

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549**

FORM 10-Q

(Mark one)

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

For the quarterly period ended December 26, 2009

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: 333-102428

RBS GLOBAL, INC.

(Exact Name of Registrant as Specified in Its Charter)

REXNORD LLC

(formerly Rexnord Corporation)
(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

01-0752045
(I.R.S. Employer
Identification No.)

4701 Greenfield Avenue, Milwaukee, Wisconsin
(Address of Principal Executive Offices)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

04-3722228
(I.R.S. Employer
Identification No.)

53214
(Zip Code)

Registrant's telephone number, including area code: (414) 643-3000

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 *

* (Note: The registrants are voluntary filers not subject to filing requirements. However, the registrants filed all reports under Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, which would be required to be filed if the registrants were required to file such reports.)

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at December 26, 2009
RBS Global, Inc. Common Stock, \$0.01 par value per share	1,000 shares

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Private Securities Litigation Reform Act Safe Harbor Statement

Our disclosure and analysis in this report concerning our operations, cash flows and financial position, including, in particular, the likelihood of our success in developing and expanding our business and the realization of sales from our backlog, include forward-looking statements. Statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “estimates” and similar expressions are forward-looking statements. Although these statements are based upon reasonable assumptions, including projections of orders, sales, operating margins, earnings, cash flows, research and development costs, working capital and capital expenditures, they are subject to risks and uncertainties that are described more fully in our Annual Report on Form 10-K in the section titled “Risk Factors.” Accordingly, we can give no assurance that we will achieve the results anticipated or implied by our forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise, except as required by law.

Key risks to our company are referenced under Part II, Item 1A herein.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

RBS Global, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(in Millions, except share amounts)
(Unaudited)

	<u>December 26, 2009</u>	<u>March 31, 2009</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 258.2	\$ 277.5
Receivables, net	224.2	258.8
Inventories, net	275.3	327.1
Other current assets	<u>27.1</u>	<u>29.0</u>
Total current assets	784.8	892.4
Property, plant and equipment, net	387.6	413.5
Intangible assets, net	699.8	736.4
Goodwill	1,011.8	1,010.9
Insurance for asbestos claims	90.0	90.0
Other assets	<u>55.1</u>	<u>61.6</u>
Total assets	<u>\$ 3,029.1</u>	<u>\$ 3,204.8</u>
Liabilities and stockholders' equity		
Current liabilities:		
Current portion of long-term debt	\$ 6.7	\$ 8.1
Trade payables	112.9	134.6
Income taxes payable	5.1	3.7
Deferred income taxes	0.2	10.8
Compensation and benefits	59.0	62.1
Current portion of pension obligations	2.6	2.6
Current portion of postretirement benefit obligations	2.2	2.2
Interest payable	54.0	24.3
Other current liabilities	<u>82.8</u>	<u>95.2</u>
Total current liabilities	325.5	343.6
Long-term debt	2,124.2	2,132.4
Pension obligations	137.0	134.5
Postretirement benefit obligations	23.1	24.8
Deferred income taxes	263.9	263.6
Reserve for asbestos claims	90.0	90.0
Other liabilities	<u>45.6</u>	<u>58.5</u>
Total liabilities	3,009.3	3,047.4
Stockholders' equity:		
Common stock, \$0.01 par value; 3,000 shares authorized and 1,000 shares issued and outstanding	0.1	0.1
Additional paid in capital	532.2	662.6
Retained deficit	(390.9)	(374.2)
Accumulated other comprehensive loss	<u>(121.6)</u>	<u>(131.1)</u>
Total stockholders' equity	19.8	157.4
Total liabilities and stockholders' equity	<u>\$ 3,029.1</u>	<u>\$ 3,204.8</u>

See Notes to the condensed consolidated financial statements.

RBS Global, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
(in Millions)
(Unaudited)

	Third Quarter Ended		Nine Months Ended	
	December 26, 2009	December 27, 2008	December 26, 2009	December 27, 2008
Net sales	\$ 365.7	\$ 443.1	\$ 1,103.3	\$ 1,449.8
Cost of sales	241.6	303.7	739.9	985.3
Gross profit	124.1	139.4	363.4	464.5
Selling, general and administrative expenses	72.6	76.6	222.4	244.2
Intangible impairment charges	—	402.5	—	402.5
Restructuring and other similar charges	1.1	3.6	4.3	3.6
Amortization of intangible assets	13.3	12.0	37.4	36.9
Income (loss) from operations	37.1	(355.3)	99.3	(222.7)
Non-operating expense:				
Interest expense, net	(45.3)	(46.1)	(136.4)	(135.3)
Other income (expense), net	(8.4)	3.3	(1.3)	2.1
Loss before income taxes	(16.6)	(398.1)	(38.4)	(355.9)
(Benefit) provision for income taxes	(19.4)	11.8	(21.7)	30.6
Net income (loss)	<u>\$ 2.8</u>	<u>\$ (409.9)</u>	<u>\$ (16.7)</u>	<u>\$ (386.5)</u>

See Notes to the condensed consolidated financial statements.

RBS Global, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(in Millions)
(Unaudited)

	Nine Months Ended	
	December 26, 2009	December 27, 2008
Operating activities		
Net loss	\$ (16.7)	\$ (386.5)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation	44.2	45.2
Amortization of intangible assets	37.4	36.9
Intangible impairment charges	—	402.5
Amortization of original bond discount	1.7	—
Accretion of original bond premium	(0.8)	(0.8)
Amortization of deferred financing costs	8.3	7.7
Loss on dispositions of property, plant and equipment	0.6	—
Equity in (earnings) loss of unconsolidated affiliates	(0.3)	0.1
Other non-cash credits	(11.8)	(0.5)
Stock-based compensation expense	4.1	5.0
Changes in operating assets and liabilities:		
Receivables	41.8	17.1
Inventories	57.6	(1.2)
Other assets	7.0	(9.8)
Accounts payable	(24.6)	(35.4)
Accruals and other	(7.9)	29.7
Cash provided by operating activities	140.6	110.0
Investing activities		
Expenditures for property, plant and equipment	(13.6)	(29.9)
Proceeds from surrender of life insurance policies	—	0.9
Cash used for investing activities	(13.6)	(29.0)
Financing activities		
Repayments of short-term debt	(1.1)	—
Repayments of long-term debt	(115.1)	(1.4)
Proceeds from borrowings of long-term debt	—	47.5
Dividend payment to parent company	(30.0)	(25.0)
Payment of financing fees	(4.9)	—
Cash (used for) provided by financing activities	(151.1)	21.1
Effect of exchange rate changes on cash and cash equivalents	4.8	(4.5)
(Decrease) increase in cash and cash equivalents	(19.3)	97.6
Cash and cash equivalents at beginning of period	277.5	141.9
Cash and cash equivalents at end of period	\$ 258.2	\$ 239.5

See Notes to the condensed consolidated financial statements.

RBS Global, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
December 26, 2009
(Unaudited)

1. Basis of Presentation and Significant Accounting Policies

The accompanying unaudited condensed consolidated financial statements include the accounts of RBS Global, Inc. and subsidiaries (collectively, the “Company”). These financial statements do not include the accounts of Rexnord Holdings, Inc. (“Rexnord Holdings”), the indirect parent company of RBS Global, Inc.

The financial statements included herein have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. In the opinion of management, the condensed consolidated financial statements include all adjustments necessary for a fair presentation of the results of operations for the interim periods. Results for the interim periods are not necessarily indicative of results that may be expected for the fiscal year ending March 31, 2010. It is suggested that these condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company’s most recent Annual Report on Form 10-K.

The Company

The Company is a leading global, diversified, multi-platform industrial company comprised of two key segments, Power Transmission and Water Management. The Power Transmission platform manufactures gears, couplings, industrial bearings, flattop chain and modular conveyer belts, aerospace bearings and seals, special components, and industrial chain and conveying equipment serving the industrial and aerospace markets. The products are either incorporated into products sold by original equipment manufacturers (“OEMs”) or sold to end-users through industrial distributors as aftermarket products. The Water Management platform is a leading supplier of professional grade specification drainage, PEX piping, commercial brass and water and wastewater treatment and control products, serving the infrastructure, commercial and residential markets.

Recently Adopted and Issued Accounting Guidance

Adopted

In June 2009, the Financial Accounting Standards Board (“FASB”) issued the *FASB Accounting Standards Codification* (the “Codification” or “ASC”), the authoritative guidance for U.S. generally accepted accounting principles (“GAAP”). The Codification, which changes the referencing of financial standards, became effective for interim and annual periods ending on or after September 15, 2009. The Codification is now the single official source of authoritative U.S. GAAP (other than guidance issued by the SEC), superseding existing FASB, American Institute of Certified Public Accountants, and related literature. Only one level of authoritative U.S. GAAP now exists. All other literature is considered non-authoritative. The Codification does not change U.S. GAAP. The Company adopted the Codification during the quarter ended September 26, 2009. The adoption of the Codification did not have any substantive impact on our condensed consolidated financial statements or related footnotes.

On April 1, 2009, the Company adopted the guidance included in ASC 820, *Fair Value Measurements and Disclosures* (“ASC 820”) related to the measurement of fair value used when evaluating nonfinancial assets and liabilities. See additional disclosures related to the adoption of the standard within Note 11.

On April 1, 2009, the Company adopted the guidance included in ASC 805, *Business Combinations* (“ASC 805”), which significantly changed the accounting for and reporting of business combination transactions. The objective of this guidance is to improve the information provided in financial reports about a business combination and its effects. ASC 805 states that all business combinations (whether full, partial or step acquisitions) must apply the “acquisition method.” In applying the acquisition method, the acquirer must determine the fair value of the acquired business as of the acquisition date and recognize the fair value of the acquired assets and liabilities assumed. As a result, it requires that certain forms of contingent consideration and certain acquired contingencies be recorded at fair value at the acquisition date. ASC 805 also requires that acquisition costs generally be expensed as incurred and restructuring costs be expensed in periods after the acquisition date. The impact of the adoption of ASC 805 on the Company’s financial statements will largely be dependent on the size and nature of the business combinations completed subsequent to adoption. Currently, the Company has not made any business acquisitions subsequent to the adoption of this standard. The Company estimates that approximately \$64.0 million and \$23.1 million of recorded valuation allowance and unrecognized tax benefits, respectively, which are associated with prior acquisitions, if recognized in future periods, would impact income tax expense instead of goodwill.

On April 1, 2009, the Company adopted the guidance included in ASC 855, *Subsequent Events* (“ASC 855”), which requires companies, if applicable, to disclose any subsequent events either as recognized subsequent events or non-recognized subsequent events. ASC 855 also modified the definition of subsequent events to refer to events or transactions that occur after the balance sheet date but before the financial statements are issued and requires entities to disclose the date through which an entity has evaluated subsequent events and the basis for that date. The Company’s evaluation of subsequent events is disclosed within this footnote in the section titled “Evaluation of Subsequent Events” below.

