

Colfax CORP
Form 10-Q
July 28, 2010

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

FORM 10-Q

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

For the Quarter ended July 2, 2010

OR

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

For the transition period from _____ to _____

Commission file number - 001-34045

Colfax Corporation
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

23235
(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required

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to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

As of July 2, 2010, there were 43,387,047 shares of the registrant's common stock, par value \$.001 per share, outstanding.

COLFAX CORPORATION
FORM 10-Q
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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended		Six Months Ended	
	July 2, 2010	July 3, 2009	July 2, 2010	July 3, 2009
Net sales	\$ 122,968	\$ 129,185	\$ 242,939	\$ 265,508
Cost of sales	79,987	84,630	158,202	172,938
Gross profit	42,981	44,555	84,737	92,570
Selling, general and administrative expenses	28,507	28,586	58,387	58,112
Research and development expenses	1,520	1,680	3,148	3,087
Restructuring and other related charges	3,035	486	7,074	1,147
Asbestos liability and defense costs	542	1,482	1,977	3,127
Asbestos coverage litigation expenses	4,543	4,027	8,424	6,993
Operating income	4,834	8,294	5,727	20,104
Interest expense	1,718	1,786	3,531	3,632
Income before income taxes	3,116	6,508	2,196	16,472
Provision for income taxes	1,078	2,142	811	5,245
Net income	\$ 2,038	\$ 4,366	\$ 1,385	\$ 11,227
Net income per share—basic and diluted	\$ 0.05	\$ 0.10	\$ 0.03	\$ 0.26

See accompanying notes to condensed consolidated financial statements.

COLFAX CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
Dollars in thousands

	July 2, 2010 (unaudited)	December 31, 2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 62,974	\$ 49,963
Trade receivables, less allowance for doubtful accounts of \$2,429 and \$2,837	72,587	88,493
Inventories, net	56,332	71,150
Deferred income taxes, net	6,355	6,823
Asbestos insurance asset	32,912	31,502
Asbestos insurance receivable	34,852	28,991
Prepaid and other current assets	14,304	13,535
Total current assets	280,316	290,457
Deferred income taxes, net	55,042	52,023
Property, plant and equipment, net	83,838	92,090
Goodwill	158,045	167,254
Intangible assets, net	10,573	11,952
Long-term asbestos insurance asset	359,059	357,947
Long-term asbestos insurance receivable	4,918	16,876
Deferred loan costs, pension and other assets	14,145	14,532
Total assets	\$ 965,936	\$ 1,003,131
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt and capital leases	\$ 10,000	\$ 8,969
Accounts payable	36,177	36,579
Accrued asbestos liability	36,371	34,866
Accrued payroll	17,457	17,756
Accrued taxes	1,132	2,154
Accrued restructuring liability	3,236	9,473
Other accrued liabilities	39,550	34,402
Total current liabilities	143,923	144,199
Long-term debt, less current portion	77,500	82,516
Long-term asbestos liability	409,558	408,903
Pension and accrued post-retirement benefits	110,369	126,953
Deferred income tax liability	9,353	10,375
Other liabilities	30,648	31,353
Total liabilities	781,351	804,299
Shareholders' equity:		
Common stock: \$0.001 par value; authorized 200,000,000; issued and outstanding 43,387,047 and 43,229,104	43	43
Additional paid-in capital	405,314	402,852
Retained deficit	(90,194)	(91,579)
Accumulated other comprehensive loss	(130,578)	(112,484)
Total shareholders' equity	184,585	198,832

Total liabilities and shareholders' equity	\$ 965,936	\$ 1,003,131
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See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended	
	July 2, 2010	July 3, 2009
Cash flows from operating activities:		
Net income	\$ 1,385	\$ 11,227
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation, amortization and fixed asset impairment charges	7,310	7,081
Noncash stock-based compensation	1,721	1,238
Amortization of deferred loan costs	338	338
Deferred income taxes	(4,014)	(820)
Changes in operating assets and liabilities, net of acquisitions:		
Trade receivables	9,076	14,608
Inventories	9,245	(653)
Accounts payable and accrued liabilities, excluding asbestos related accrued expenses	(2,738)	(19,903)
Other current assets	(1,084)	(849)
Change in asbestos liability and asbestos-related accrued expenses, net of asbestos insurance asset and receivable	12,391	4,721
Changes in other operating assets and liabilities	(6,195)	944
Net cash provided by operating activities	27,435	17,932
Cash flows from investing activities:		
Purchases of fixed assets	(5,463)	(5,886)
Proceeds from sale of fixed assets	37	72
Net cash used in investing activities	(5,426)	(5,814)
Cash flows from financing activities:		
Payments under term credit facility	(3,750)	(2,500)
Payments on capital leases	(205)	(363)
Repurchases of common stock	(191)	-
Proceeds from issuance of common stock	932	-
Net cash used in financing activities	(3,214)	(2,863)
Effect of exchange rates on cash	(5,784)	30
Increase in cash and cash equivalents	13,011	9,285
Cash and cash equivalents, beginning of period	49,963	28,762
Cash and cash equivalents, end of period	\$ 62,974	\$ 38,047

See accompanying notes to condensed consolidated financial statements.

COLFAX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Dollars in thousands, unless otherwise noted

1. Organization and Nature of Operations

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

2. General

The unaudited condensed consolidated financial statements included in this quarterly report have been prepared by the Company according to the rules and regulations of the Securities and Exchange Commission (“SEC”) and according to accounting principles generally accepted in the United States of America (“GAAP”) for interim financial statements. The accompanying balance sheet information as of December 31, 2009 is derived from our audited financial statements. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted in accordance with the SEC’s rules and regulations for interim financial statements. The unaudited condensed consolidated financial statements included herein should be read in conjunction with the audited financial statements and related footnotes included in our Annual Report on Form 10-K for the year ended December 31, 2009 filed with the SEC on February 25, 2010.

The financial statements reflect, in the opinion of management, all adjustments which consist solely of normal recurring adjustments necessary to present fairly the Company’s financial position and results of operations as of and for the periods indicated. Significant intercompany transactions and accounts are eliminated in consolidation.

We make certain estimates and assumptions in preparing our condensed consolidated financial statements in accordance with GAAP. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the periods presented. Actual results may differ from those estimates.

Certain prior period amounts have been reclassified to conform to current year presentations.

The results of operations for the three and six months ended July 2, 2010 are not necessarily indicative of the results of operations that may be achieved for the full year. Quarterly results are affected by seasonal variations in our fluid handling business. As our customers seek to fully utilize capital spending budgets before the end of the year, historically our shipments have peaked during the fourth quarter. Also, our European operations typically experience a slowdown during the July and August holiday season. General economic conditions as well as backlog levels may, however, impact future seasonal variations.

3. Recent Accounting Pronouncements

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

4. Warranty Costs

Estimated expenses related to product warranties are accrued at the time products are sold to customers and recorded as part of cost of sales. Estimates are established using historical information as to the nature, frequency, and average costs of warranty claims.

Warranty activity for the six months ended July 2, 2010 and July 3, 2009 con