our coverage, allocation agreements, indemnity arrangements with third-parties, existing and potential insolvencies of insurers as well as how legal and defense costs will be covered under the insurance policies. Each subsidiary has separate, substantial primary, excess and umbrella insurance coverage resulting from the independent corporate history of each entity. In our evaluation of the insurance asset, in addition to the criteria listed above, 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 the one subsidiary, 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. This allocation methodology, known as the all sums approach, allows the policyholder to select any policy year triggered by the claim. Under this methodology, each policy provides indemnity for all amounts that the insured becomes legally obligated to pay as damages, subject to the terms, conditions and limitations of the policy language. We use this allocation methodology because it is the most likely methodology based upon the corporate history of the subsidiary and that of its primary insurer which are domiciled in either Florida or Massachusetts. The primary and umbrella insurer historically has paid all liability and legal defense costs. In 2006, this insurer asserted that certain insurance policies contained deductibles. As a result, we established a reserve of $7.5 million as a reduction of our asbestos insurance asset at December 31, 2007 and as a reduction of our long-term asbestos insurance asset at December 31, 2006, for the probable and reasonably estimable liability we expect related to these deductibles under the primary insurance policies. On April 1, 2008, the subsidiary s primary and umbrella insurer notified it that one of the policy years representing approximately 7% of that insurer s primary policy obligations were close to exhaustion. The subsidiary is investigating this claim and is notifying its excess insurers of potential obligations for payment. To the extent the claim of exhaustion for that year is valid, we believe the subsidiary has adequate coverage such that it will not affect the expected recovery percentage.

For the 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. This allocation methodology, referred to

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as the Carter-Wallace methodology, was applied in the New Jersey Supreme Court in the case of Carter-Wallace, Inc. v. Admiral Ins. Co., 154 N.J. 312 (N.J. 1998), which provides that the loss is allocated to each insurance policy year based on the proportion of the policyholder s total triggered coverage that was purchased in that year. 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 our insurance asset at that date. For the period between December 31, 2005 and September 28, 2007, we had estimated that recovery was probable for 75% of all liability costs paid and 85% of defense costs paid. Prior to December 31, 2005, we had estimated that recovery was probable for two-thirds of all liabilities paid.

For this subsidiary, until June 2004, based upon an interim agreement, the subsidiary s primary insurers paid at least two-thirds of liability costs and all defense costs. In 2003, the subsidiary brought legal action against a large number of its insurers and its former parent to resolve a variety of disputes concerning insurance for asbestos bodily injury claims asserted against it. Although none of these defendant insurance companies contested coverage, they disputed the timing, reasonableness and allocation of payments. One of the primary insurers and one of the excess insurers stopped or severely reduced payments alleging that its policies were exhausted and the subsidiary began paying various amounts of its liability and defense costs during 2004. We historically had recorded a receivable for any amounts paid above the expected insurance recovery percent for that period which we considered recovery probable. 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 we believe recovery is probable.

In 2007, 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. The subsidiary received approximately $65.5 million for the year ended December 31, 2007, of which approximately $49.4 million represents reimbursement of past cost, which reduced our outstanding insurance receivables, and approximately $16.1 million represents settlement in full for future costs not yet incurred by the subsidiary. Of the $16.1 million, approximately $7.6 million relates to insurance policies which are triggered within our 15 year-estimate of asbestos-related liability and as such were recorded as a reduction to the insurance asset, while, approximately $8.5 million relates to insurance policies which were not included in our 15 year estimate of asbestos-related liability cost and, as such, were recorded as income in Legacy asbestos (income) expense. Subsequent to December 31, 2007, the subsidiary received an additional $1.7 million in reimbursement of past cost from an insurer and another $0.9 million from an insurer previously considered insolvent. Presently certain insurers are paying approximately 36.8% of costs for current asbestos-related liability and defense cost.

Based on the analysis referred to above, we have established reserves of $376.2 million and $388.9 million as of December 31, 2007 and 2006, respectively, for the probable and reasonably estimatable asbestos-related liabilities we believe the subsidiaries will pay through the next 15 years, and have also established recoverables of $305.2 million and $297.1 million as of December 31, 2007 and 2006, respectively, for the insurance recoveries that are deemed probable during the same time period. Net of these recoverables, the subsidiaries expected cash outlay on a non-discounted basis for asbestos-related bodily injury claims over the next 15 years was estimated to be $71.0 million and $91.8 million as of December 31, 2007 and 2006, respectively. 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 in the accompanying consolidated balance sheets. In addition we have recorded a receivable for liability and defense costs we had previously paid in the amount of $44.7 million and $41.1 million as of December 31, 2007 and 2006, respectively, for which insurance recovery is deemed probable. These amounts are included in Asbestos insurance receivable in the accompanying consolidated balance sheets.

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The (income) expense related to these liabilities and legal defense was $(65.2) million, $21.8 million and $14.3 million, net of estimated insurance recoveries, for the years ended December 31, 2007, 2006 and 2005, respectively. Legal costs related to the subsidiaries action against their asbestos insurers were $14.9 million, $12.0 million and $3.8 million for the years ended December 31, 2007, 2006 and 2005, respectively. All of these amounts are included in the consolidated statements of operations and comprehensive income (loss) in Legacy asbestos (income) expense.

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.

Annually on December 31, more frequently if indicators of impairment are present, we evaluate the recoverability of goodwill and indefinite-lived intangible assets. Goodwill is considered to be impaired when the net book value of a reporting unit exceeds its estimated fair value. We evaluate the recoverability of goodwill by reporting unit based upon historical and projected EBITDA for the next two years (net income before income taxes, depreciation, and amortization) multiplied by industry enterprise valuation multiples to determine their fair value. Projected EBITDA is forecasted by management during the annual budget process. EBITDA valuation multiples are consistent with the objective of measuring fair value since they are based on recent change in control transactions of entities with comparable operations and economic characteristics within our industry. We believe that EBITDA is the most stable and comparable measure of operating performance within our industry. We use a similar valuation technique to determine the fair value of entities that we acquire. 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. No such impairments were recorded in 2007, 2006, 2005 or 2004.

However, actual results could differ from our estimates and projections, which would affect the assessment of impairment. As of December 31, 2007, we have goodwill of $169.0 million that is subject to at least annual review of impairment.

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Income Taxes

We account for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes (SFAS 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 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.

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 fee 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 (primarily volume 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 2.9%, 3.8% and 2.2% of consolidated revenues for the years ended December 31, 2007, 2006 and 2005, 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 $1.8 million and $1.7 million as of December 31, 2007 and 2006, 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.

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Recent Pronouncements

In June 2006, the FASB issued FIN 48 to create a single model to address accounting for uncertainty in tax positions. The Interpretation applies to all tax positions accounted for in accordance with SFAS No. 109 and requires a recognition threshold and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on classification, interest and penalties, accounting in interim periods and transition, and significantly expands income tax disclosure requirements. The Interpretation is effective for public reporting companies for fiscal years beginning after December 15, 2006. As a result of the implementation of Interpretation No. 48, we recognized an increase in the net liability for unrecognized tax benefits of $6.7 million, which was accounted for as a decrease to the January 1, 2007 opening retained deficit.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which provides a definition of fair value, establishes a framework for measuring fair value, and requires additional disclosures about fair value measurements. This Statement applies to value measurements that are already required or permitted by other accounting standards, except for measurements of share-based payments and measurements that are similar to, but not intended to be, fair value and does not change existing guidance as to whether or not an instrument is carried at fair value. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 for financial assets and liabilities, and for fiscal years beginning after November 15, 2008 for non-financial assets and liabilities. We are currently evaluating the effects of implementing the provisions of this Statement.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The pronouncement also establishes presentation and disclosure requirements to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the effects of the adoption of SFAS No. 159.

