

Colfax CORP  
Form 10-K  
February 16, 2018  
COLFAX CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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Form 10-K  
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2017  
OR  
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 001-34045

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COLFAX CORPORATION  
(Exact name of registrant as specified in its charter)  
DELAWARE 54-1887631  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification Number)

420 National Business Parkway, 5th Floor 20701  
Annapolis Junction, Maryland (Zip Code)  
(Address of principal executive offices)

301-323-9000  
(Registrant's telephone number, including area code)

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SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:  
TITLE OF EACH CLASS NAME OF EACH EXCHANGE ON WHICH REGISTERED  
Common Stock, par value \$0.001 per share The New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:  
None

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer" "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. Large accelerated filer  Accelerated filer  Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company  Emerging growth company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The aggregate market value of common shares held by non-affiliates of the Registrant on June 30, 2017 was \$3.509 billion based upon the aggregate price of the registrant's common shares as quoted on the New York Stock Exchange composite tape on such date.

As of February 6, 2018, the number of shares of the Registrant's common stock outstanding was 123,328,077.

EXHIBIT INDEX APPEARS ON PAGE

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### DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates certain information by reference from the Registrant's definitive proxy statement for its 2018 annual meeting of stockholders to be filed pursuant to Regulation 14A within 120 days after the end of the Registrant's fiscal year covered by this report. With the exception of the sections of the 2018 Proxy Statement specifically incorporated herein by reference, the 2018 Proxy Statement is not deemed to be filed as part of this Form 10-K.

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Unless otherwise indicated, references in this Annual Report on Form 10-K (this “Form 10-K”) to “Colfax,” “the Company,” “we,” “our,” and “us” refer to Colfax Corporation and its subsidiaries.

#### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- changes in the general economy, as well as the cyclical nature of the markets we serve;
- a significant or sustained decline in commodity prices, including oil;
- our ability to identify, finance, acquire and successfully integrate attractive acquisition targets;
- our exposure to unanticipated liabilities resulting from acquisitions;
- our ability and the ability of our customers to access required capital at a reasonable cost;
- our ability to accurately estimate the cost of or realize savings from our restructuring programs;
- the amount of and our ability to estimate our asbestos-related liabilities;
  - the solvency of our insurers and the likelihood of their payment for asbestos-related costs;
- material disruptions at any of our manufacturing facilities;
  - noncompliance with various laws and regulations associated with our international operations, including anti-bribery laws, export control regulations and sanctions and embargoes;
- risks associated with our international operations;

- risks associated with the representation of our employees by trade unions and work councils;
- our exposure to product liability claims;
- potential costs and liabilities associated with environmental, health and safety laws and regulations;
- failure to maintain, protect and defend our intellectual property rights;
- the loss of key members of our leadership team;

- restrictions in our principal credit facility that may limit our flexibility in operating our business;
- impairment in the value of intangible assets;
- the funding requirements or obligations of our defined benefit pension plans and other post-retirement benefit plans;
- significant movements in foreign currency exchange rates;
- availability and cost of raw materials, parts and components used in our products;
- new regulations and customer preferences reflecting an increased focus on environmental, social and governance issues, including new regulations related to the use of conflict minerals;
- service interruptions, data corruption, cyber-based attacks or network security breaches affecting our information technology infrastructure;
- risks arising from changes in technology;
  - the competitive environment in our industry;
- changes in our tax rates or exposure to additional income tax liabilities, including the effects of the U.S. Tax Cuts and Jobs Act;
- 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 financial performance; and
- other risks and factors, listed in Item 1A. “Risk Factors” in Part I of this Form 10-K.

Any such forward-looking statements are not guarantees of future performance and actual results, developments and business decisions may differ materially from those envisaged by such forward-looking statements. These forward-looking statements speak only as of the date this Form 10-K is filed with the SEC. We do not assume any obligation and do not intend to update any forward-looking statement except as required by law. See Item 1A. “Risk Factors” in Part I of this Form 10-K for a further discussion regarding some of the factors that may cause actual results to differ materially from those that we anticipate.