Issued

In December 2008, the FASB issued guidance included in ASC 715, *Compensation – Retirement Benefits* (“ASC 715”), which requires additional disclosures regarding assets held in an employer’s defined benefit pension or other postretirement plan. This standard requires disclosure of the fair value of the plan assets by each major asset category, disclosure of the level within the fair value hierarchy in which each major category of plan assets falls using the guidance in ASC 820 and a reconciliation of beginning and ending balances of plan asset fair values that are derived using significant unobservable inputs. The guidance is effective for fiscal years ending after December 15, 2009. The Company is currently reviewing the requirements of ASC 715 to determine the impact on its financial statement disclosures.

Evaluation of Subsequent Events

The Company evaluated subsequent events from the balance sheet date of December 26, 2009 through February 4, 2010 (the date of this filing) and has concluded that no subsequent events have occurred during this period.

2. Restructuring and Other Similar Costs

During the third quarter of our fiscal year 2009 (quarter ended December 27, 2008), the Company commenced certain restructuring actions to reduce operating costs and improve profitability. The Company continued to execute these restructuring actions during the three and nine months ended December 26, 2009 (these actions are anticipated to be completed by the end of fiscal 2010). The restructuring charges taken during the three and nine months ended December 26, 2009 consisted of \$1.1 million and \$4.3 million, respectively, of severance costs related to workforce reductions of approximately 550 employees, or a 9.1% reduction from the Company's March 31, 2009 employee base. The following table summarizes the restructuring costs incurred during the third quarter and nine months ended December 26, 2009 and the total restructuring costs incurred since such actions began (i.e., the period from September 28, 2008 to December 26, 2009) by reportable segment (in millions):

	Quarter Ended December 26, 2009			
	Power Transmission	Water Management	Corporate	Consolidated
Severance costs	\$ 1.1	\$ —	\$ —	\$ 1.1

	Nine Months Ended December 26, 2009			
	Power Transmission	Water Management	Corporate	Consolidated
Severance costs	\$ 3.8	\$ 0.5	\$ —	\$ 4.3

	Restructuring Costs To-date (Period from September 28, 2008 to December 26, 2009)			
	Power Transmission	Water Management	Corporate	Consolidated
Severance costs	\$ 19.8	2.5	\$ 0.2	\$ 22.5
Fixed asset impairments	—	3.2	—	3.2
Inventory impairments	—	2.5	—	2.5
Lease termination and other costs	0.5	0.1	—	0.6
Total restructuring and other similar costs	<u>\$ 20.3</u>	<u>\$ 8.3</u>	<u>\$ 0.2</u>	<u>\$ 28.8</u>

The following table summarizes the activity in the Company's restructuring reserve for the nine months ended December 26, 2009 (in millions):

	Severance Costs	Lease Termination and Other Costs	Total
Restructuring reserve, March 31, 2009	\$ 12.6	\$ 0.6	\$ 13.2
Charges	4.3	—	4.3
Cash payments	(13.8)	(0.6)	(14.4)
Currency translation adjustment	0.3	—	0.3
Restructuring reserve, December 26, 2009 (1)	<u>\$ 3.4</u>	<u>\$ —</u>	<u>\$ 3.4</u>

- (1) The restructuring reserve is included in other current liabilities on the condensed consolidated balance sheets. The remaining accrued severance is anticipated to be paid by the end of fiscal 2010.

3. Recovery Under Continued Dumping and Subsidy Offset Act ("CDSOA")

The Company, as a producer of ball bearing products in the United States, participated in the distribution of monies collected by Customs and Border Protection ("CBP") from anti-dumping cases under the CDSOA. As a result of providing relevant information to CBP regarding historical manufacturing, personnel and development costs for previous calendar years, the Company received, in the third quarter and nine months ended December 26, 2009, \$0.8 million representing its pro rata share of the total CDSOA distribution. Similarly, a recovery of \$1.8 million was recorded during the third quarter and nine months ended December 27, 2008 related to the submission of previous calendar year data to CBP. These recoveries are included in other income (expense), net on the consolidated statement of operations.

In February 2006, U.S. legislation was enacted that ends CDSOA distributions to U.S. manufacturers for imports covered by anti-dumping duty orders entering the U.S. after September 30, 2007. Because monies were collected by CBP until September 30, 2007 and for prior year entries, the Company has continued to receive some additional distributions; however, because of the pending cases, the 2006 legislation and the administrative operation of the law, the Company cannot reasonably estimate the amount of CDSOA payments, if any, that it may receive in future years.

4. Income Taxes

The provision for income taxes for all periods presented is based on an estimated effective income tax rate for the respective full fiscal years. The estimated annual effective income tax rate is determined excluding the effect of significant discrete items or items that are reported net of their related tax effects. The tax effect of significant, discrete items is reflected in the period in which they occur. The Company's income tax expense is impacted by a number of factors, including the amount of taxable earnings derived in foreign jurisdictions with tax rates that are higher or lower than the U.S. federal statutory rate, state tax rates in the jurisdictions where the Company does business and the Company's ability to utilize various tax credits and net operating loss ("NOL") carryforwards.

The effective income tax rate for the third quarter of fiscal 2010 was a benefit of 116.9% versus a provision of 3.0% in the third quarter of fiscal 2009. The extremely high effective income tax rate for the third quarter of fiscal 2010 is mainly due to the income tax benefit recognized as a result of a decrease in the liability for unrecognized tax benefits recorded during this period associated with the conclusion of the Internal Revenue Service ("IRS") examination and certain benefits provided under a new Brazilian tax settlement program (see additional discussion below). The income tax expense, associated with the loss before income taxes, for the third quarter of fiscal 2009 is primarily due to the effect of approximately \$304.8 million of non-deductible expenses recorded, as well as, a \$45.7 million increase in the valuation allowance; both items relating to the impairment charge recorded during this prior period as a result of overall economic conditions. The significant increase in the valuation allowance in this prior period is the result of U.S. federal NOL carryforwards, certain state NOL carryforwards and foreign tax credit carryforwards which were generated and recognized in periods prior to the third quarter of fiscal 2009 but, as of the third quarter of fiscal 2009, had more uncertainty as to the ultimate realization of the associated tax benefits due to the deterioration of the existing economic environment.

At December 26, 2009, the Company had a \$27.0 million liability for unrecognized net tax benefits. At March 31, 2009, the Company's total liability for unrecognized net tax benefits was \$42.5 million. The significant reduction of the total liability for unrecognized net tax benefits is mainly due to the conclusion of the IRS examination, as well as, certain benefits provided under a new Brazilian tax settlement program (see additional discussion below). Due to the adoption of ASC 805, effective April 1, 2009, the entire amount of \$27.0 million of unrecognized tax benefits as of December 26, 2009 would impact income tax expense if recognized in a future period.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. As of December 26, 2009 and March 31, 2009, the total amount of gross, unrecognized tax benefits includes \$7.4 million and \$14.0 million of accrued interest and penalties, respectively. The Company recognized \$4.3 million of net interest and penalties as income tax benefit during the nine months ended December 26, 2009. This benefit was largely a result of the significant discount for interest and penalties provided under the new Brazilian tax settlement program executed by the Company during the current period (see additional discussion below). The Company recognized \$1.2 million of net interest and penalties as income tax expense during the nine months ended December 27, 2008.

An IRS examination of the Company's U.S. federal income tax returns, which began in January 2009, was completed during the third quarter of fiscal 2010. The IRS examination covered the tax periods ended March 31, 2006 and July 21, 2006. The conclusion of the examination resulted in no cash tax impact to the Company. In addition, although there was a relatively small downward adjustment to the Company's federal NOL incurred for the tax period ended July 21, 2006, the NOL reduction did not result in any negative financial impact to the Company as this NOL carryforward was fully offset with an existing valuation allowance. In addition, the Company signed up for a new Brazilian tax settlement program during the period with respect to certain outstanding tax liabilities relating to its Brazilian operations. In exchange for immediate payment of existing, historical tax liabilities, the settlement program provided for substantial discounts in related interest, penalties and other fees that were previously accrued to the Company. For the nine months ended December 26, 2009, the Company paid approximately \$2.9 million to extinguish the historical Brazilian tax liability.

The Company or one or more of its subsidiaries conducts business in multiple locations within and outside the U.S. Consequently, the Company is subject to periodic income tax examinations by domestic and foreign income tax authorities. Currently, the Company is undergoing routine, periodic income tax examinations in both domestic and foreign jurisdictions. It appears reasonably possible that the amounts of unrecognized income tax benefits could change in the next twelve months as a result of such examinations; however, any potential payments of income tax, interest and penalties are not expected to be significant to the Company's consolidated financial statements. With certain exceptions, the Company is no longer subject to U.S. federal income tax examinations for years ending prior to fiscal 2007, state and local income tax examinations for years ending prior to fiscal 2006 or significant foreign income tax examinations for years ending prior to fiscal 2005.

5. Comprehensive Income (Loss)

Comprehensive income (loss) consists of the following (in millions):

	Third Quarter Ended		Nine Months Ended	
	December 26, 2009	December 27, 2008	December 26, 2009	December 27, 2008
Net income (loss)	\$ 2.8	\$ (409.9)	\$ (16.7)	\$ (386.5)
Other comprehensive income (loss):				
Unrealized gain (loss) on interest rate derivatives, net of tax	(0.5)	(1.9)	—	1.4
Amortization of pension and postretirement unrecognized prior service costs and actuarial gains (losses), net of tax	1.7	(0.4)	5.7	(0.2)
Foreign currency translation adjustments	6.4	(12.8)	3.8	(17.5)
Comprehensive income (loss)	<u>\$ 10.4</u>	<u>\$ (425.0)</u>	<u>\$ (7.2)</u>	<u>\$ (402.8)</u>

6. Inventories

The major classes of inventories are summarized as follows (in millions):

	December 26, 2009	March 31, 2009
Finished goods	\$ 174.8	\$ 208.6
Work in progress	47.6	54.8
Raw materials	34.4	41.8
Inventories at First-In, First-Out ("FIFO") cost	256.8	305.2
Adjustment to state inventories at Last-In, First-Out ("LIFO") cost	18.5	21.9
	<u>\$ 275.3</u>	<u>\$ 327.1</u>

7. Goodwill and Intangible Assets

During the third quarter ended December 26, 2009, the Company completed the testing of indefinite lived intangible assets (tradenames) and goodwill for impairment in accordance with ASC 350, *Intangibles – Goodwill and Other*. Pursuant to the guidance, an impairment loss is recognized if the estimated fair value of the intangible asset or reporting unit is less than its carrying amount. The fair value of the Company's indefinite lived intangible assets and reporting units were primarily estimated using an income valuation model (discounted cash flow), which indicated that the fair value of the Company's indefinite lived intangible assets and reporting units exceeded their carrying value. Therefore, no impairment was present. The estimated fair value of the Company's reporting units was dependent on several significant assumptions, including our weighted average cost of capital (discount rate) and future earnings and cash flow projections.