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BUSINESS

Our Company

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

We 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, marine and governmental customers such as Alfa Laval, Cummins, General Dynamics, Hyundai Heavy Industries, Siemens, Solar Turbines, Thyssenkrupp, the U.S. Navy and various sovereign navies around the world. We have a large installed base, which, combined with the critical nature of the applications in which our products are used, leads to a tendency for our customers to replace like for like products. This tendency leads to significant aftermarket demand for replacement parts as well as for spare parts and maintenance service.

We employ a comprehensive set of tools that we refer to as 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.

We have an experienced management team that has established a focused industrial manufacturing business with strong market positions within the fluid handling industry. We believe we are well positioned to continue to grow by enhancing our product offerings and expanding our customer base in each of our strategic markets. We also have successfully completed and integrated several acquisitions and expect to continue to pursue acquisitions of complementary businesses that will broaden our product portfolio, expand our geographic footprint or enhance our position in our strategic markets.

Our History

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 sought 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 and improvements in operating margins.

In August 1997, we acquired Imo and Warren, manufacturers of screw pumps and specialty centrifugal pumps. The Imo Pump brand name dates back to 1931, when Bengt Ingestrom, an entrepreneur, and Carl Montelius, the inventor of the 3-screw pump, established Imo Pump. Their last names formed the acronym Imo. Warren was founded in 1897 and is among the oldest pump manufacturers in the U.S. Our acquisition of Imo and Warren formed the foundation of what is now Colfax Corporation.

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In April 1998, we acquired Allweiler AG (Allweiler), the largest European manufacturer of screw pumps and a leader in specialty centrifugal and progressive cavity pumps in Europe. The Allweiler brand name dates to 1860 and is a leading brand name for screw pumps in Europe. The Allweiler acquisition included Houttuin, a Dutch manufacturer of 2-screw pumps.

Since the acquisition of Allweiler, we have completed additional acquisitions that have broadened our fluid handling product portfolio and geographic footprint. In June 2004, we acquired the assets of Zenith, a leading manufacturer of precision metering pumps for the general industrial market.

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. The acquisition of Tushaco provided us with an established presence to serve the South Asian market. Tushaco s manufacturing and design experience also enables us to utilize its products as a low cost supplier to our other operations and to optimize our global engineering resources.

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 strengthening our existing position with the 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 use in industrial applications.

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 $119 billion in 2006. Within this market, we primarily compete in the estimated $3.5 billion global rotary positive displacement pump market, a sub-section of the estimated $11 billion positive displacement pump market. We are also a competitor in the estimated $18 billion centrifugal pump market and the estimated $57 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.

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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

Our 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 79 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 lower 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 aftermarket demand for replacement products as well as for spare parts and for repair and maintenance service. In the year ended December 31, 2007, we estimate that approximately 25% 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 66% of our sales in 2007 were derived from operations outside of the U.S. In addition, no single customer represented more than 3% of our sales during this period.

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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.

Our 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 is a strategic planning and execution methodology designed to achieve world-class excellence in all aspects of our business. 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, and in doing so 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, 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.

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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. For example, through a *Voice of the Customer* driven process, we identified an opportunity to lower maintenance and energy costs and increase up time by replacing reciprocating pumps in pipeline applications with our 3-screw product. We also intend to leverage our position as a leading supplier of 2-screw pumps to develop 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 fast growing oil and gas markets around the world, including Asia 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. For example, in 2006 we were contracted by an international power generation equipment supplier to design, build and install a 2.2 million lube oil skid system for a nuclear power plant in Finland. We were chosen to provide the turnkey solution for this project as a result of our engineering capabilities and technical expertise. 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. For example, we recently received a $27.0 million contract to design a proprietary automated fire suppression system for the next-generation U.S. Navy destroyer. We also received a $16.5 million order to supply SMART valves designed as an integrated system solution with intelligence and diagnostic capabilities for the new destroyer platform. 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 Fast 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. Because we believe that the Asia Pacific market, in particular China, provides an attractive opportunity for future growth, in 2005, we opened a greenfield production facility in Wuxi, China to manufacture parts and assemble products primarily for shipyards and ship owners in China and other Asian countries. In addition, our acquisition of Tushaco established our presence in the fast growing Indian market.

To further enhance our focus on serving our customers, we have developed the Colfax Sales Office (CSO), a web-based selection, configuration, quotation, order entry and aftermarket tool to streamline the quote-to-order process. As of December 31, 2007, we have installed CSO in our Imo operations in North America and our Allweiler operations in Bottrop, Germany. We intend to install CSO across all of our operations. 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. For example, through a *Voice of the Customer* process, we identified an opportunity to assist shipowners in meeting stricter environmental standards by developing an integrated fluid handling system with sensors designed to proactively alert the ship engineer of a leak. This solution helps our customers avoid incurring large fines during routine port inspections. With the recent acquisition of Fairmount, we also intend to leverage their 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. For example, our position as a leading supplier of 2-screw pumps, combined with our engineering and application expertise, recently provided us the ability to design, build, install and commission three system packages to transport heavy crude oil for a Middle Eastern customer. By offering complete turnkey systems, we not only captured a greater share of the overall project value, but also demonstrated our technical capabilities which led to a follow-on order in 2007.

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.

Our Products

We design, manufacture and distribute fluid handling products that transfer or control liquids in a variety of applications. We market our products principally under the Allweiler, Fairmount, Houttuin, Imo, LSC, Portland Valve, Tushaco, Warren and Zenith brands and also sell replacement parts and perform repair services for our manufactured products.

Our primary products include:

Fluid Handling Products	**Principal Brands**	**Principal 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

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Pumps

At the most basic level, pumps are used to transfer liquids. For such transfer to occur, pumps require energy by a driver such as an electric motor. With their broad application across numerous industry segments, pumps can be classified by specific standards, technology, type or design. Within this broad product segment, we focus on rotary positive displacement and specialty centrifugal pumps. Rotary positive displacement and specialty centrifugal pumps operate differently, but both are designed to effectively transport specific liquid mediums. Rotary pumps generally are used on liquids that have oil-like characteristics, while centrifugal pumps generally are used on water-like liquids; however, special designs provide numerous common opportunities.

Rotary Positive Displacement Pumps We believe 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. 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). The following table summarizes the range of our rotary positive displacement pump products.

Product	Max Flow (GPM)	Max Pressure (PSI)	Fluids Handled	Major Markets Served	Product Features
3-Screw	5,300	4,500	Viscous oils	Oil & Gas	High efficiency
			Viscous chemicals	Power Generation	Quiet operation
				Commercial Marine	High pressure capability
				Global Navy	
2-Screw	12,000	1,500	Viscous oils	Oil & Gas	Large capacity
			Corrosive fluids	Commercial Marine	High efficiency
			Fibrous liquids	Power Generation	Contaminant handling
Progressive	3,750	1,500	Sewage sludge	General Industrial	Broad fluid type transfer
Cavity			Viscous liquids		Solids content handling
Gear	1,500	300	Polymer fiber	General Industrial	Multiple applications
			Adhesives		High speed
			Diesel fuel		Precision pumping
Peristaltic	350	230	Viscous fluids	General Industrial	Sealless design (no leaks)
			Corrosive liquids		Easy to maintain
					Simple design

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Specialty Centrifugal Pumps Centrifugal pumps use the kinetic energy imparted by rotating an impeller inside a configured 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. The table below sets forth the range of our primary specialty centrifugal products.