## PART I

### Item 1. Business

#### General

Colfax Corporation (the “Company”, “Colfax”, “we” or “us”) is a leading diversified industrial technology company that provides air and gas handling and fabrication technology products and services to customers around the world under the Howden and ESAB brands. The Company has been built through a series of acquisitions, as well as organic growth, since its founding in 1995. We seek to build an enduring premier global enterprise by applying the Colfax Business System (“CBS”) to pursue growth in revenues and improvements in profit and cash flow.

Colfax began with a series of acquisitions in the fluid handling and mechanical power transmission sectors. In 2004, we divested our mechanical power transmission operations to focus on fluid handling and, through the end of 2011, made a series of strategic acquisitions in this sector.

On January 13, 2012, we closed the acquisition of Charter International plc (“Charter”), which transformed Colfax from a fluid handling business into a diversified industrial enterprise with a broad global footprint. This acquisition provided an additional growth platform in the fragmented fabrication technology sector, while broadening the scope of our fluid handling platform to include air and gas handling products.

Following the acquisition of Charter, we completed 20 acquisitions to grow and strengthen our business. Four of those acquisitions related to our fluid handling operations, which we sold in December 2017, as discussed below. During the most recent three-year period, we completed four acquisitions in our Air and Gas Handling segment that expanded our portfolio of gas compression products and enhanced our fan product offering with ventilation control software. We also completed four acquisitions in our Fabrication Technology segment during the most recent three-year period that broadened our product offering and technology content.

In December 2017, we completed the divestiture of our fluid handling business. This represents a strategic milestone in the development of our portfolio and strengthens our balance sheet, providing more flexibility to execute our strategic growth strategy. See Note 4, “Discontinued Operations” in the accompanying Notes to Consolidated Financial Statements in this Form 10-K for more information about this transaction. We plan to continue our acquisition strategy in attractive markets that we believe will strengthen the core of our business and/or will broaden and diversify our portfolio.

Integral to our operations is the Colfax Business System, or “CBS”. CBS is our business management system including a comprehensive set of tools. It includes repeatable, teachable processes that we use to create superior value for our customers, shareholders and associates. Rooted in our core values, it is our culture. We believe that our management team’s access to, and experience in, the application of the CBS methodology is one of our primary competitive strengths.

Each year, Colfax associates in every business develop aggressive strategic and operating plans which are based on the Voice of the Customer. In these plans, we are clear about our market realities, our threats, our risks, our opportunities and most importantly, our vision. Our belief is that when we use the tools of CBS to drive the implementation of these plans, we are able to uniquely provide customers with the world class quality, delivery, cost and innovation they require. We believe that performance ultimately helps our customers and Colfax sustainably grow and succeed.

#### Reportable Segments

We report our operations through the Air and Gas Handling and Fabrication Technology segments. For certain financial information, including Net sales and long-lived assets by geographic area, see Note 17, "Segment Information" in the accompanying Notes to Consolidated Financial Statements in this Form 10-K.

#### Air and Gas Handling

Our Air and Gas Handling segment is a global supplier of a broad range of products, including heavy-duty centrifugal and axial fans, rotary heat exchangers, and gas compressors, as well as certain related products, systems, and services, which serves customers in the power generation, oil, gas and petrochemical, mining, wastewater, and general industrial and other end markets. Our air and gas handling products are principally marketed under the Howden brand name, and are manufactured and engineered



in facilities located in Asia, Europe, North and South America, Australia and Africa. The products and services are generally sold directly as well as through independent representatives and distributors.

#### Fabrication Technology

We formulate, develop, manufacture and supply consumable products and equipment for use in the cutting, joining and automated welding of steels, aluminum and other metals and metal alloys. For the year ended December 31, 2017, welding consumables represented approximately 42% of our total Net sales. Our fabrication technology products are marketed under several brand names, most notably ESAB, which we believe is well known in the international welding industry. ESAB's comprehensive range of welding consumables includes electrodes, cored and solid wires and fluxes using a wide range of specialty and other materials, and cutting consumables includes electrodes, nozzles, shields and tips. ESAB's fabrication technology equipment ranges from portable welding machines to large customized automated cutting and welding systems. Products are sold into a wide range of end markets, including infrastructure, wind power, marine, pipelines, mobile/off-highway equipment, oil, gas, and mining. Our sales channels include both independent distributors and direct salespeople, depending on geography and end market.