In the third quarter ended December 27, 2008, the Company recorded a non-cash pre-tax impairment charge associated with goodwill and identifiable intangible assets of \$402.5 million, of which \$319.3 million related to goodwill impairment and \$83.2 million related to other identifiable intangible asset impairments. This charge was measured and recognized following the authoritative guidance, which requires that the carrying value of goodwill and identifiable intangible assets be tested for impairment annually or whenever circumstances indicate that impairment may exist. The impairment charge recorded was precipitated by the imposing macroeconomic factors impacting the global credit markets as well as slower industry business conditions which contributed to deterioration in the Company's projected sales, operating profits and cash flows.

The changes in the net carrying value of goodwill and identifiable intangible assets for the nine months ended December 26, 2009, by operating segment, are presented below (dollars in millions):

	<u>Amortizable Intangible Assets</u>					Total Identifiable Intangible Assets Excluding Goodwill
	Goodwill	Indefinite Lived Intangible Assets (Trade Names)	Customer Relationships	Patents	Non-Compete	
Power Transmission						
Net carrying amount as of March 31, 2009	\$ 852.3	\$ 191.9	\$ 197.0	\$ 10.3	\$ —	\$ 399.2
Amortization	—	(1.2)	(20.2)	(1.2)	—	(22.6)
Net carrying amount as of December 26, 2009	<u>\$ 852.3</u>	<u>\$ 190.7</u>	<u>\$ 176.8</u>	<u>\$ 9.1</u>	<u>\$ —</u>	<u>\$ 376.6</u>
Water Management						
Net carrying amount as of March 31, 2009	\$ 158.6	\$ 100.7	\$ 222.3	\$ 14.1	\$ 0.1	\$ 337.2
Amortization	—	—	(13.3)	(1.5)	—	(14.8)
Currency translation adjustment	0.9	0.5	0.3	—	—	0.8
Net carrying amount as of December 26, 2009	<u>\$ 159.5</u>	<u>\$ 101.2</u>	<u>\$ 209.3</u>	<u>\$ 12.6</u>	<u>\$ 0.1</u>	<u>\$ 323.2</u>
Consolidated						
Net carrying amount as of March 31, 2009	\$ 1,010.9	\$ 292.6	\$ 419.3	\$ 24.4	\$ 0.1	\$ 736.4
Amortization	—	(1.2)	(33.5)	(2.7)	—	(37.4)
Currency translation adjustment	0.9	0.5	0.3	—	—	0.8
Net carrying amount as of December 26, 2009	<u>\$ 1,011.8</u>	<u>\$ 291.9</u>	<u>\$ 386.1</u>	<u>\$ 21.7</u>	<u>\$ 0.1</u>	<u>\$ 699.8</u>

The gross carrying amount and accumulated amortization for each major class of identifiable intangible assets as of December 26, 2009 and March 31, 2009 are as follows (in millions):

	Weighted Average Useful Life	December 26, 2009		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets subject to amortization:				
Patents	10 Years	\$ 36.1	\$ (14.4)	\$ 21.7
Customer relationships (including distribution network)	12 Years	529.1	(143.0)	386.1
Non-competes	2 Years	0.1	—	0.1
Intangible assets not subject to amortization - trademarks and tradenames		291.9	—	291.9
		<u>\$ 857.2</u>	<u>\$ (157.4)</u>	<u>\$ 699.8</u>
March 31, 2009				
	Weighted Average Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets subject to amortization:				
Patents	10 Years	\$ 36.1	\$ (11.7)	\$ 24.4
Customer relationships (including distribution network)	12 Years	528.8	(109.5)	419.3
Non-competes	2 Years	0.1	—	0.1
Intangible assets not subject to amortization - trademarks and tradenames		292.6	—	292.6
		<u>\$ 857.6</u>	<u>\$ (121.2)</u>	<u>\$ 736.4</u>

Intangible asset amortization expense totaled \$13.3 million and \$37.4 million for the third quarter and nine months ended December 26, 2009, respectively. Intangible asset amortization expense totaled \$12.0 million and \$36.9 million for the third quarter and nine months ended December 27, 2008, respectively. Included in the amortization expense for the third quarter and nine months ended December 26, 2009 is \$1.2 million related to the write-off of a tradename that will be discontinued during fiscal 2011.

The Company expects to recognize amortization expense on the intangible assets subject to amortization of \$49.3 million in fiscal year 2010 (inclusive of \$37.4 million of amortization expense recognized in the nine months ended December 26, 2009), \$47.9 million in fiscal year 2011, \$47.5 million in fiscal year 2012, \$47.1 million in fiscal year 2013 and \$47.0 million in fiscal year 2014.

8. Other Current Liabilities

Other current liabilities are summarized as follows (in millions):

	<u>December 26, 2009</u>	<u>March 31, 2009</u>
Taxes, other than income taxes	\$ 5.2	\$ 4.8
Sales rebates	16.0	15.1
Restructuring obligations (1)	3.4	13.2
Customer advances	20.7	23.3
Product warranty (2)	8.7	7.2
Commissions	6.0	6.5
Risk management reserves (3)	4.4	4.0
Derivative liability (4)	0.3	5.7
Other	18.1	15.4
	<u>\$ 82.8</u>	<u>\$ 95.2</u>

- (1) See more information related to the restructuring obligations balance within Note 2.
(2) See more information related to the product warranty obligations balance within Note 12.
(3) Includes projected liabilities related to the Company's deductible portion of insured losses arising from automobile, general and product liability claims.
(4) See more information related to the derivative instruments within Note 10.

9. Long-Term Debt

Long-term debt is summarized as follows (in millions):

	<u>December 26, 2009</u>	<u>March 31, 2009</u>
Term loans	\$ 764.5	\$ 765.5
Borrowings under revolving credit facility	—	82.7
Borrowings under AR securitization facility	—	30.0
9.50% Senior notes due 2014 (1)	978.8	802.2
8.875% Senior notes due 2016	79.0	150.0
11.75% Senior subordinated notes due 2016	300.0	300.0
10.125% Senior subordinated notes due 2012	0.3	0.3
Other	8.3	9.8
Total	2,130.9	2,140.5
Less current portion	6.7	8.1
Long-term debt	<u>\$ 2,124.2</u>	<u>\$ 2,132.4</u>

- (1) Includes a net unamortized bond issue discount of \$12.5 million at December 26, 2009 and an unamortized bond issue premium of \$7.2 million at March 31, 2009.

The Company borrows under certain secured credit facilities with a syndicate of banks and other financial institutions consisting of: (i) a \$810.0 million term loan facility with a maturity date of July 19, 2013 and (ii) a \$150.0 million revolving credit facility with a maturity date of July 20, 2012 and borrowing capacity available for letters of credit and for borrowing on same-day notice, referred to as swingline loans.

As of December 26, 2009, the Company's outstanding borrowings under the term loan facility were apportioned between two primary tranches: a \$570.0 million term loan B1 facility and a \$194.5 million term loan B2 facility. Borrowings under the term loan B1 facility accrue interest, at the Company's option, at the following rates per annum: (i) 2.50% plus LIBOR, or (ii) 1.50% plus the Base Rate (which is defined as the higher of the Federal funds rate plus 0.5% or the Prime rate). Borrowings under the B2 facility accrue interest, at the Company's option, at the following rates per annum: (i) 2.25% plus LIBOR or (ii) 1.00% plus the Base Rate (which is defined as the higher of the Federal funds rate plus 0.5% or the Prime rate). The weighted average interest rate on the outstanding term loans at December 26, 2009 was 3.64%.

Borrowings under the Company's \$150.0 million revolving credit facility accrue interest, at the Company's option, at the following rates per annum: (i) 1.75% plus LIBOR, or (ii) 0.75% plus the Base Rate (which is defined as the higher of the Federal funds rate plus 0.5% or the Prime rate). All amounts outstanding under the revolving credit facility will be due and payable in full, and the commitments thereunder will terminate, on July 20, 2012. On September 15, 2008 Lehman Brothers Holdings, Inc. and certain of its subsidiaries ("Lehman"), who had a 5% or \$7.5 million credit commitment under our \$150.0 million credit facility, filed for bankruptcy. Therefore, the availability under the Company's \$150.0 million revolving credit facility had been effectively temporarily reduced by \$7.5 million until such time as a replacement lender could be found to cover this credit commitment. On November 3, 2009 Barclays Bank, PLC assumed the \$7.5 million commitment under the revolving credit line that was previously unfulfilled due to the Lehman bankruptcy. At December 26, 2009 and March 31, 2009, respectively, \$30.9 million and \$30.3 million of the revolving credit facility was considered utilized in connection with outstanding letters of credit. Outstanding borrowings under the revolving credit facility were \$82.7 million as of March 31, 2009.

On October 5, 2009, the Company entered into an Amended and Restated Credit Agreement (the "Amended and Restated Credit Agreement") amending and restating the credit agreement dated as of July 21, 2006, to, among other things: (i) allow for one or more future issuances of secured notes, which may include, in each case, indebtedness secured on a pari passu basis with the obligations under the Amended and Restated Credit Agreement, so long as, in each case, among other things, an agreed amount of the net cash proceeds from any such issuance are used to prepay term loans under the Amended and Restated Credit Agreement at par; (ii) subject to the requirement to make such offers on a pro rata basis to all lenders, allow the Company to agree with individual lenders to extend the maturity of their term loans or revolving commitments, and for the Company to pay increased interest rates or otherwise modify the terms of their loans or revolving commitments in connection with such an extension; and (iii) allow for one or more future issuances of additional secured notes, which may include, in each case, indebtedness secured on a pari passu basis with the obligations under the Amended and Restated Credit Agreement, in an amount not to exceed the amount of incremental facility availability under the Amended and Restated Credit Agreement.

In addition to paying interest on outstanding principal under the senior secured credit facilities, the Company is required to pay a commitment fee to the lenders under the revolving credit facility in respect to the unutilized commitments thereunder at a rate equal to 0.50% per annum (subject to reduction upon attainment and maintenance of a certain senior secured leverage ratio). The Company also must pay customary letter of credit and agency fees.

As of December 26, 2009, the remaining mandatory principal payments prior to maturity on both the term loan B1 and B2 facilities are \$1.2 million and \$7.5 million, respectively. The Company has fulfilled all mandatory principal payments prior to maturity on the B1 facility through March 31, 2013. Principal payments of \$0.5 million are scheduled to be made at the end of each calendar quarter until June 30, 2013 on the B2 facility. The Company may voluntarily repay outstanding loans under the senior secured credit facilities at any time without premium or penalty, other than customary "breakage" costs with respect to Eurocurrency loans.