Fluids Handled	Max Flow (GPM)	Max Pressure (PSI)	Major Markets Served	Product Features
Water	10,500	150	Commercial Marine Global Navy	Extended operation Sealless design (no leaks) Ability to package with rotary pumps
Lube Oil	7,000	150	Commercial Marine Power Generation	Application specific design Easy installation Extended operation
Thermal Oil	5,500	240	General Industrial	ATEX certified ISO 2858 compliant Flexible design
Aggressive Liquids	150,000	240	General Industrial	Custom configuration Sealless design (no leaks) ATEX certified ISO 2858 compliant

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; and
- complete packages for commercial marine engine rooms.

Through the acquisition of Fairmount, we are able to integrate advanced programmable logic controls with our specialty valves to create SMART fluid handling systems for naval application. We are currently working together on several contracts for the U.S. Navy next-generation destroyer, including a $27.0 million contract to design a proprietary automated fire suppression system and a $16.5 million contract to supply SMART valves.

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.

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Manufacturing

We manufacture and assemble our products at more than 16 locations worldwide, including 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.

Twelve of our manufacturing facilities are certified as compliant with ISO 9001:2001 manufacturing standards, which are international quality standards developed by the International Organization for Standardization. ISO 9001:2001 refers to a quality management system which demonstrates the ability to consistently provide products that meet customer and applicable regulatory requirements and aim to enhance customer satisfaction. We believe that these certifications are recognitions of our commitment to and efforts in implementing and maintaining a quality management system in the design, manufacturing and sales of our fluid handling products.

Customers

Our business is geographically diversified, with 47% of net sales for 2007 derived from customers in Europe, 29% from customers in North and South America, 16% from customers in Asia and 8% from customers in other areas. Our customer base is highly diversified and includes commercial, industrial and government customers. Our business is not dependent on any single customer or a few customers, the loss of which would have a material adverse effect on the respective market, or on us as a whole. In 2007, no single customer represented more than 3% of sales.

Direct Sales

We provide our products directly to customers in each of the markets we serve through our approximately 100 direct field sales associates in 12 countries. A significant percentage of our direct sales associates have technical backgrounds, including degrees in engineering. In 2007, direct sales represented approximately 70% of our overall sales.

Indirect Sales

In addition to our direct sales force, we provide products to our customers through over 100 independent representatives that cover over 30 countries. We have established and maintain long-term relationships with distributors and original equipment manufacturers in key markets. Approximately 30% of our sales in 2007 were to distributors, while 27% of our sales in the same period were through original equipment manufacturers.

We believe that our worldwide presence enables us to provide timely and responsive support and service to our customers, many of whom operate internationally, and to capitalize on growth opportunities in both developed and emerging areas around the world.

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), KSB Group and Sulzer Ltd. In the global navy market, we compete primarily with Buffalo Pumps, Carver Pump Company, Curtiss-Wright Corporation and Tyco International, Inc.

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 work to continuously enhance our existing products and develop 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.

With the acquisition of Fairmount, we have significantly expanded our engineering capabilities with the addition of 24 system and electrical engineers. We intend to combine our new capabilities for design of proprietary programmable automation controllers with our fluid handling application expertise to build a portfolio of SMART solutions for use in our end markets.

In addition to our existing 180-person engineering team and research and development capabilities, we have also established an engineering center of excellence located at our Mumbai, India office to align our product innovation efforts across our global operations. We anticipate hiring additional local engineers who will collaborate with global business operations to design new products or modify existing solutions based on *Voice of the Customer* feedback. We also expect to increase our capacity of specialized engineering capabilities by reallocating certain engineering functions to our Indian engineering center, thereby freeing resources for higher value work.

We have approximately 77 employees in research and development. Expenditures for research and development for the years ended December 31, 2007, December 31, 2006 and December 31, 2005 were $4.2 million, $3.3 million and $2.9 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. As of December 31, 2007, we owned

approximately 65 active U.S. and foreign patents and had approximately eight patent applications pending across all of our product lines. 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.

Our products are marketed under various trade names and registered U.S. and foreign trademarks. We have rights to a number of trade names, service marks and trademarks, including Colfax, Allweiler, Fairmount, Houttuin, Imo, LSC, Portland Valve, Tushaco, Warren and Zenith. We have rights to these names and marks in the United States and, where we believe appropriate, in foreign markets in which we operate or compete.

Although we are involved in disputes concerning intellectual property ownership rights from time to time, we have no knowledge of or any present infringement or any present claims of ownership of patents or trademarks that would materially affect our business. We intend to continue to pursue registration and protection of all of our intellectual property rights. We also intend to continue to vigorously defend our intellectual property and proprietary rights against infringement or other threats to the greatest extent possible under applicable law.

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, plastics, castings, motors 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. The loss of any one supplier would not have a material adverse effect on our business or result of operations.

Manufacturing turnaround time is generally sufficiently short so as to permit us to manufacture to order for most of our products, which helps to limit inventory costs. Therefore, backlog generally is a function of requested customer delivery dates and may range from two months to several years based on the actual requested dates.

Properties

We have 16 principal production facilities in seven countries. We have seven in the United States, one in China, one in France, three in Germany, one in the Netherlands, one in Sweden and two in India. The following table lists our primary facilities as of December 31, 2007, 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	130,000	Owned	Production
Sanford, North Carolina	32,000	Owned	Production
Aberdeen, North Carolina	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

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Associates

The following table indicates our worldwide associate base as of the periods indicated:

	January 31,	December 31,		
	2008	2007	2006	2005
United States	702	701	548	492
Europe	1,093	1,096	1,034	1,039
Asia	264	262	216	173
Total	2,059	2,059	1,798	1,704

There are approximately 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 7, 2008 and provides for wage increases ranging from 3% to a maximum of 3.5% per year. In addition, in Germany, Sweden and the Netherlands, by law, some 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 constituted approximately 6% of our revenue in 2007, with the majority of the U.S. government revenue being generated by our Warren brand. 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.

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 37,500 pending claims, approximately 15,400 of such claims have been brought in various state courts in Mississippi; approximately 4,200 of such claims have been brought in the Supreme Court of New York County, New York; approximately 400 of such claims have been brought in the Superior Court, Middlesex County, New Jersey; and approximately 1,900 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 subsidiaries is a defendant in a lawsuit in the Supreme Court of British Columbia alleging breach of contract arising from the sale of a steam turbine delivered by our former Delaval Turbine Division and claiming damages in excess of $6.0 million (Canadian). In 2002, the plaintiff amended its complaint to add claims for negligence. We believe that there are legal and factual defenses to the claim and intend to defend the action vigorously. A trial date has been set for November 2008.