The following discussions of Industry and Competition, International Operations, Research and Development, Intellectual Property, Raw Materials and Backlog, Seasonality, Working Capital, Associates and Company Information and Access to SEC Reports include information that is common to both of our reportable segments, unless indicated otherwise.

#### Industry and Competition

Our products and services are marketed worldwide. The markets served by our Air and Gas Handling segment are fragmented and competitive. Because we compete in selected niches of these markets and due to the diversity of our products and services, no single company competes directly with us across all our markets. We encounter a wide variety of competitors that differ by product line, including well-established regional competitors, competitors with greater specialization in particular markets, as well as larger competitors. The markets that our Fabrication Technology segment competes in are also served by Lincoln Electric and the welding business within Illinois Tool Works, Inc.

Our customer base is broadly diversified across many sectors of the economy, and we believe customers place a premium on quality, reliability, availability, design and application engineering support. We believe the principal elements of competition in our served markets are the technical ability to meet customer specifications, product quality and reliability, brand names, price, application expertise and engineering capabilities, timely delivery and strong aftermarket support. Our management believes that we are a leading competitor in each of our markets.

#### International Operations

Our products and services are available worldwide. We believe this geographic diversity allows us to draw on the skills of a global workforce, provides stability to our operations, allows us to drive economies of scale, provides revenue streams that may offset economic trends in individual economies and offers an opportunity to access new markets for products. In addition, we believe that our exposure to developing economies will provide additional opportunities for growth in the future. Our principal markets outside the U.S. are in Europe, Asia, the Middle East and South America. For the year ended December 31, 2017, approximately 78% of our Net sales were shipped to locations outside of the U.S., with approximately 51.2% shipped to locations in emerging markets.

Our international operations subject us to certain risks. See Item 1A. "Risk Factors—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."

## Research and Development

Our research and development activities vary by operating segment, focusing on innovation; developing new products, software and services; creating new applications for existing products; lowering the cost of manufacturing our existing products; and, redesigning existing product lines to increase efficiency and enhance performance.

Research and development expense was \$42.9 million, \$39.3 million and \$38.0 million in 2017, 2016 and 2015, respectively. These amounts do not include development and application engineering costs incurred in conjunction with fulfilling customer orders and executing customer projects. We expect to continue making significant expenditures for research and development to

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maintain and improve our competitive position.

#### Intellectual Property

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

#### Raw Materials and Backlog

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

Manufacturing turnaround time for our Air and Gas Handling operating segment is generally sufficiently short to allow us to manufacture to order for most of our products, which helps to limit inventory levels. Backlog is primarily a function of requested customer delivery dates and generally ranges from several days to less than 12 months; although some orders may be delivered beyond 12 months. Backlog of air and gas handling orders as of December 31, 2017 was \$0.9 billion, compared with \$0.8 billion as of December 31, 2016. A substantial majority of the air and gas handling order backlog as of December 31, 2017 is expected to be filled within the current fiscal year.

#### Seasonality

As our air and gas handling customers seek to fully utilize capital spending budgets before the end of the year, historically our shipments have peaked during the fourth quarter. Also, our European operations typically experience a slowdown during the July, August and December vacation seasons. General economic conditions may, however, impact future seasonal variations.

#### Working Capital

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

#### Associates

As of December 31, 2017, we employed approximately 14,300 persons, of whom approximately 2,500 were employed in the United States and approximately 11,800 were employed outside of the United States.

Approximately 2% of associates are covered by collective bargaining agreements with U.S. trade unions. In addition, approximately 41% of our associates are represented by foreign trade unions and work councils in Europe, Asia, Central and South America, Canada, Africa and Australia, which subjects us to arrangements very similar to collective bargaining agreements. 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.