The senior secured credit facilities contain a number of covenants that, among other things, restrict, subject to certain exceptions, the Company's ability, and the ability of the Company's subsidiaries, to: sell assets; incur additional indebtedness; repay other indebtedness; pay dividends and distributions, repurchase its capital stock, or make payments, redemptions or repurchases in respect of subordinated debt (including our 11.75% senior subordinated notes due 2016); create liens on assets; make investments, loans, guarantees or advances; make certain acquisitions; engage in certain mergers or consolidations; enter into sale-and-leaseback transactions; engage in certain transactions with affiliates; amend certain material agreements governing its indebtedness; make capital expenditures; enter into hedging agreements; amend its organizational documents; change the business conducted by it and its subsidiaries; and enter into agreements that restrict dividends from subsidiaries. The Company's senior secured credit facilities limit the Company's maximum senior secured bank leverage ratio to 4.25 to 1.00. As of December 26, 2009, the senior secured bank leverage ratio was 1.86 to 1.00.

On April 29, 2009, the Company and its indirect parent, Rexnord Holdings, finalized the results of a debt exchange offer to exchange (a) new 9.50% Senior Notes due 2014 (the “New Senior Notes”) for any and all of the Company’s 8.875% Senior Notes due 2016 (the “Old 2016 Notes”), (b) the New Senior Notes for any and all of Rexnord Holdings’ PIK Toggle Senior Notes due 2013 (the “Old Holdco Notes”) and, together with the Old 2016 Notes, the “Old Notes”), and (c) the New Senior Notes for any and all of the senior unsecured term loans (the “Holdco Loans”) outstanding under the credit agreement, dated as of March 2, 2007, among Rexnord Holdings, Credit Suisse, as Administrative Agent, Banc of America Bridge LLC, as syndication agent, and the lenders from time to time party thereto.

Upon settlement of the exchange offer, (i) approximately \$71.0 million principal amount of Old 2016 Notes had been validly tendered and not withdrawn for exchange for New Senior Notes, (ii) approximately \$235.7 million principal amount of Old Holdco Notes had been validly tendered and not withdrawn for exchange for New Senior Notes, and (iii) approximately \$7.9 million principal amount of Holdco Loans had been validly surrendered and not withdrawn for exchange for New Senior Notes. Based on the principal amount of Old Notes and Holdco Loans validly tendered and accepted, approximately \$196.3 million of aggregate principal of New Senior Notes was issued in exchange for such Old Notes and Holdco Loans (excluding a net original issue discount of \$20.6 million). In addition, the Company also incurred \$11.1 million of transaction costs (\$0.2 million of these transaction costs were issued in the form of New Senior Notes) to complete the exchange offer, of which \$5.1 million was capitalized as deferred financing costs.

The Company accounted for the debt exchange transaction pursuant ASC 470-50 *Debt Modifications and Extinguishments* (“ASC 470-50”). Pursuant to this guidance, the exchange of the Company’s Old 2016 Notes did not constitute a significant modification of debt (that is, the change in the present value of expected cash flows under the terms of the modified debt as compared to the present value of expected cash flows under the original debt was less than 10%). Therefore, the carrying value of the \$71.0 million in Old 2016 Notes tendered was carried-forward as the net carrying value of the New Senior Notes, inclusive of a \$5.5 million original issue premium. The premium is a result of the difference between the \$71.0 million carrying value of the Old 2016 notes and the \$65.5 million of corresponding face value of New Senior Notes issued with respect to this component of the exchange. This premium will be amortized as a reduction to interest expense (via the effective interest method) over the life of the New Senior Notes in conformity with the standard.

In connection with the \$235.7 million of Old Holdco Notes and \$7.9 million of Holdco Loans tendered in the exchange, the Company issued approximately \$130.6 million of face value of New Senior Notes, net of a \$26.1 million original issue discount. This resulted in a \$104.5 million non-cash deemed dividend (representing the fair value of corresponding New Senior Notes issued) to its indirect parent, Rexnord Holdings.

After and including the exchange offer, the Company has issued a total of \$991.3 million in aggregate principal amount of 9.50% senior notes which bear interest at a rate of 9.50% per annum and which will mature on August 1, 2014. This amount includes \$196.3 million of aggregate principal related to the aforementioned debt exchange. The terms of the New Senior Notes and the Company’s previously existing 9.50% senior notes are substantially similar with the exception of interest payment dates. Interest on the \$795.0 million of previously existing 9.50% senior notes is payable on February 1 and August 1, while interest on the \$196.3 million of New Senior Notes is payable on May 1 and November 1.

As of December 26, 2009, a total of \$79.0 million in aggregate principal amount of 8.875% senior notes due 2016 remained outstanding. These notes bear interest at a rate of 8.875% per annum, payable on each March 1 and September 1, and will mature on September 1, 2016.

The Company has issued \$300.0 million in aggregate principal amount of 11.75% senior subordinated notes due 2016. Those notes bear interest at a rate of 11.75% per annum, payable on each February 1 and August 1, and will mature on August 1, 2016.

The senior notes and senior subordinated notes are unsecured obligations of the Company. The senior subordinated notes are subordinated in right of payment to all existing and future senior indebtedness. The indentures governing the senior notes and senior subordinated notes permit the Company to incur all permitted indebtedness (as defined in the applicable indenture) without restriction, which includes amounts borrowed under the senior secured credit facilities. The indentures also allow the Company to incur additional debt as long as it can satisfy the coverage ratio specified in the indenture after giving effect thereto on a pro forma basis.

The indentures governing the senior notes and senior subordinated notes contain customary covenants, including among others, limiting dividends, investments, purchases or redemptions of stock, transactions with affiliates and mergers and sales of assets, and requiring the Company to make an offer to purchase notes upon the occurrence of a change in control, as defined in the indentures. These covenants are subject to a number of important qualifications. For example, the indentures do not impose any limitation on the incurrence by the Company of liabilities that are not considered “indebtedness” under the indentures, such as certain sale/leaseback transactions; nor do the indentures impose any limitation on the amount of liabilities incurred by the Company’s subsidiaries, if any, that might be designated as “unrestricted subsidiaries” (as defined in the applicable indenture).

The indentures governing the senior notes and the senior subordinated notes permit optional redemption of the notes on certain terms and at certain prices, as described below.

The indentures provide that, prior to August 1, 2011 (or in the case of the 9.50% senior notes due 2014, prior to August 1, 2010), the notes may be redeemed at the Company’s option in whole at any time or in part from time to time, upon not less than 30 and not more than 60 days’ prior notice, at a redemption price equal to (i) 100% of the principal amount of the notes redeemed, plus (ii) a “make whole” premium as set forth in the applicable indenture, plus (iii) accrued and unpaid interest and additional interest, if any, to the applicable redemption date.

Further, on or after August 1, 2011 (or in the case of the 9.50% senior notes due 2014, on or after August 1, 2010), the indentures permit optional redemption of the notes, in whole or in part upon not less than 30 and not more than 60 days’ prior notice, at the redemption prices stated in the indentures.

Notwithstanding the above, the Company’s ability to make payments on, redeem, repurchase or otherwise retire for value, prior to the scheduled repayment or maturity, the senior notes or senior subordinated notes may be restricted or prohibited under the above-referenced senior secured credit facilities and, in the case of the senior subordinated notes, by the provisions in the indentures governing the senior notes.

At December 26, 2009 and March 31, 2009, various wholly-owned subsidiaries had additional debt of \$8.3 million and \$9.8 million, respectively, comprised primarily of borrowings at various foreign subsidiaries and capital lease obligations.

Account Receivable Securitization Program

On September 26, 2007, three wholly-owned domestic subsidiaries of the Company entered into an accounts receivable securitization program (the “AR Securitization Program” or the “Program”) whereby they continuously sell substantially all of their domestic trade accounts receivable to Rexnord Funding LLC (a wholly-owned bankruptcy remote special purpose subsidiary) for cash and subordinated notes. Rexnord Funding LLC in turn may obtain revolving loans and letters of credit from General Electric Capital Corporation (“GECC”) pursuant to a five year revolving loan agreement. The maximum borrowing amount under the Receivables Financing and Administration Agreement is \$100.0 million, subject to certain borrowing base limitations related to the amount and type of receivables owned by Rexnord Funding LLC. All of the receivables purchased by Rexnord Funding LLC are pledged as collateral for revolving loans and letters of credit obtained from GECC under the loan agreement.

The AR Securitization Program does not qualify for sale accounting under ASC 860 *Transfers and Servicing* (“ASC 860”), and as such, any borrowings are accounted for as secured borrowings on the consolidated balance sheet. Financing costs associated with the Program are recorded within “Interest expense, net” in the consolidated statement of operations with respect to revolving loans or letters of credit obtained under the loan agreement.

Borrowings under the loan agreement bear interest at a rate equal to LIBOR plus 1.35%. Outstanding borrowings mature on September 26, 2012. In addition, a non-use fee of 0.30% is applied to the unutilized portion of the \$100.0 million commitment. These rates are per annum and the fees are paid to GECC on a daily basis.

At March 31, 2009, \$30.0 million was outstanding under the Program and was classified as long-term debt in the consolidated balance sheets. Due to the volatile credit markets, management did not intend to repay the outstanding balance under the Program within one year and accordingly classified the borrowings as long-term debt. At December 26, 2009 the Company’s available borrowing capacity under the AR Securitization Program was \$75.2 million. All of the receivables purchased by Rexnord Funding LLC are pledged as collateral for revolving loans and letters of credit obtained from GECC under the loan agreement. Additionally, the Program requires compliance with certain covenants and performance ratios contained in the Receivables Financing and Administration Agreement. As of December 26, 2009, Rexnord Funding LLC was in compliance with all applicable covenants and performance ratios.

10. Derivative Financial Instruments

The Company is exposed to certain financial risks relating to fluctuations in foreign currency exchange rates and interest rates. The Company selectively uses foreign currency forward exchange contracts and interest rate swap and collar contracts to manage its foreign currency and interest rate risks. All hedging transactions are authorized and executed pursuant to defined policies and procedures which prohibit the use of financial instruments for speculative purposes. See below for a description of the Company's derivative financial instruments.

Foreign Currency Forward Contracts

The Company periodically enters into foreign currency forward contracts to mitigate the foreign currency volatility relative to certain intercompany and external cash flow requirements expected to occur during the fiscal year. The Company currently has entered into foreign currency forward contracts that exchange Canadian dollars ("CAD") for United States dollars ("USD") as well as USD for CAD. The forward contracts currently in place expire between January and June of calendar 2010 and have notional amounts of \$6.5 million CAD (\$5.9 million USD) and \$4.5 million USD (\$4.9 million CAD) and contract rates ranging from \$1CAD:\$0.9060 USD to \$1CAD:\$0.9421 USD. These foreign currency forward contracts were not accounted for as effective cash flow hedges in accordance with ASC 815, *Derivatives and Hedging* ("ASC 815") and as such were marked to market through earnings. See the amount recorded on the balance sheets and recognized within the income statements related to the Company's foreign currency forward contracts within the tables below.