On June 3, 1997, one of our subsidiaries was served with a complaint in a case brought 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 our former Electro-Optical Systems business. The Electro-Optical Systems business was sold in a transaction that closed on June 2, 1995. The sales contract provided certain representations and warranties as to the status of the business at the time of sale. The complaint alleges that the subsidiary failed to provide notice of a reasonably anticipated loss under a bid that was pending at the time of the transfer of the business and therefore a representation was breached. 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 is recorded in Other liabilities in the accompanying consolidated balance sheets. The judgment is secured by a letter of credit under our existing credit facility. Both the subsidiary and the plaintiff appealed. On January 28, 2008, the Appellate Division of the New Jersey Superior Court affirmed the total award and ordered a new trial on certain portions of the plaintiffs claim. The subsidiary petitioned for reconsideration of the decision which was denied on February 28, 2008. The subsidiary intends to seek certification from the Supreme Court of New Jersey for appeal. The subsidiary believes that there are legal and factual defenses to the claims and intends to continue to defend the action vigorously.

We were a defendant in an action brought by the landlord of one of our subsidiaries for rent. In March 2006, a jury found in part for the landlord, awarding the landlord $1.6 million for rent and $1.2 million in attorney s fees. On April 2, 2008 the Court of Appeals for the 5th District of Texas at Dallas affirmed the trial court s judgment. The Company is reviewing the decision to determine the appropriateness of an appeal to the Supreme Court of Texas.

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 to cover potential liabilities. Any costs that management estimates may be paid related to these proceedings or claims are accrued when the liability is considered probable and the amount can be reasonably estimated. There can be no assurance, however, as to the ultimate outcome of any of these matters, and if all or substantially all of these legal proceedings were to be determined adversely to us, there could be a material adverse effect on our financial condition, results of operations or cash flow.

We are self-insured for a portion of our product liability and certain other liability exposures. Depending on the nature of the liability claim, we are responsible for up to $0.2 million per occurrence under the retention program for worker s compensation and $0.5 million per occurrence under the retention program for product liability with a $4.0 million aggregate with respect to domestic liability and $3.0 million with respect to foreign liability. We also have a $0.1 million per occurrence stop-loss limit under our group medical plan.

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MANAGEMENT

Executive Officers, Directors and Key Employees

The following table sets forth information with respect to our current executive officers, directors, key employees and those who will become executive officers and directors upon consummation of the offering. With the exception of Mitchell P. Rales and Steven M. Rales, who are brothers, there are no family relationships among any of the individuals listed below.

Name	Age	Position
John A. Young	42	President and Chief Executive Officer and Director
G. Scott Faison	46	Senior Vice President, Finance and Chief Financial Officer
Thomas M. O Brien	57	Senior Vice President, General Counsel and Secretary
Michael K. Dwyer	50	Senior Vice President, General Manager Asia Pacific
Steven W. Weidenmuller	44	Senior Vice President, Human Resources
Joseph B. Niemann	46	Senior Vice President, Marketing and Strategic Planning
William E. Roller	45	Senior Vice President, General Manager Americas
Mario E. DiDomenico	57	Senior Vice President, General Manager Engineered Products
Dr. Michael Matros	42	Senior Vice President, General Manager Allweiler
Mitchell P. Rales	51	Chairman of the Board of Directors
Steven M. Rales(1)	57	Director
Patrick W. Allender	61	Director Nominee
C. Scott Brannan	49	Director Nominee
Joseph O. Bunting III	47	Director Nominee and Vice President
Thomas S. Gayner	47	Director Nominee
Clay Kiefaber	52	Director Nominee
Rajiv Vinnakota	36	Director Nominee

(1) Steven M. Rales has submitted his resignation as a director effective immediately prior to the effective time of the registration statement. Each officer serves at the pleasure of the board and is subject to removal by the board with or without cause.

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.

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.

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.

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., the leading producer of juice in the world, where he was employed from 1997 to 2002.

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.

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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.

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 Products. He has been with Imo Industries in increasingly responsible manufacturing roles since 1990.

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.

Mitchell P. Rales has served as the Chairman of the Executive Committee of Danaher Corporation since 1990. For more than the past five years, Mitchell Rales has been a principal in a number of private business entities with interests in manufacturing companies and publicly traded securities.

Steven M. Rales has served as the Chairman of the Board of Directors of Danaher Corporation since 1984. Steven M. Rales has submitted his resignation as a director effective immediately prior to the effective time of the registration statement. For more than the past five years, Steven Rales has been a principal in a number of private business entities with interests in manufacturing companies and publicly traded securities.

Patrick W. Allender is the former Executive Vice President and Chief Financial Officer of Danaher Corporation, where he served from 1987 until 2006. Mr. Allender is a director of the Brady Corporation where he is a member of the audit and compensation committees.

C. Scott Brannan is a partner of Aronson & Company. Prior to joining Aronson & Company in 2003, Mr. Brannan served as Director of International Finance of our company for one year. Mr. Brannan is a certified public accountant.

Joseph O. Bunting, III has served as Vice President of our company since 1997. Mr. Bunting has submitted his resignation as Vice President effective upon consummation of this offering. For more than the past five years, Mr. Bunting has been an officer, member or director in a number of private business entities with interests in manufacturing companies and publicly traded securities and which are affiliated with Mitchell Rales and Steven Rales.

Thomas S. Gayner is Executive Vice President and Chief Investment Officer of Markel Corporation. Since 1990, Mr. Gayner has served as President of Markel Gayner Asset Management, Inc. Mr. Gayner served as a director of Markel Corporation from 1998 to 2003. Mr. Gayner currently serves on the board of directors of The Washington Post Company. Mr. Gayner also serves on the board of directors of The Davis Funds in New York City.

Clay Kiefaber served as Group President of Masco Corporation from 2006 to 2007. Prior to serving as Group President, Mr. Kiefaber was Group Vice President of Masco Builder Cabinet Group and President of Merillat Industries, both companies of which are subsidiaries of Masco Corporation. Mr. Kiefaber joined Merillat Industries in 1989.

Rajiv Vinnakota has been the Managing Director and President of The SEED Foundation, a non-profit educational organization, since 1997. Prior to co-founding SEED, Mr. Vinnakota was an associate at Mercer Management Consulting.

Board Composition

Upon completion of this offering, we will have an authorized board of directors consisting of members, a majority of whom will be independent. Our board of directors has determined that each of , , and meets the definition of independent director under the New York Stock Exchange listing standards.

Our certificate of incorporation provides that the authorized number of directors may be changed only by resolution of the board of directors.

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Board Committees

Upon completion of this offering, our board of directors will have a standing audit committee, a standing compensation committee and a standing nominating and corporate governance committee, the principal functions of which are detailed below.

Our board may establish other committees from time to time to facilitate the management of the business and affairs of our company.

Audit Committee

The audit committee will be responsible, among its other duties and responsibilities, for overseeing our accounting and financial reporting processes, the audits of our financial statements, the qualifications of our independent registered public accounting firm, and the performance of our internal audit function and independent registered public accounting firm. The audit committee will review and assess the qualitative aspects of our financial reporting, our processes to manage business and financial risks, and our compliance with significant applicable legal, ethical and regulatory requirements. The audit committee will be directly responsible for the appointment, compensation, retention and oversight of our independent registered public accounting firm. The members of our audit committee are expected to be , who will serve as chair of the committee, and . Our board of directors has determined that will qualify as an audit committee financial expert, as that term is defined under the SEC rules implementing Section 407 of the Sarbanes-Oxley Act of 2002. Our board of directors has determined that each member of our audit committee will be independent within the meaning of the independent director guidelines of the New York Stock Exchange and each member of our audit committee will be independent under the requirements of Rule 10A-3 of the Securities Exchange Act.