#### Company Information and Access to SEC Reports

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We were organized as a Delaware corporation in 1998. Our principal executive offices are located at 420 National Business Parkway, 5th Floor, Annapolis Junction, MD 20701, and our main telephone number at that address is (301) 323-9000. Our corporate website address is [www.colfaxcorp.com](http://www.colfaxcorp.com).

We make available, free of charge through our website, our annual and quarterly reports on Form 10-K and Form 10-Q (including related filings in XBRL format), current reports on Form 8-K and any amendments to those reports as soon as practicable after filing or furnishing the material to the SEC. You may also request a copy of these filings, at no cost, by writing or telephoning us at: Investor Relations, Colfax Corporation, 420 National Business Parkway, 5th Floor, Annapolis Junction, MD 20701, telephone (301) 323-9000. Information contained on our website is not incorporated by reference in this report.

## Item 1A. Risk Factors

An investment in our Common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below, together with the information included elsewhere in this Form 10-K and other documents we file with the SEC. The risks and uncertainties described below are those that we have identified as material, but may not be the only risks to which Colfax might be exposed. Additional risks and uncertainties, which are currently unknown to us or that we do not currently consider to be material, may materially affect the business of Colfax and could have material adverse effects on our business, financial condition and results of operations. If any of the following risks were to occur, our business, financial condition and results of operations could be materially adversely affected, the value of our Common stock could decline and investors could lose all or part of the value of their investment in Colfax shares. Our business is also subject to general risks and uncertainties that affect many other companies, such as overall U.S. and non-U.S. economic and industry conditions, a global economic slowdown, geopolitical events, changes in laws or accounting rules, fluctuations in interest rates, terrorism, international conflicts, natural disasters or other disruptions of expected economic or business conditions. We operate in a continually changing business environment, and new risk factors emerge from time to time which we cannot predict. Additional risks and uncertainties not currently known to us or that we currently believe are immaterial also may impair our business, including our results of operations, liquidity and financial condition.

### Risks Related to Our Business

Changes in the general economy and the cyclical nature of the markets that we serve could negatively impact the demand for our products and services and harm our operations and financial performance.

Colfax's financial performance depends, in large part, on conditions in the markets we serve and on the general condition of the global economy, which impacts these markets. Any sustained weakness in demand for our products and services resulting from a downturn of or uncertainty in the global economy could reduce our sales and profitability.

In addition, we believe that many of our customers and suppliers are reliant on liquidity from global credit markets and, in some cases, require external financing to purchase products or finance operations. If our customers lack liquidity or are unable to access the credit markets, it may impact customer demand for our products and services and we may not be able to collect amounts owed to us.

Further, our products are sold in many industries, some of which are cyclical and may experience periodic downturns. Cyclical weakness in the industries that we serve could lead to reduced demand for our products and affect our profitability and financial performance.

The occurrence of any of the foregoing could have a material adverse effect on our business, financial condition and results of operations.

A continued significant or sustained decline in the levels of new capital investment and maintenance expenditures by certain of our customers could reduce the demand for our products and services and harm our operations and financial performance.

Demand for our products and services depends significantly on the level of new capital investment and planned maintenance expenditures by certain of our customers. The level of new capital expenditures by our customers is dependent upon many factors, including general economic conditions, availability of credit, economic conditions and investment activities within their respective industries and expectations of future market behavior. In addition, volatility in commodity prices can negatively affect the level of these new activities and can result in postponement of capital spending decisions or the delay or cancellation of existing orders. For example, conditions in the oil and gas

industry are highly cyclical and subject to factors beyond our control. We believe demand for our products and services by many of our customers, particularly those within the oil, gas and petrochemical end market, to be primarily profit-driven, and historically these customers have tended to delay large capital projects, including expensive maintenance and upgrades, when the markets in which they participate experience volatility, reduced returns, or general levels of low activity. A reduction in demand for our products and services could result in the delay or cancellation of existing orders or lead to excess manufacturing capacity, which unfavorably impacts our absorption of fixed manufacturing costs. This reduced demand could have a material adverse effect on our business, financial condition 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 successfully integrate the businesses we acquire, our growth strategy may not succeed.