Interest Rate Collar and Swaps

Effective October 20, 2009, the Company entered into three forward starting interest rate swaps to hedge the variability in future cash flows associated with the Company's variable rate term loans. All three interest rate swaps mature on July 20, 2012. The three swaps convert an aggregate of \$370.0 million of the Company's variable-rate term loans to fixed interest rates ranging from 2.08% to 2.39% plus the applicable margin. The Company previously entered into an interest rate collar and an interest rate swap, effective October 20, 2006, to hedge the variability in future cash flows associated with a portion of the Company's variable-rate term loans. The interest rate collar provided an interest rate floor of 4.0% plus the applicable margin and an interest rate cap of 6.065% plus the applicable margin on \$262.0 million of the Company's variable-rate term loans, while the interest rate swap converted \$68.0 million of the Company's variable-rate term loans to a fixed interest rate of 5.14% plus the applicable margin. Both the interest rate collar and the interest rate swap and matured on October 20, 2009. All interest rate derivatives have been accounted for as effective cash flow hedges in accordance with ASC 815. The fair values of these interest rate derivatives are recorded on the Company's consolidated balance sheet with the corresponding offset recorded as a component of accumulated other comprehensive loss, net of tax. See the amounts recorded on the balance sheets and recognized within the income statements related to the Company's interest rate collar and swaps within the tables below.

The Company's derivatives are measured at fair value in accordance with ASC 820. See Note 11 for more information as it relates to the fair value measurement of the Company's derivative financial instruments.

The following tables indicate the classification and the fair value of the Company's derivative instruments within the consolidated balance sheet segregated between designated, qualifying ASC 815-20 hedging instruments and non-qualifying, non-designated hedging instruments (in millions).

Fair value of derivatives designated as hedging instruments under ASC 815-20:

	Liability Derivatives		Balance Sheet Classification
	December 26, 2009	March 31, 2009	
Interest rate collar and swap	\$ —	\$ (5.7)	Other current liabilities
Interest rate swaps	\$ (5.7)	\$ —	Other long-term liabilities

Fair value of derivatives not designated as hedging instruments under ASC 815-20:

	Asset Derivatives		Balance Sheet Classification
	December 26, 2009	March 31, 2009	
Foreign currency forward contracts	\$ 0.2	\$ —	Other current assets

	Liability Derivatives		Balance Sheet Classification
	December 26, 2009	March 31, 2009	
Foreign currency forward contracts	\$ (0.3)	\$ —	Other current liabilities

The following table indicates the classification and the amount of gains and losses associated with the Company's derivative instruments within the consolidated balance sheet (for qualifying ASC 815-20 instruments) and recognized within the consolidated statement of operations. The information is segregated between designated, qualifying ASC 815-20 hedging instruments and non-qualifying, non-designated hedging instruments (in millions).

Derivative Instruments Designated as Cash Flow Hedging Relationships Under ASC 815-20	Amount of Gain or (Loss) Recognized in Accumulated OCI on Derivatives		Classification of Gain or (Loss) Reclassified from Accumulated OCI into Income	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income Third Quarter Ended		Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income Nine Months Ended	
	December 26, 2009	March 31, 2009		December 26, 2009	December 27, 2008	December 26, 2009	December 27, 2008
Interest rate contracts	\$ (3.5)	\$ (3.5)	Interest expense, net	\$ (2.1)	\$ (0.5)	\$ (7.7)	\$ (2.6)

Derivative Instruments Not Designated as Hedging Instruments Under ASC 815-20	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount Recognized in Other income (expense), net Third Quarter Ended		Amount Recognized in Other income (expense), net Nine Months Ended	
		December 26, 2009	December 27, 2008	December 26, 2009	December 27, 2008
Foreign currency forward contracts	Other income (expense), net	\$ 0.2	\$ 2.1	\$ 0.5	\$ 1.9

The Company currently expects to reclassify \$5.5 million within accumulated other comprehensive loss into earnings (as interest expense) during the next year as the Company's current mark to market calculations assume that variable rates will remain below its fixed contract rates for the next twelve months.

11. Fair Value Measurements

Effective April 1, 2008 the Company adopted the guidance in ASC 820 for all financial instruments and non-financial instruments accounted for at fair value on a recurring basis. Effective April 1, 2009, the Company adopted the guidance in ASC 820 for all non-financial assets and liabilities accounted for at fair value on a non-recurring basis.

ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. ASC 820 also specifies a fair value hierarchy based upon the observability of inputs used in valuation techniques. Observable inputs (highest level) reflect market data obtained from independent sources, while unobservable inputs (lowest level) reflect internally developed assumptions about the assumptions a market participant would use.

In accordance with ASC 820, fair value measurements are classified under the following hierarchy:

- Level 1- Quoted prices for identical instruments in active markets.
- Level 2- Quoted prices for similar instruments; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs or significant value-drivers are observable.
- Level 3- Model-derived valuations in which one or more inputs or value-drivers are both significant to the fair value measurement and unobservable.

The valuation methodologies and instruments the Company uses relating to financial instruments accounted for at fair value on a recurring basis include:

Interest Rate Collar and Swaps

The fair value of interest rate swap and collar derivatives is primarily based on pricing models. These models use discounted cash flows that utilize the appropriate market-based forward swap curves and interest rates.

Foreign Currency Forward Contracts

The fair value of foreign currency forward contracts is based on a pricing model that utilizes the differential between the contract price and the market-based forward rate as applied to fixed future deliveries of currency at pre-designated settlement dates.

The following describes the valuation methodologies the Company uses to measure non-financial assets accounted for at fair value on a non-recurring basis.

Long-lived Assets and Intangible Assets

Long-lived assets (which includes property, plant and equipment and real estate) may be measured at fair value if such assets are held for sale or when there is a determination that the asset is impaired. Intangible assets (which includes patents, tradenames, customer relationships, and non-compete agreements) also may be measured at fair value when there is a determination that the asset is impaired. The determination of fair value for these assets is based on the best information available, including internal cash flow estimates discounted at an appropriate interest rate, quoted market prices when available, market prices for similar assets and independent appraisals, as appropriate. For real estate, cash flow estimates are based on current market estimates that reflect current and projected lease profiles and available industry information about expected trends in rental, occupancy and capitalization rates.

The Company endeavors to utilize the best available information in measuring fair value. As required by the standard, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company has determined that its financial instruments reside within level 2 of the fair value hierarchy. The following table provides a summary of the Company's assets and liabilities that were recognized at fair value on a recurring basis as of December 26, 2009 (in millions):

	Fair Value as of December 26, 2009			
	Level 1	Level 2	Level 3	Total
Assets:				
Foreign currency forward contracts	\$ —	\$ 0.2	\$ —	\$ 0.2
Total assets at fair value	<u>\$ —</u>	<u>\$ 0.2</u>	<u>\$ —</u>	<u>\$ 0.2</u>
Liabilities:				
Foreign currency forward contracts	\$ —	\$ (0.3)	\$ —	\$(0.3)
Interest rate collar and swaps	—	(5.7)	—	\$(5.7)
Total liabilities at fair value	<u>\$ —</u>	<u>\$ (6.0)</u>	<u>\$ —</u>	<u>\$(6.0)</u>

During the quarter and nine months ended December 26, 2009, the Company did not incur any fair value adjustments on non-financial assets valued on a non-recurring basis.

Fair Value of Non-Derivative Financial Instruments

The carrying amounts of cash, receivables, payables and accrued liabilities approximated fair value at December 26, 2009 and March 31, 2009 due to the short-term nature of those instruments. The carrying value of long-term debt recognized within the Condensed Consolidated Balance Sheets as of December 26, 2009 and March 31, 2009 was approximately \$2,130.9 million and \$2,140.5 million, respectively, whereas the fair value of long-term debt as of December 26, 2009 and March 31, 2009 was approximately \$2,081.8 million and \$1,689.6 million, respectively. The fair value is based on quoted market prices for the same issues.

12. Commitments and Contingencies

Warranties:

The Company offers warranties on the sales of certain products and records an accrual for estimated future claims. Such accruals are based upon historical experience and management's estimate of the level of future claims. The following table presents changes in the Company's product warranty liability (in millions):

	Third Quarter Ended		Nine Months Ended	
	December 26, 2009	December 27, 2008	December 26, 2009	December 27, 2008
Balance at beginning of period	\$ 8.3	\$ 4.6	\$ 7.2	\$ 6.8
Charged to operations	1.2	0.4	4.8	0.2
Claims settled	(0.8)	(1.0)	(3.3)	(3.0)
Balance at end of period	<u>\$ 8.7</u>	<u>\$ 4.0</u>	<u>\$ 8.7</u>	<u>\$ 4.0</u>

Contingencies:

The Company's subsidiaries are involved in various unresolved legal actions, administrative proceedings and claims in the ordinary course of business involving, among other things, product liability, commercial, employment, workers' compensation, intellectual property claims and environmental matters. The Company establishes reserves in a manner that is consistent with accounting principles generally accepted in the United States for costs associated with such matters when liability is probable and those costs are capable of being reasonably estimated. Although it is not possible to predict with certainty the outcome of these unresolved legal actions or the range of possible loss or recovery, based upon current information, management believes the eventual outcome of these unresolved legal actions, either individually or in the aggregate, will not have a material adverse effect on the financial position, results of operations or cash flows of the Company.

In connection with the Carlyle acquisition in November 2002, Invensys plc has provided the Company with indemnification against certain contingent liabilities, including certain pre-closing environmental liabilities. The Company believes that, pursuant to such indemnity obligations, Invensys is obligated to defend and indemnify the Company with respect to the matters described below relating to the Ellsworth Industrial Park Site and to various asbestos claims. The indemnity obligations relating to the matters described below are not subject to any time limitations and are subject to an overall dollar cap equal to the purchase price, which is an amount in excess of \$900 million. The following paragraphs summarize the most significant actions and proceedings:

- In 2002, Rexnord Industries, LLC (formerly known as Rexnord Corporation) ("Rexnord Industries") was named as a potentially responsible party ("PRP"), together with at least ten other companies, at the Ellsworth Industrial Park Site, Downers Grove, DuPage County, Illinois (the "Site"), by the United States Environmental Protection Agency ("USEPA"), and the Illinois Environmental Protection Agency ("IEPA"). Rexnord Industries' Downers Grove property is situated within the Ellsworth Industrial Complex. The USEPA and IEPA allege there have been one or more releases or threatened releases of chlorinated solvents and other hazardous substances, pollutants or contaminants, allegedly including but not limited to a release or threatened release on or from the Company's property, at the Site. The relief sought by the USEPA and IEPA includes further investigation and potential remediation of the Site. Rexnord Industries' allocated share of future costs related to the Site, including for investigation and/or remediation, could be significant.
- All previously pending lawsuits related to the Site have been settled and dismissed. Pursuant to its indemnity obligation, Invensys continues to defend the Company in matters related to the Site and has paid 100% of the costs to date. To provide additional protection, the Company has brought several indemnification suits against previous property owners who retained certain environmental liabilities associated with its property, and is also involved in litigation with its insurance companies for a declaration of coverage. These suits are progressing in accordance with the respective courts' scheduling orders.