Compensation Committee

The compensation committee will be responsible, among its other duties and responsibilities, for approving the compensation and benefits of our chief executive officer and other executive officers, monitoring compensation arrangements applicable to our chief executive officer and other executive officers in light of their performance, effectiveness and other relevant considerations and adopting and administering our equity incentive plans. To date, the compensation of our executive officers has primarily been determined by our full board of directors. For a discussion of the role of Mr. Young, our chief executive officer, and the limited role of compensation consultants in compensation decisions during our last fiscal year, see the Compensation Discussion and Analysis below.

The members of our compensation committee are expected to be , who will serve as chair of the committee, and .

Nominating and Corporate Governance Committee

The nominating and corporate governance committee will be responsible for recommending candidates for election to the board of directors. The committee also will be responsible, among its other duties and responsibilities, for making recommendations to the board of directors or otherwise acting with respect to corporate governance policies and practices, including board size and membership qualifications, new director orientation, committee structure and membership, succession planning for our chief executive officer and other key executive officers, and communications with stockholders. The members of our nominating and corporate governance committee are expected to be , who will serve as chair of the committee, and .

We believe that the composition of each of these three standing committees will satisfy the requirements for independence under the listing standards of the New York Stock Exchange and the applicable SEC rules and regulations.

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Board Compensation

To date, none of our directors have received compensation for their services as a director of our company. We currently anticipate that, upon completion of this offering, our newly-formed compensation committee will review our director compensation policy and, as it deems necessary, modify our program to arrive at what we believe to be fair and competitive compensation for our directors as a public company.

Compensation Discussion and Analysis

The following discussion and analysis of compensation arrangements of our named executive officers for 2007 (as set forth in the Summary Compensation Table below) should be read together with the compensation tables and related disclosures set forth below. This discussion contains forward-looking statements that are based on our current plans, considerations, expectations and determinations regarding future compensation programs. Actual compensation programs that we adopt may differ materially from the currently planned programs summarized in this discussion.

Executive Compensation Philosophy and Objectives

To date, our executive compensation philosophy has been to offer our executive officers, including our named executive officers, compensation that is competitive and that meets our goals of attracting, keeping, incentivizing and rewarding highly skilled management so that we can achieve our financial and strategic objectives and continue to grow our company.

Utilizing this philosophy, our executive compensation program has been designed to:

- be competitive and flexible to reflect the industry in which we operate;
- continually focus on, and reward our executives for, achievement of company financial and strategic objectives, both over the short and longer-term; and
- consistently apply our compensation program to each of our named executive officers, including our CEO, Mr. Young, as well as all of our management, in all of our locations (although our specific programs may vary slightly between the United States and our other international locations, as required by local law or practice).

Setting of Executive Compensation

Other than as set forth below under Elements of Our Executive Compensation Program Base Salary, to date the compensation awarded to our named executive officers has been determined solely by the full board of directors, including Mitchell Rales, Steven Rales and Mr. Young, based upon their collective experience and reasoned business judgment, with recommendations from our CEO, Mr. Young, for each of the named executive officers other than himself.

Other than the philosophy and compensation objectives discussed above, which have been informally followed by the board, the board has not formally adopted any policies with respect to long-term versus currently-paid compensation, cash versus non-cash compensation, or any other compensation policies. In addition, the board has historically looked at each compensation element individually such that decisions regarding one element have not affected decisions regarding other elements. This is because each element of our compensation program has a different purpose:

- base salaries must be competitive in order to attract and keep our executive talent;
- annual bonus plan designed to reward our executive officers for annual improvements in key areas of company operational and financial performance; and

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long-term cash incentive plans designed to reward our executive officers for growing our company over the longer-term and positioning it for a liquidity event, either through a sale or pursuant to an initial public offering.

It is currently anticipated that, upon completion of this offering, our newly-formed compensation committee will review our executive compensation program and, as it deems necessary, modify or expand our program to arrive at what we believe to be fair and competitive compensation for our executive officers, including the named executive officers, as a public company.

Elements of Our Executive Compensation Program

As discussed above, prior to this offering, the elements of our executive compensation program have been base salary, an annual cash bonus, and long-term cash incentives.

Base Salary. As noted above, one of our guiding compensation objectives is to be flexible in order to reflect the competitive environment we encounter in recruiting and retaining senior management. Base salaries are reviewed annually with this objective in mind.

Named Executive Officers, Other Than Mr. Young. The annual base salary increases, if any, awarded to our named executive officers in fiscal 2007, as well as all of our associates generally, are determined from a merit pool recommended by Mr. Young and approved by the board. Each year, Mr. Young develops a merit pool, or aggregate percentage increase in base salary amounts for Colfax associates generally, that is recommended to the board. Mr. Young bases his recommendation on his subjective review of publicly available compensation compilation and survey data comprised of average percentages by which base salaries paid to employees of industrial and other companies in the U.S., as well as the other geographic locations where we have associates, are expected to increase. The component companies which form the basis for this compilation data are not disclosed as part of this survey information and thus are not known to Mr. Young, the board or Colfax. The survey data reviewed by Mr. Young indicated that average base salaries were to increase by 4% for 2007. Thus, based on the board s review of this information and Mr. Young s recommendation, the board approved a merit pool of 4.0% for fiscal 2007.

Once the merit pool was determined, Mr. Young further recommended to the board the base salaries for each named executive officer, other than himself. Mr. Young makes these recommendations based upon his subjective judgment and business experience. These base salaries recommended by Mr. Young, and approved by the board, are set forth in the Salary column of the Summary Compensation Table below.

Mr. Young. In determining Mr. Young s base salary increase for fiscal 2007, the board performed a more comprehensive review of CEO base salaries. In order to provide the board with survey data specific to compensation paid to CEOs, we retained Watson Wyatt Worldwide to develop a survey of comparable industrial public companies, with similar revenue and products to Colfax, using publicly available compensation information from public company proxy statements. The peer group of companies included in the Watson Wyatt survey consisted of Gardner Denver, Inc., IDEX Corporation, Graco Inc., Robbins & Myers, Inc., Altra and The Gorman Rupp Company. In reviewing this survey information, the board determined to increase Mr. Young s base salary to $375,000.

Annual Cash Bonus. For 2007, each of our named executive officers was entitled to participate in our 2007 Management Incentive Plan, or our annual cash bonus plan. As stated above, we believe the annual cash bonus plan incentivizes our named executive officers to achieve annual improvements in what we view as key company financial and operational metrics, thus resulting in continued growth for Colfax from year to year.

Financial and Operational Targets. Consistent with prior years, a substantial percentage of the funding for the 2007 annual bonus plan was determined by the achievement of financial performance targets

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based on the board-approved corporate budget for the year. For each named executive officer other than Mr. Dwyer and Dr. Matros, the achievement of financial performance targets represented 70% of the funding for the annual bonus, and the financial performance targets consisted of sales, Adjusted EBITDA and working capital turns (each as adjusted to negate the effects of foreign currency exchange rates). The board chose these metrics, as it has in recent years, as we believe these are the three performance metrics which most influence and support our growth and, as a result, shareholder value.