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:

- obtain debt or equity financing that we may need to complete proposed acquisitions;
- identify suitable acquisition candidates;
- negotiate appropriate acquisition terms;
- 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 particular, a decline in our stock price has and may continue to make debt or equity financing more challenging to obtain. This may inhibit our ability to acquire new businesses in the future.

Acquisitions involve numerous risks, including risks related to integration, and we may not realize the anticipated benefits of our acquisitions.

Acquisitions involve numerous risks, including difficulties in the assimilation of the operations, systems, controls, technologies, personnel, services and products of the acquired company, the potential loss of key employees, customers and distributors 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 business' operations during this period. We may not 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. The failure to successfully integrate acquired businesses in a timely manner, or at all, could have an adverse effect on our business, financial condition and results of operations.

In addition, the anticipated benefits of an acquisition may not be realized fully or at all, or may take longer to realize than we expect. Actual operating, technological, strategic and sales synergies, if achieved at all, may be less significant than we expect or may take longer to achieve than anticipated. If we are not able to realize the anticipated benefits and synergies expected from our acquisitions within a reasonable time, our business, financial condition and results of operations may be adversely affected.

Acquisitions may result in significant integration costs, and unanticipated integration expense may harm our business, financial condition and results of operations.

Integration efforts associated with our acquisitions may require significant capital and operating expense. Such expenses may include information technology integration fees, legal compliance costs, facility closure costs and other restructuring expenses. Significant unanticipated expenses associated with integration activities may harm our business, financial condition and results of operations.

Our acquisitions may expose us to significant unanticipated liabilities and could adversely affect our business, financial condition and results of operations.

We may underestimate or fail to discover liabilities relating to acquisitions during our due diligence investigations, and we, as the successor owner of an acquired company, might be responsible for those liabilities. Such liabilities could include employment, retirement or severance-related obligations under applicable law or other benefits arrangements, legal claims, tax liabilities, warranty or similar liabilities to customers, product liabilities and personal injury claims, claims related to infringement of third party intellectual property rights, environmental liabilities and claims by or amounts owed to vendors or other third parties. The indemnification and warranty provisions in our acquisition agreements 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, financial condition and results of operations.



We may require additional capital to finance our operating needs and to finance our growth. If the terms on which the additional capital is available are unsatisfactory, if the additional capital is not available at all or if we are not able to fully access credit under our credit agreement, 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 expand into new markets.

We intend to pay for future acquisitions using cash, capital stock, notes, assumption of indebtedness or any combination of the foregoing. 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. This additional financing may not be available or, if available, may not be on terms acceptable to us. Further, high volatility in the capital markets and in our stock price may make it difficult for us to access the capital markets at attractive prices, if at all. If we are unable to obtain sufficient additional capital in the future, it may limit our ability to fully implement our growth strategy. Even if future debt financing is available, it may result in (i) increased interest expense, (ii) increased term loan payments, (iii) increased leverage and (iv) 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, issuances of our equity securities may significantly dilute our existing stockholders.

In addition, our credit facility agreement includes restrictive covenants which could limit our financial flexibility. See “Our Credit Agreement contains restrictions that may limit our flexibility in operating our business.” below.

Our restructuring activities may subject us to additional uncertainty in our operating results.

We have implemented, and plan to continue to implement, restructuring programs designed to facilitate key strategic initiatives and maintain long-term sustainable growth, such as the sale of our Fluid Handling business. As such, we have incurred and expect to continue to incur expense relating to restructuring activities. We may not achieve or sustain the anticipated benefits of these programs. Further, restructuring efforts are inherently risky, and we may not be able to predict the cost and timing of such actions accurately or properly estimate their impact. We also may not be able to realize the anticipated savings we expect from restructuring activities.

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

Certain 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. Additionally, pursuant to the purchase agreement related to the sale of our Fluid Handling business, we will retain the asbestos-related contingencies and insurance coverage related to the business, even though we will not retain an interest in the ongoing operations of the Fluid Handling business. For the 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 business, financial condition and results of operations. In addition, we incur 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 may not be able to predict the amount or du