- Multiple lawsuits (with approximately 3,500 claimants) are pending in state or federal court in numerous jurisdictions relating to alleged personal injuries due to the alleged presence of asbestos in certain brakes and clutches previously manufactured by the Company's Stearns division and/or its predecessor owners. Invensys and FMC, prior owners of the Stearns business, have paid 100% of the costs to date related to the Stearns lawsuits. Similarly, the Company's Prager subsidiary is a defendant in two pending multi-defendant lawsuits relating to alleged personal injuries due to the alleged presence of asbestos in a product allegedly manufactured by Prager. Additionally, there are approximately 3,700 individuals who have filed asbestos related claims against Prager; however, these claims are currently on the Texas Multi-district Litigation inactive docket. The ultimate outcome of these asbestos matters cannot presently be determined. To date, the Company's insurance providers have paid 100% of the costs related to the Prager asbestos matters. The Company believes that the combination of its insurance coverage and the Invensys indemnity obligations will cover any future costs of these matters.

In connection with the Falk acquisition, Hamilton Sundstrand has provided the Company with indemnification against certain contingent liabilities, including coverage for certain pre-closing environmental liabilities. The Company believes that, pursuant to such indemnity obligations, Hamilton Sundstrand is obligated to defend and indemnify the Company with respect to the asbestos claims described below, and that, with respect to these claims, such indemnity obligations are not subject to any time or dollar limitations. The following paragraph summarizes the most significant actions and proceedings for which Hamilton Sundstrand has accepted responsibility:

- Falk, through its successor entity, is a defendant in approximately 190 lawsuits pending in state or federal court in numerous jurisdictions relating to alleged personal injuries due to the alleged presence of asbestos in certain clutches and drives previously manufactured by Falk. There are approximately 700 claimants in these suits. The ultimate outcome of these lawsuits cannot presently be determined. Hamilton Sundstrand is defending the Company in these lawsuits pursuant to its indemnity obligations and has paid 100% of the costs to date.

Certain Water Management subsidiaries are also subject to asbestos and class action related litigation. As of December 26, 2009, Zurn and an average of approximately 100 other unrelated companies were defendants in approximately 6,100 asbestos related lawsuits representing approximately 28,400 claims. The suits allege damages in an aggregate amount of approximately \$14.7 billion against all defendants. Plaintiffs' claims allege personal injuries caused by exposure to asbestos used primarily in industrial boilers formerly manufactured by a segment of Zurn. Zurn did not manufacture asbestos or asbestos components. Instead, Zurn purchased them from suppliers. These claims are being handled pursuant to a defense strategy funded by insurers. As of December 26, 2009, the Company estimates the potential liability for asbestos-related claims pending against Zurn as well as the claims expected to be filed in the next ten years to be approximately \$90.0 million of which Zurn expects to pay approximately \$79.0 million in the next ten years on such claims, with the balance of the estimated liability being paid in subsequent years. However, there are inherent uncertainties involved in estimating the number of future asbestos claims, future settlement costs, and the effectiveness of defense strategies and settlement initiatives.

As a result, Zurn's actual liability could differ from the estimate described herein. Further, while this current asbestos liability is based on an estimate of claims through the next ten years, such liability may continue beyond that time frame, and such liability could be substantial.

Management estimates that its available insurance to cover its potential asbestos liability as of December 26, 2009, is approximately \$270.0 million, and believes that all current claims are covered by this insurance. However, principally as a result of the past insolvency of certain of the Company's insurance carriers, certain coverage gaps will exist if and after the Company's other carriers have paid the first \$194.0 million of aggregate liabilities. In order for the next \$51.0 million of insurance coverage from solvent carriers to apply, management estimates that it would need to satisfy \$14.0 million of asbestos claims. Layered within the final \$25.0 million of the total \$270.0 million of coverage, management estimates that it would need to satisfy an additional \$80.0 million of asbestos claims. If required to pay any such amounts, the Company could pursue recovery against the insolvent carriers, but it is not currently possible to determine the likelihood or amount of such recoveries, if any.

As of December 26, 2009, the Company recorded a receivable from its insurance carriers of \$90.0 million, which corresponds to the amount of its potential asbestos liability that is covered by available insurance and is currently determined to be probable of recovery. However, there is no assurance that \$270.0 million of insurance coverage will ultimately be available or that Zurn's asbestos liabilities will not ultimately exceed \$270.0 million. Factors that could cause a decrease in the amount of available coverage include: changes in law governing the policies, potential disputes with the carriers regarding the scope of coverage, and insolvencies of one or more of the Company's carriers.

As of the date of this filing, subsidiaries, Zurn Pex, Inc. and Zurn Industries, LLC (formerly known as Zurn Industries, Inc.), have been named as defendants in fourteen lawsuits, brought between July 2007 and December 2009, in various U.S. courts (MN, ND, CO, NC, MT, AL, VA, LA, NM, MI and HI). The plaintiffs in these suits seek to represent a class of plaintiffs alleging damages due to the alleged failure or anticipated failure of the Zurn brass crimp fittings on the PEX plumbing systems in homes and other structures. The complaints assert various causes of action, including but not limited to negligence, breach of warranty, fraud, and violations of the Magnuson Moss Act and certain state consumer protection laws, and seek declaratory and injunctive relief, and damages (including punitive damages) in unspecified amounts. All but the Hawaii suit, which remains in Hawaii state court, have been transferred to a multi-district litigation docket in the District of Minnesota for coordinated pretrial proceedings. While the Company intends to vigorously defend itself in these actions, the uncertainties of litigation and the uncertainties related to insurance coverage and collection as well as the actual number or value of claims make it difficult to accurately predict the financial effect these claims may ultimately have on the Company.

13. Retirement Benefits

The components of net periodic benefit cost (income) are as follows (in millions):

	Third Quarter Ended		Nine Months Ended	
	December 26, 2009	December 27, 2008	December 26, 2009	December 27, 2008
Pension Benefits:				
Service cost	\$ 0.8	\$ 0.9	\$ 2.4	\$ 3.3
Interest cost	8.6	8.1	26.3	25.7
Expected return on plan assets	(8.0)	(12.4)	(22.9)	(37.4)
Amortization of:				
Prior service cost	—	—	0.2	0.2
Actuarial losses	2.6	—	9.9	—
Net periodic benefit cost (income)	<u>\$ 4.0</u>	<u>\$ (3.4)</u>	<u>\$ 15.9</u>	<u>\$ (8.2)</u>
Other Postretirement Benefits:				
Service cost	\$ —	\$ —	\$ 0.1	\$ 0.3
Interest cost	0.7	0.4	1.6	1.9
Amortization:				
Prior service cost	(0.5)	(0.4)	(1.5)	(0.5)
Actuarial losses (gains)	0.5	(0.1)	0.5	—
Net periodic benefit cost (income)	<u>\$ 0.7</u>	<u>\$ (0.1)</u>	<u>\$ 0.7</u>	<u>\$ 1.7</u>

In the first nine months of fiscal 2010 and 2009, the Company made contributions of \$3.3 million and \$1.8 million, respectively, to its U.S. qualified pension plan trusts.

During the third quarter ended December 26, 2009 the Company took actions to freeze one of its domestic defined benefit pension plans, which impacted approximately 530 active employees. These actions resulted in a freeze of future service credits and salary increases, in certain instances, for certain active employees in the plan beginning January 1, 2010, triggering a curtailment that has been accounted for in accordance with ASC 715, *Compensation-Retirement Benefit*. As this action was approved and communicated during the third quarter, the Company was required to perform a plan remeasurement as of October 31, 2009. The results of the remeasurement are reflected in the net periodic benefit cost recorded during the third quarter.

14. Stock Options

RBS Global and Rexnord LLC are 100% owned (indirectly through Chase Acquisition I, Inc.) by Rexnord Holdings. As a result, shares of the Company's common stock are not held by individuals and the Company does not issue options or other equity awards related to its common stock. Instead, awards of Rexnord Holdings' common stock are used from time to time to provide compensation to employees, officers and directors and certain consultants and advisors of the Company. Such awards are granted under the 2006 Stock Option Plan of Rexnord Holdings (discussed below).

As a nonpublic entity that used the minimum value method for pro forma disclosure purposes under prior authoritative literature, the Company adopted ASC 718, *Compensation-Stock Compensation* (“ASC 718”), using the prospective transition method of adoption on April 1, 2006. Accordingly, the provisions of this guidance are applied prospectively to new awards and to awards modified, repurchased or cancelled after the adoption date. In connection with the acquisition of the Company by Apollo Management, L.P. (“Apollo”) on July 21, 2006, all previously outstanding stock options became fully vested and were either cashed out or rolled into fully-vested stock options of Rexnord Holdings. On July 22, 2006, a total of 577,945 of stock options were rolled over, each with an exercise price of \$7.13. As of December 26, 2009, 393,413 of these rollover stock options remain outstanding.

In connection with the acquisition of the Company by Apollo on July 21, 2006, the Board of Directors of Rexnord Holdings also adopted, and stockholders approved, the 2006 Stock Option Plan of Rexnord Holdings, Inc. (the “Option Plan”). Persons eligible to receive options under the Option Plan include officers, employees or directors of Rexnord Holdings or any of its subsidiaries and certain consultants and advisors to Rexnord Holdings or any of its subsidiaries. The maximum number of shares of Rexnord Holdings common stock that may be issued or transferred pursuant to options under the Option Plan equals 2,700,000 shares (excluding rollover options mentioned above). Approximately 50% of the options granted under the Option Plan vest ratably over five years from the date of grant; the remaining 50% of the options are eligible to vest based on the Company’s achievement of earnings before interest, taxes, depreciation and amortization (“EBITDA”) targets and debt repayment targets for fiscal years 2007 through 2014.

The fair value of each option granted under the Option Plan during the nine months ended December 26, 2009 was estimated on the date of grant using the Black-Scholes valuation model that uses the following assumptions: expected volatility between 33% and 41% based on the expected volatilities of publicly-traded companies within the Company’s industry; an expected term of 7.5 years based on the midpoint between when the options vest and when they expire; a weighted average risk free interest rate of 3.24% based on the U.S. Treasury yield curve in effect at the date of grant; and expected dividends of zero. The weighted average grant date fair value of the 535,093 options granted under the Option Plan between April 1, 2009 and December 26, 2009 was \$8.93.

For the third quarter and nine months ended December 26, 2009, the Company recorded \$1.1 million and \$4.1 million, respectively, of stock-based compensation expense. For the third quarter and nine months ended December 27, 2008, the Company recorded \$1.8 million and \$5.0 million, respectively, of stock-based compensation expense. As of December 26, 2009, there was \$11.0 million of total unrecognized compensation cost related to non-vested stock options granted under the Option Plan. That cost is expected to be recognized over a weighted average period of 2.4 years.