For each of Mr. Dwyer and Dr. Matros, the achievement of financial performance targets represented 75% of the funding of his annual bonus. The financial performance targets applicable to Mr. Dwyer and Dr. Matros included each of the performance metrics discussed above which are applicable to our corporate named executive officers; however, the board believed that the financial metrics for Mr. Dwyer s and Dr. Matros potential annual bonus should be based primarily on the business unit that each oversees, and not the company as a whole. Thus, 65% of each of Mr. Dwyer s and Dr. Matros potential bonus was based on the achievement of sales, Adjusted EBITDA and working capital turns with respect to their respective business units (which, for Mr. Dwyer only, was adjusted to negate the effects of foreign currency exchange rates due to the fact that Mr. Dwyer s business unit includes more than one currency type). The additional 10% of each of Mr. Dwyer s and Dr. Matros potential bonus was based on achievement of the company-wide sales target for the year.

The remaining 30% (or 25%, in the case of Mr. Dwyer and Dr. Matros) of the annual bonus plan was based on board-approved personal objectives for each named executive officer, as discussed below.

The following table outlines the annual bonus plan goal structure and respective weighting for each of the named executive officers, other than Mr. Dwyer and Dr. Matros, during 2007:

Measure	Weighting
Sales	17.5%
Adjusted EBITDA	35.0%
Working capital turns	17.5%
Personal objectives	30.0%

The following table outlines the annual bonus plan goal structure and respective weighting for Mr. Dwyer and Dr. Matros during fiscal 2007:

Measure	Weighting
Sales business unit	15.0%
Adjusted EBITDA business unit	35.0%
Working capital turns business unit	15.0%
Sales Colfax consolidated	10.0%
Personal objectives	25.0%

The board placed a greater emphasis on Adjusted EBITDA as compared to the other performance metrics as we believe profitability is the primary driver of our growth. With respect to the financial and operational performance metrics, the annual bonus plan is strictly formulaic in nature, and neither the board nor any executive officer exercised any discretion with respect to the targets, or the resulting payments, in fiscal 2007.

The target goal relating to each financial or operations performance metric, including the business units specific to Mr. Dwyer and Dr. Matros, represented our internal budget amount for 2007. The board then set threshold goals and maximum goals based upon their collective experience and business judgment, balancing our interests with the purpose of the program: to reward the named executive officers for improvements in each of the key metrics, including rewarding each of Mr. Dwyer and Dr. Matros for improvements in the metrics for the respective business unit he oversees. To determine the actual bonus paid to each named executive officer, the actual financial performance is multiplied by each named executive officer s target bonus (as set forth in footnote 1 to the

Summary Compensation Table below) and the corresponding weighting for the measure. The 2007 financial performance goals for each of the named executive officers, other than Mr. Dwyer and Dr. Matros (other than with respect to the 10% of each of Mr. Dwyer s and Dr. Matros potential bonus based on the company-wide sales target) are set forth below:

Measure (weighting)	Target Goal	Threshold Goal	Threshold Payment	Maximum Goal	Maximum Payment
Sales (17.5%)[1]	$467.7 million	$440.4 million	65%	$514.5 million	250%
Adjusted EBITDA (35.0%)	$ 74.9 million	$66.2 million	65%	$89.9 million	250%
Working Capital Turns (17.5%)	4.64	4.27	20%	5.10	200%

(1) For both Mr. Dwyer s and Dr. Matros 2007 annual bonus, company-wide sales represented 10% of the potential bonus.

We are not disclosing the specific sales, Adjusted EBITDA and working capital turns targets applicable to the business units overseen by Mr. Dwyer and Dr. Matros as they are highly confidential to our business and we do not currently intend to disclose such information either as projections or as actual results upon completion of this offering. We believe that doing so would be competitively harmful to us, as it would provide our competitors with strategic information specific to our regional operations, thus providing our competitors in these regions insight into our plans and projections for the region. The actual achievement of the financial performance targets for fiscal 2007 for Mr. Dwyer and Dr. Matros was as follows:

Mr. Dwyer	Dr. Matros
94% of the sales target;	101% of the sales target;
200% of the Adjusted EBITDA target; and	118% of the Adjusted EBITDA target; and
111% of working capital turns target.	98% of working capital turns target.

For each of the named executive officers other than Mr. Dwyer and Dr. Matros, actual results for 2007 were as follows:

$474.8 million in sales (102% of target);

$83.9 million in Adjusted EBITDA (112% of target); and

4.81 in working capital turns (104% of target).

Individual Performance Objectives. As stated above, 30% of each named executive officer s annual bonus (or 25%, with respect to Mr. Dwyer and Dr. Matros) is determined by achievement of board-approved individual performance objectives. The board includes individual performance objectives as part of the annual bonus plan to ensure that more targeted, non-financial company objectives over which the executive has primary control are part of the individual s total annual bonus for the year. We do not view these individual performance objectives as material to an understanding of this portion of our annual bonus plan as there are several individual objectives established for each named executive officer and, individually, no one factor materially affects the total potential amount of the bonus award.

The actual bonus award paid to each named executive officer pursuant to the 2007 annual bonus plan is disclosed in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table below.

Long-Term Incentives. In each of 2001 and 2006, our board of directors implemented long-term cash incentive plans as a direct means to motivate our senior management, or those most responsible for the overall growth and direction of our company, with the purpose of growing and increasing the value of our company and positioning it for an initial public offering or other liquidity event, such as a sale of our company. Each of the

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named executive officers, other than Dr. Matros, participates in the Colfax Corporation 2001 Employee Appreciation Rights Plan (the 2001 Plan). Each of the named executive officers participates in the 2006 Executive Stock Rights Plan (the 2006 Plan). Initially, our board of directors approved the 2001 Plan as we were starting to grow as a company. Accordingly, the 2001 Plan was designed to allow our senior management to share in the growth of our company and to attract new executive talent to our company. More recently, our board approved the 2006 Plan as a means of re-emphasizing this upside potential.

Generally, each of these plans provides the named executive officers with the opportunity to receive a certain percentage, in cash (or, with respect to the 2001 Plan only, in equity, in the sole discretion of the board of directors), of the increase in value of our company from the date of grant of the award until the date of the liquidity event. The board of directors has determined that this offering will qualify as a liquidity event under both the 2001 Plan and the 2006 Plan. As a result, each of the named executive officers will receive payouts under the plans, as applicable, in conjunction with this offering and thereafter the plans will terminate.

For the 2001 Plan, the percentage interest of participation for each participating named executive officer was determined solely in the discretion of the board of directors, based on their reasoned business judgment. For the 2006 Plan, while the board determined the percentage interest for each named executive officer based on its discretion, the board also took into account, in their subjective judgment, the level of the officer s responsibility with the company, his term of service with the company and his contributions to date. The 2001 Plan rights fully vested on the third anniversary of the grant date, subject to the participating named executive officer s continued employment and thus each such named executive officer is fully vested in his percentage interest under the 2001 Plan. The 2006 Plan rights vest if a liquidity event occurs prior to the 10 year expiration of the term of the plan. As stated above, the board has determined that this offering will constitute a liquidity event pursuant to the plans and thus each named executive officer will vest in his rights.

For further discussion of each of these plans, including the estimated payouts pursuant to this offering, see Potential Payments Upon Termination or Change in Control below.

Changes to Our Compensation Program in Connection with This Offering

Adoption of 2008 Omnibus Incentive Plan. The board of directors and shareholders unanimously approved the Colfax Corporation 2008 Omnibus Incentive Plan on , 2008. We have not granted any awards under the new incentive plan as of the date of this prospectus.