The following table presents the stock option activity under the plan during the nine months ended December 26, 2009:

	Period from April 1, 2009 through December 26, 2009	
	Shares	Weighted Avg. Exercise Price
Number of shares under option:		
Outstanding at beginning of period	2,721,505	\$ 17.69
Granted	535,093	20.00
Exercised	(191,114)	10.17
Canceled/Forfeited	(602,169)	19.94
Outstanding at end of period(1)(2)	<u>2,463,315</u>	<u>\$ 18.23</u>
Exercisable at end of period(3)	<u>1,143,544</u>	<u>\$ 15.67</u>

(1) Includes 393,413 roll-over options.

(2) The weighted average remaining contractual life of options outstanding at December 26, 2009 is 7.5 years.

(3) The weighted average remaining contractual life of options exercisable at December 26, 2009 is 6.8 years.

15. Business Segment Information

The results of operations are reported in two business segments, consisting of the Power Transmission platform and the Water Management platform. The Power Transmission platform manufactures gears, couplings, industrial bearings, flattop chain and modular conveyer belts, aerospace bearings and seals, special components and industrial chain and conveying equipment serving the industrial and aerospace markets. This segment serves a diverse group of end market industries, including aerospace, aggregates and cement, air handling, construction, chemicals, energy, beverage and container, forest and wood products, mining, material and package handling, marine, natural resource extraction and petrochemical. The Water Management platform manufactures professional grade specification plumbing, PEX piping, commercial brass and water and wastewater treatment and control products serving the infrastructure, commercial and residential markets. Categories of the infrastructure end market include: municipal water and wastewater, transportation, government, health care and education. Categories of the commercial construction end market include: lodging, retail, dining, sports arenas, and warehouse/office. The financial information of the Company's segments is regularly evaluated by the chief operating decision makers in determining resource allocation and assessing performance and is periodically reviewed by the Company's Board of Directors. Management evaluates the performance of each business segment based on its operating results.

Business Segment Information:
(In Millions)

	Third Quarter Ended		Nine Months Ended	
	December 26, 2009	December 27, 2008	December 26, 2009	December 27, 2008
Net sales				
Power Transmission	\$ 246.4	\$ 315.6	\$ 719.2	\$ 1,009.8
Water Management	119.3	127.5	384.1	440.0
Corporate	—	—	—	—
Consolidated	<u>\$ 365.7</u>	<u>\$ 443.1</u>	<u>\$ 1,103.3</u>	<u>\$ 1,449.8</u>
Income (loss) from operations				
Power Transmission	\$ 27.7	\$ (95.3)	\$ 66.3	\$ (1.0)
Water Management	16.6	(257.3)	58.2	(212.0)
Corporate	(7.2)	(2.7)	(25.2)	(9.7)
Consolidated	<u>\$ 37.1</u>	<u>\$ (355.3)</u>	<u>\$ 99.3</u>	<u>\$ (222.7)</u>
Non-operating expense:				
Interest expense, net	\$ (45.3)	\$ (46.1)	\$ (136.4)	\$ (135.3)
Other (expense) income, net	(8.4)	3.3	(1.3)	2.1
(Loss) before income taxes	(16.6)	(398.1)	(38.4)	(355.9)
(Benefit) provision for income taxes	(19.4)	11.8	(21.7)	30.6
Net income (loss)	<u>\$ 2.8</u>	<u>\$ (409.9)</u>	<u>\$ (16.7)</u>	<u>\$ (386.5)</u>
Intangible impairment charges				
Power Transmission	\$ —	\$ (132.9)	\$ —	\$ (132.9)
Water Management	—	(269.6)	—	(269.6)
Consolidated	<u>\$ —</u>	<u>\$ (402.5)</u>	<u>\$ —</u>	<u>\$ (402.5)</u>
Restructuring charges				
Power Transmission	\$ 1.1	\$ 3.1	\$ 3.8	\$ 3.1
Water Management	—	0.5	0.5	0.5
Corporate	—	—	—	—
Consolidated	<u>\$ 1.1</u>	<u>\$ 3.6</u>	<u>\$ 4.3</u>	<u>\$ 3.6</u>
Depreciation and amortization				
Power Transmission	\$ 21.7	\$ 19.8	\$ 62.1	\$ 60.5
Water Management	6.6	6.7	19.5	21.6
Corporate	—	—	—	—
Consolidated	<u>\$ 28.3</u>	<u>\$ 26.5</u>	<u>\$ 81.6</u>	<u>\$ 82.1</u>
Capital expenditures				
Power Transmission	\$ 3.3	\$ 6.3	\$ 10.7	\$ 27.0
Water Management	1.0	1.0	2.9	2.9
Corporate	—	—	—	—
Consolidated	<u>\$ 4.3</u>	<u>\$ 7.3</u>	<u>\$ 13.6</u>	<u>\$ 29.9</u>
Total assets				
	<u>December 26, 2009</u>	<u>March 31, 2009</u>		
Power Transmission	\$ 2,177.0	\$ 2,324.0		
Water Management	803.2	828.7		
Corporate	48.9	52.1		
Consolidated	<u>\$ 3,029.1</u>	<u>\$ 3,204.8</u>		

16. Guarantor Subsidiaries

The following schedules present condensed consolidating financial information of the Company at December 26, 2009 and March 31, 2009 and for the third quarter and nine months ended December 26, 2009 and December 27, 2008 for: (a) RBS Global, Inc. and its wholly-owned subsidiary Rexnord LLC, which together are co-issuers (the "Issuers") of the outstanding senior notes and senior subordinated notes; (b) on a combined basis, the domestic subsidiaries of the Company, all of which are wholly-owned by the Issuers (collectively, the "Guarantor Subsidiaries"); and (c) on a combined basis, the foreign subsidiaries of the Company (collectively, the "Non-Guarantor Subsidiaries"). Separate financial statements of the Guarantor Subsidiaries are not presented because their guarantees of the senior notes and senior subordinated notes are full, unconditional and joint and several, and the Company believes separate financial statements and other disclosures regarding the Guarantor Subsidiaries are not material to investors.

Condensed Consolidating Balance Sheet December 26, 2009 (in Millions)

	Issuers	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	\$ —	\$ 201.6	\$ 56.6	\$ —	\$ 258.2
Receivables, net	—	152.3	71.9	—	224.2
Inventories, net	—	216.0	59.3	—	275.3
Other current assets	—	14.9	12.2	—	27.1
Total current assets	—	584.8	200.0	—	784.8
Receivable from (payable to) affiliates, net	24.7	18.6	(43.3)	—	—
Property, plant and equipment, net	—	300.3	87.3	—	387.6
Intangible assets, net	—	675.4	24.4	—	699.8
Goodwill	—	826.4	185.4	—	1,011.8
Investment in:					
Guarantor subsidiaries	1,404.4	—	—	(1,404.4)	—
Non-guarantor subsidiaries	—	598.1	—	(598.1)	—
Insurance for asbestos claims	—	90.0	—	—	90.0
Other assets	48.7	6.2	0.2	—	55.1
Total assets	\$1,477.8	\$ 3,099.8	\$ 454.0	\$ (2,002.5)	\$ 3,029.1
Liabilities and stockholders' equity					
Current liabilities:					
Current portion of long-term debt	\$ 2.0	\$ 0.1	\$ 4.6	\$ —	\$ 6.7
Trade payables	—	77.2	35.7	—	112.9
Income taxes payable (receivable)	(30.8)	29.1	6.8	—	5.1
Deferred income tax (asset) liability	5.1	(3.7)	(1.2)	—	0.2
Compensation and benefits	—	45.8	13.2	—	59.0
Current portion of pension obligation	—	0.3	2.3	—	2.6
Current portion of postretirement benefit obligations	—	2.2	—	—	2.2
Interest payable	52.2	1.4	0.4	—	54.0
Other current liabilities	—	59.4	23.4	—	82.8
Total current liabilities	28.5	211.8	85.2	—	325.5
Long-term debt	2,120.6	0.1	3.5	—	2,124.2
Note (receivable from) payable to affiliates, net	(846.8)	1,159.6	(312.8)	—	—
Pension obligations	—	96.5	40.5	—	137.0
Postretirement benefit obligations	—	23.1	—	—	23.1
Deferred income taxes	137.2	98.8	27.9	—	263.9
Reserve for asbestos claims	—	90.0	—	—	90.0
Other liabilities	18.5	15.5	11.6	—	45.6
Total liabilities	1,458.0	1,695.4	(144.1)	—	3,009.3
Total stockholders' equity	19.8	1,404.4	598.1	(2,002.5)	19.8
Total liabilities and stockholders' equity	\$1,477.8	\$ 3,099.8	\$ 454.0	\$ (2,002.5)	\$ 3,029.1

Condensed Consolidating Balance Sheet
March 31, 2009
(in Millions)

	Issuers	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	\$ —	\$ 232.5	\$ 45.0	\$ —	\$ 277.5
Receivables, net	—	183.0	75.8	—	258.8
Inventories, net	—	267.0	60.1	—	327.1
Other current assets	—	16.9	12.1	—	29.0
Total current assets	—	699.4	193.0	—	892.4
Receivable from (payable to) affiliates, net	24.7	18.6	(43.3)	—	—
Property, plant and equipment, net	—	325.3	88.2	—	413.5
Intangible assets, net	—	712.4	24.0	—	736.4
Goodwill	—	826.4	184.5	—	1,010.9
Investment in:					
Guarantor subsidiaries	1,430.4	—	—	(1,430.4)	—
Non-guarantor subsidiaries	—	607.0	—	(607.0)	—
Insurance for asbestos claims	—	90.0	—	—	90.0
Other assets	51.9	6.2	3.5	—	61.6
Total assets	<u>\$1,507.0</u>	<u>\$ 3,285.3</u>	<u>\$ 449.9</u>	<u>\$ (2,037.4)</u>	<u>\$ 3,204.8</u>
Liabilities and stockholders' equity					
Current liabilities:					
Current portion of long-term debt	\$ 2.0	\$ 0.6	\$ 5.5	\$ —	\$ 8.1
Trade payables	—	96.3	38.3	—	134.6
Income taxes payable (receivable)	(0.5)	0.6	3.6	—	3.7
Deferred income tax (asset) liability	14.6	(3.4)	(0.4)	—	10.8
Compensation and benefits	—	51.6	10.5	—	62.1
Current portion of pension obligation	—	0.3	2.3	—	2.6
Current portion of postretirement benefit obligations	—	2.2	—	—	2.2
Interest payable	22.1	2.0	0.2	—	24.3
Other current liabilities	6.5	66.6	22.1	—	95.2
Total current liabilities	44.7	216.8	82.1	—	343.6
Long-term debt	2,098.7	30.1	3.6	—	2,132.4
Note (receivable from) payable to affiliates, net	(955.6)	1,277.8	(322.2)	—	—
Pension obligations	—	96.6	37.9	—	134.5
Postretirement benefit obligations	—	24.8	—	—	24.8
Deferred income taxes	137.5	100.8	25.3	—	263.6
Reserve for asbestos claims	—	90.0	—	—	90.0
Other liabilities	24.3	18.0	16.2	—	58.5
Total liabilities	1,349.6	1,854.9	(157.1)	—	3,047.4
Total stockholders' equity	157.4	1,430.4	607.0	(2,037.4)	157.4
Total liabilities and stockholders' equity	<u>\$1,507.0</u>	<u>\$ 3,285.3</u>	<u>\$ 449.9</u>	<u>\$ (2,037.4)</u>	<u>\$ 3,204.8</u>