The board of directors adopted the new incentive plan because it believes that the new plan will more appropriately facilitate implementation of our future compensation programs as a public company. Prior to this offering, we have not adopted any comprehensive equity or cash award plans and we believe such a plan will be necessary for us to compensate our executives and associates generally as a public company. This is due, in part, to the limitations of Section 162(m) of the Internal Revenue Code, as we discuss below. Thus, the plan was approved by the board with a view to providing the newly established compensation committee with maximum flexibility to structure an executive compensation program that provides a wide range of potential incentive awards to our named executive officers, and associates generally, on a going-forward basis, and to preserve to the maximum extent possible our deductibility of performance-based compensation pursuant to Section 162(m).

For example, pursuant to the plan, the compensation committee has the discretion to determine the portion of each named executive officer s total compensation that will consist of awards under the plan, the mix of short-term and long-term incentives represented by the awards, the allocation of the awards between equity and cash-based incentives, the forms of the equity awards, and the service-based requirements or performance goals that the officer will have to satisfy to receive the awards. The compensation philosophy and objectives adopted by the committee will likely determine the structure of the awards granted by the committee pursuant to the plan.

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For a more detailed discussion of the 2008 Omnibus Incentive Plan, see Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table below.

Effect of Accounting and Tax Treatment on Compensation Decisions

Section 162(m) of the Internal Revenue Code imposes a limit on the amount of compensation that we may deduct in any one year with respect to certain covered employees, unless certain specific and detailed criteria are satisfied. Performance-based compensation, as defined in the Internal Revenue Code, is fully deductible if the programs are approved by stockholders and meet other requirements. We believe that future grants of awards under our new 2008 Omnibus Incentive Plan will qualify as performance-based for purposes of satisfying the conditions of Section 162(m), thus permitting us to receive a federal income tax deduction in connection with such awards. However, as part of our current compensation objectives, we seek to maintain flexibility in compensating our executives, as discussed above and, as a result, the board has not adopted a policy requiring that all compensation be deductible. Our newly formed compensation committee will assess the impact of Section 162(m) on our compensation practices and determine what further action, if any, is appropriate.

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Compensation Tables and Disclosures

Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Non-Equity Incentive Plan Compensation ($)(1)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)(2)	All Other Compensation ($)(3)	Total ($)
John A. Young *President and Chief Executive Officer*	2007	375,000	326,250	736	59,307	761,293
G. Scott Faison *Senior Vice President, Finance and Chief Financial Officer*	2007	214,000	121,552	590	33,158	369,300
Michael K. Dwyer *Senior Vice President, General Manager Asia Pacific*	2007	219,500	139,602	575	92,236	451,913
Thomas M. O Brien *Senior Vice President, General Counsel and Secretary*	2007	247,000	140,296	22,213	37,169	446,678
Dr. Michael Matros *Senior Vice President, General Manager Allweiler*	2007	272,477(4)	138,283	624	28,276	439,660

(1) Amounts represent the payouts pursuant to our 2007 Management Incentive Bonus Plan. For a discussion of the performance metrics on which this plan is based, including the weighting for each performance metric and the actual percentage achievement of the financial performance targets, see the Compensation Discussion and Analysis above. To determine the actual bonus paid to each named executive officer, the actual financial performance was multiplied by each named executive officer s 2007 target bonus and the corresponding weighting for the measure. For fiscal 2007, each named executive officer s target bonus, expressed as a percentage of base salary, was as follows:

Mr. Young:	60%
Mr. Faison:	40%
Mr. Dwyer:	40%
Mr. O Brien:	40%
Dr. Matros:	35%

For Dr. Matros, amount represents 93,888 or $138,283 in U.S. dollars, calculated based on the conversion rate in effect on December 31, 2007.

(2) Amounts represent solely the aggregate change in the actuarial present value of the officer s accumulated benefit under the respective pension benefit plan from the pension plan measurement date used for financial statement reporting purposes in fiscal 2006 as compared to fiscal 2007. For Dr. Matros, amount represents 424 or $624 in U.S. dollars calculated based on the conversion rate in effect on December 31, 2007.

(3) Amounts set forth in this column consist of the following:

Name	Supplemental Long-Term Disability Premiums ($)	Company Car ($)[(a)]	Company 401(k)/Deferred Compensation Plan Match and Contribution ($)[(b)]	Annual Physical ($)	Overseas Housing ($)[(c)(d)]	Tax Equalization Payments ($)[(d)]	Tax Preparation Services ($)[(d)]	Accident Insurance ($)
Mr. Young	1,808	15,600	36,699	5,200				
Mr. Faison	2,270	12,000	18,888					
Mr. Dwyer	2,707	12,000	18,599		19,650	36,600(e)	2,680	
Mr. O Brien	3,429	12,000	21,740					
Dr. Matros		17,639	10,310					327(f)

(a) For each named executive officer other than Dr. Matros, amounts represent a cash car allowance provided to each officer. For Dr. Matros, amount represents the annual cost of a car lease, including insurance, maintenance and gas in the amount of 11,976 or $17,639 in U.S. dollars, calculated based on the conversion rate in effect on December 31, 2007.

(b) For each applicable named executive officer, amounts represent the aggregate company match and company contribution made by Colfax during 2007 to such officer s 401(k) plan account and Excess Benefit Plan (nonqualified deferred compensation) account. See the Nonqualified Deferred Compensation Table and accompanying narrative below for additional information on the Excess Benefit Plan. For Dr. Matros, amount represents the contribution made by Allweiler AG during 2007 pursuant to a Joint Support Fund Agreement between Allweiler AG and Dr. Matros. The joint support fund is similar to a U.S. defined contribution, or 401(k), plan. The aggregate amount required to be contributed to Dr. Matros account by Allweiler AG during 2007 was 7,000, or $10,310 in U.S. dollars, calculated based on the conversion rate in effect on December 31, 2007.

(c) Amounts represent the aggregate housing lease payments made by Colfax on behalf of Mr. Dwyer in connection with his overseas service.

(d) Amounts represent payments made to or on the behalf of Mr. Dwyer by Colfax in connection with his overseas service.

(e) Amount represents estimate as of January 4, 2008. Actual amount will not be known until filing of Mr. Dwyer s tax return for fiscal 2007.

(f) Amounts represent 222, or $327 in U.S. dollars, calculated based on the conversion rate in effect on December 31, 2007. For additional information on this benefit, see Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table Dr. Matros Service Contract and Potential Payments upon Termination or Change in Control below.

(4) This amount represents amounts paid in 2007 based on an annual base salary of 185,000, or $272,477 in U.S. dollars, calculated on the conversion rate in effect as of December 31, 2007.

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Grants of Plan-Based Awards

The following table sets forth information with respect to grants of plan-based awards to our named executive officers during 2007:

Name	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards[1] Threshold ($)	Target ($)	Maximum ($)
John A. Young	92,250	225,000	474,750
G. Scott Faison	35,096	85,600	180,616
Michael Dwyer	39,510	87,800	191,404
Thomas M. O Brien	40,508	98,800	208,468
Dr. Michael Matros	42,541	94,535	206,086

(1) Amounts represent the possible payouts under our 2007 Management Incentive Bonus Plan. For a discussion of the performance metrics and actual results and payouts under the plan for fiscal 2007, see the Compensation Discussion and Analysis and the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table above, respectively.

Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table

Mr. Dwyer s Letter Agreement

Pursuant to a letter dated December 28, 2007 (which modified and superseded a letter agreement dated April 29, 2005), we executed a letter of understanding with Mr. Dwyer with respect to his salary and benefits while serving overseas as Senior Vice President, General Manager Asia Pacific, as requested by the company. The employment period covered by the letter agreement is for one year, until December 31, 2008, unless terminated sooner in our discretion.

Pursuant to the letter agreement, Mr. Dwyer s base salary for fiscal 2007 was $219,500, which salary will be reviewed annually. In addition, Mr. Dwyer is eligible to receive an annual cash bonus under the Management Incentive Plan with a target of 40% of his base salary, or $87,800, for fiscal 2008.

In addition, during the period of his overseas assignment, Mr. Dwyer is entitled to receive the following benefits:

- reasonable reimbursement for business transportation expenses;
- company-provided housing in Hong Kong, paid directly to the landlord;
- participation in the Colfax tax equalization program and tax preparation assistance; and
- up to three trips annually to and from the U.S. for Mr. Dwyer and/or his family.

Dr. Matros Service Contract

Pursuant to a service contract and resolution of the advisory board of Allweiler AG effective November 14, 2006, Dr. Matros was appointed as a member of the management board of Allweiler AG, the German subsidiary of Colfax. Dr. Matros appointment is for a term of three years, until December 31, 2009, with an automatic extension for one year, until December 31, 2010 unless Dr. Matros receives notice no later than October 31, 2009 that his appointment has been revoked.

Under the service contract, Dr. Matros is entitled to an initial annual salary of 185,000, which is equal to $272,477 U.S. Dollars, calculated on the conversion rate in effect as of December 31, 2007. In addition, Dr. Matros is entitled to receive a performance-related annual bonus. For fiscal 2007, the service contract provided that his annual target bonus was 35% of his annual salary. Dr. Matros base salary and target bonus are to be reviewed annually.

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Consistent with what we believe to be customary practice for German companies and executives, the service contract further provides that Dr. Matros is entitled to a company car for business and personal use; however, Dr. Matros is required to bear the cost of any tax associated with such personal use. In addition, Dr. Matros is entitled to a medical exam once every two years, with Allweiler required to pay the difference between the actual cost of the exam and any insurance policy maintained by Dr. Matros. Dr. Matros did not take advantage of this benefit in fiscal 2007.

The service contract further provides for limited payments and benefits upon certain termination events. In addition, Allweiler is required to maintain an accident insurance policy for the benefit of Dr. Matros providing for coverage in the event of his death or disability. For a discussion of these provisions, and a quantification of the estimated payments to be made to Dr. Matros upon such events, see Potential Payments upon Termination or Change in Control below.

2008 Omnibus Incentive Plan

Our board of directors unanimously approved the Colfax Corporation 2008 Omnibus Incentive Plan on , 2008 (referred to as the new equity plan). The stockholders approved the plan on , 2008.

The granting of awards under the new equity plan will generally be within the discretion of the compensation committee of our board of directors. Accordingly, it is not possible as of the date of this prospectus to determine the nature or amount of any such awards that may be subject to future grants to our officers, employees and other participants in the new equity plan. The new equity plan is not the exclusive means of providing incentive compensation to executives and other employees eligible to participate in the new equity plan, and we reserve the right to pay incentive compensation to them under another plan or without regard to any plan in appropriate circumstances.

Purpose and Eligibility. The purpose of the new equity plan is to enhance our ability to attract, retain and motivate highly qualified officers, employees, non-employee directors and other persons to serve us and our affiliates and to expend maximum effort to improve our business results and earnings, by providing to such officers, employees, non-employee directors and other persons with an opportunity to acquire or increase a direct proprietary interest in our operations and future success through ownership of our common stock.

Awards may be granted under the plan to officers, directors, including non-employee directors, other employees, advisors, consultants or other service providers of ours or our subsidiaries or other affiliates, and to any other individuals who are approved by the board of directors as eligible to participate in the plan. Only our employees or employees of our subsidiaries are eligible to receive incentive stock options.

Effective Date and Term. The new equity plan is effective as of the date immediately prior to the closing date of the first sale of common stock to the general public pursuant to this registration statement and will expire at the close of a ten-year term unless earlier terminated by our board of directors.

Administration, Amendment and Termination. Our board of directors will have the power and authority to administer the new equity plan. In accordance with the terms of the plan, the board of directors will delegate this power and authority to its compensation committee. The compensation committee will have the authority to interpret the terms and intent of the new equity plan, determine eligibility and terms of awards for participants and make all other determinations necessary or advisable for the administration of the new equity plan. To the extent permitted by law, the board or compensation committee may delegate authority under the plan to a member of the board of directors.

The compensation committee may amend, suspend or terminate the new equity plan at any time with respect to any shares of common stock as to which awards have not been made. No such action may amend the new equity plan without the approval of stockholders if the amendment is required to be submitted for stockholder approval by applicable law, rule or regulation, including rules of the New York Stock Exchange.

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Awards

Awards under the new equity plan may be made in the form of:

- stock options, which may be either incentive stock options or non-qualified stock options;
- stock appreciation rights;
- restricted stock;
- restricted stock units;
- dividend equivalent rights;
- performance shares;
- performance units;
- other stock-based awards, including unrestricted shares; or
- any combination of the foregoing.

Any of the foregoing awards may be made subject to attainment of performance goals over a performance period of one or more years.

An incentive stock option is an option that meets the requirements of Section 422 of the Internal Revenue Code, and a non-qualified stock option is an option that does not meet those requirements. A stock appreciation right, or SAR, is a right to receive upon exercise, in the form of common stock, cash or a combination thereof, the excess of the fair market value of one share of common stock on the exercise date over the grant price of such SAR. Restricted stock is an award of common stock on which are imposed restrictions over restricted periods that subject the shares to a substantial risk of forfeiture, as defined in Section 83 of the Internal Revenue Code. Restricted stock units are awards that represent a conditional right to receive shares of common stock in the future and that may be made subject to the same types of restrictions and risk of forfeiture as restricted stock. Dividend equivalent rights are awards entitling the recipient to receive credits, which may be paid currently in cash or common stock or which may be deemed to be reinvested in additional shares, that are based on cash distributions that would have been paid on the shares specified in the rights if the shares had been issued to and held by the recipient. Performance shares are awards of common stock, the value for which at the time the common stock is payable is determined by the extent to which the applicable performance criteria have been met. Performance units are similar to performance shares except that the award is a performance-based right to receive shares of common stock in the future, subject to one or more other restrictions. Unrestricted shares are awards of shares of common stock that are free of restrictions other than those imposed under federal or state securities laws.

Shares Subject to New Equity Plan. Subject to adjustment as described below, a total of shares of our common stock will be available for issuance under the new equity plan. Shares issued under the new equity plan may be authorized as unissued shares or treasury shares.

Any shares covered by an award, or portion of an award, granted under the new equity plan that are forfeited or canceled, expire or settle in cash will be deemed not to have been issued for purposes of determining the maximum number of shares available for issuance under the new equity plan.

If any stock option is exercised by tendering shares to us, or if we withhold shares to satisfy tax withholding obligations in connection with such an exercise, as full or partial payment in connection with the exercise of a stock option under the new equity plan, only the number of shares issued net of the shares tendered will be deemed issued for purposes of determining the maximum number of shares available for issuance under the new equity plan. Shares issued under the new equity plan through the settlement, assumption or substitution of outstanding awards or obligations to grant future awards resulting from the acquisition of another entity