Condensed Consolidating Statement of Operations
Three Months Ended December 26, 2009
(in Millions)

	<u>Issuers</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Net sales	\$ —	\$ 276.9	\$ 104.3	\$ (15.5)	\$ 365.7
Cost of sales	—	183.2	73.9	(15.5)	241.6
Gross profit	—	93.7	30.4	—	124.1
Selling, general and administrative expenses					
Restructuring and other similar charges	—	54.8	17.8	—	72.6
Amortization of intangible assets	—	0.3	0.8	—	1.1
Income from operations	—	13.2	0.1	—	13.3
	—	25.4	11.7	—	37.1
Nonoperating income (expense):					
Interest expense, net:					
To third parties	(45.1)	—	(0.2)	—	(45.3)
To affiliates	29.0	(25.7)	(3.3)	—	—
Other income (expense), net	(2.0)	11.0	(17.4)	—	(8.4)
Income (loss) before income taxes	(18.1)	10.7	(9.2)	—	(16.6)
Income tax benefit	(6.5)	(8.8)	(4.1)	—	(19.4)
Income (loss) before equity in earnings (loss) of subsidiaries	(11.6)	19.5	(5.1)	—	2.8
Equity in earnings (loss) of subsidiaries	14.4	(5.1)	—	(9.3)	—
Net income (loss)	<u>\$ 2.8</u>	<u>\$ 14.4</u>	<u>\$ (5.1)</u>	<u>\$ (9.3)</u>	<u>\$ 2.8</u>

Condensed Consolidating Statement of Operations
Three Months Ended December 27, 2008
(in Millions)

	<u>Issuers</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Net sales	\$ —	\$ 360.7	\$ 105.0	\$ (22.6)	\$ 443.1
Cost of sales	—	245.4	80.9	(22.6)	303.7
Gross profit	—	115.3	24.1		139.4
Selling, general and administrative expenses		60.3	16.3	—	76.6
Restructuring and other similar charges	—	396.9	5.6	—	402.5
Amortization of intangible assets	—	3.4	0.2	—	3.6
Income from operations	—	11.9	0.1	—	12.0
	—	(357.2)	1.9	—	(355.3)
Nonoperating income (expense):					
Interest expense, net:					
To third parties	(46.3)	0.5	(0.3)	—	(46.1)
To affiliates	28.7	(25.6)	(3.1)	—	—
Other income (expense), net	24.3	(20.6)	(0.4)	—	3.3
Income (loss) before income taxes	6.7	(402.9)	(1.9)	—	(398.1)
(Benefit) provision for income taxes	(0.5)	11.8	0.5	—	11.8
Income (loss) before equity in earnings (loss) of subsidiaries	7.2	(414.7)	(2.4)	—	(409.9)
Equity in earnings (loss) of subsidiaries	(417.1)	(2.4)	—	419.5	—
Net loss	<u>\$(409.9)</u>	<u>\$ (417.1)</u>	<u>\$ (2.4)</u>	<u>\$ 419.5</u>	<u>\$ (409.9)</u>

Condensed Consolidating Statement of Operations
Nine Months Ended December 26, 2009
(in Millions)

	<u>Issuers</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Net sales	\$ —	\$ 858.9	\$ 287.0	\$ (42.6)	\$ 1,103.3
Cost of sales	—	574.9	207.6	(42.6)	739.9
Gross profit	—	284.0	79.4	—	363.4
Selling, general and administrative expenses	—	170.7	51.7	—	222.4
Restructuring and other similar charges	—	2.4	1.9	—	4.3
Amortization of intangible assets	—	37.2	0.2	—	37.4
Income from operations	—	73.7	25.6	—	99.3
Nonoperating income (expense):					
Interest expense, net:					
To third parties	(135.2)	(0.4)	(0.8)	—	(136.4)
To affiliates	85.7	(76.3)	(9.4)	—	—
Other income (expense), net	4.5	13.2	(19.0)	—	(1.3)
Income (loss) before income taxes	(45.0)	10.2	(3.6)	—	(38.4)
(Benefit) provision for income taxes	(20.7)	(4.4)	3.4	—	(21.7)
Income (loss) before equity in earnings (loss) of subsidiaries	(24.3)	14.6	(7.0)	—	(16.7)
Equity in earnings (loss) of subsidiaries	7.6	(7.0)	—	(0.6)	—
Net income (loss)	<u>\$ (16.7)</u>	<u>\$ 7.6</u>	<u>\$ (7.0)</u>	<u>\$ (0.6)</u>	<u>\$ (16.7)</u>

Condensed Consolidating Statement of Operations
Nine Months Ended December 27, 2008
(in Millions)

	<u>Issuers</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Net sales	\$ —	\$ 1,154.4	\$ 358.9	\$ (63.5)	\$ 1,449.8
Cost of sales	—	784.7	264.1	(63.5)	985.3
Gross profit	—	369.7	94.8	—	464.5
Selling, general and administrative expenses	—	189.0	55.2	—	244.2
Intangible impairment charges	—	396.9	5.6	—	402.5
Restructuring and other similar charges	—	3.4	0.2	—	3.6
Amortization of intangible assets	—	36.7	0.2	—	36.9
Income from operations	—	(256.3)	33.6	—	(222.7)
Nonoperating income (expense):					
Interest expense, net:					
To third parties	(136.1)	1.4	(0.6)	—	(135.3)
To affiliates	85.3	(76.2)	(9.1)	—	—
Other income (expense), net	228.0	(12.5)	(8.2)	—	2.1
Income (loss) before income taxes	(28.0)	(343.6)	15.7	—	(355.9)
(Benefit) provision for income taxes	(1.3)	25.5	6.4	—	30.6
Income (loss) before equity in earnings (loss) of subsidiaries	(26.7)	(369.1)	9.3	—	(386.5)
Equity in earnings (loss) of subsidiaries	(359.8)	9.3	—	350.5	—
Net income (loss)	<u>\$ (386.5)</u>	<u>\$ (359.8)</u>	<u>\$ 9.3</u>	<u>\$ 350.5</u>	<u>\$ (386.5)</u>

Condensed Consolidating Statement of Cash Flows
Nine Months Ended December 26, 2009
(in Millions)

	<u>Issuers</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Operating activities					
Net income (loss)	\$ (16.7)	\$ 7.6	\$ (7.0)	\$ (0.6)	\$ (16.7)
Noncash adjustments	1.6	83.7	(2.5)	0.6	83.4
Changes in operating assets and liabilities, including intercompany activity	<u>133.6</u>	<u>(81.4)</u>	<u>21.7</u>	<u>—</u>	<u>73.9</u>
Cash provided by operating activities	118.5	9.9	12.2	—	140.6
Investing activities					
Expenditures for property, plant and equipment	—	(10.8)	(2.8)	—	(13.6)
Proceeds from cash surrender value of life insurance policy termination	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Cash used for investing activities	—	(10.8)	(2.8)	—	(13.6)
Financing activities					
Repayments of short-term debt	—	—	(1.1)	—	(1.1)
Repayments of long-term debt	(83.6)	(30.0)	(1.5)	—	(115.1)
Dividend payment to parent company	(30.0)	—	—	—	(30.0)
Payment of financing fees	(4.9)	—	—	—	(4.9)
Cash used for financing activities	<u>(118.5)</u>	<u>(30.0)</u>	<u>(2.6)</u>	<u>—</u>	<u>(151.1)</u>
Effect of exchange rate changes on cash	—	—	4.8	—	4.8
Increase (decrease) in cash	—	(30.9)	11.6	—	(19.3)
Cash at beginning of period	—	232.5	45.0	—	277.5
Cash at end of period	<u>\$ —</u>	<u>\$ 201.6</u>	<u>\$ 56.6</u>	<u>\$ —</u>	<u>\$ 258.2</u>

Condensed Consolidating Statement of Cash Flows
Nine Months Ended December 27, 2008
(in Millions)

	<u>Issuers</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Operating activities					
Net income (loss)	\$(386.5)	\$ (359.8)	\$ 9.3	\$ 350.5	\$ (386.5)
Noncash adjustments	366.7	465.5	14.4	(350.5)	496.1
Changes in operating assets and liabilities, including intercompany activity	<u>(1.7)</u>	<u>15.3</u>	<u>(13.2)</u>	<u>—</u>	<u>0.4</u>
Cash provided by (used for) operating activities	(21.5)	121.0	10.5	—	110.0
Investing activities					
Expenditures for property, plant and equipment	—	(23.8)	(6.1)	—	(29.9)
Proceeds from cash surrender value of life insurance policy termination	<u>—</u>	<u>0.9</u>	<u>—</u>	<u>—</u>	<u>0.9</u>
Cash used for investing activities	—	(22.9)	(6.1)	—	(29.0)
Financing activities					
Repayments of long-term debt	(1.0)	0.1	(0.3)	—	(1.4)
Proceeds from borrowing on revolving credit facility	47.5	—	—	—	47.5
Dividend payment to parent company	<u>(25.0)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(25.0)</u>
Cash provided by (used for) financing activities	21.5	(0.1)	(0.3)	—	21.1
Effect of exchange rate changes on cash	<u>—</u>	<u>—</u>	<u>(4.5)</u>	<u>—</u>	<u>(4.5)</u>
Increase (decrease) in cash	—	98.0	(0.4)	—	97.6
Cash at beginning of period	<u>—</u>	<u>100.3</u>	<u>41.7</u>	<u>—</u>	<u>141.9</u>
Cash at end of period	<u>\$ —</u>	<u>\$ 198.2</u>	<u>\$ 41.3</u>	<u>\$ —</u>	<u>\$ 239.5</u>

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Critical Accounting Policies and Estimates

The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States which require us to make estimates and assumptions that affect the reported amounts of assets and liabilities on the date of the financial statements and revenues and expenses during the periods reported. Actual results could differ from those estimates. Refer to Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), of the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2009 for information with respect to the Company's critical accounting policies, which the Company believes could have the most significant effect on the Company's reported results and require subjective or complex judgments by management. Except for the items reported below, management believes that as of December 26, 2009 and during the period from April 1, 2009 through December 26, 2009, there has been no material change to this information.

Update on Goodwill and Other Intangible Assets

During the third quarter ended December 26, 2009, we completed the testing of our indefinite lived intangible assets (tradenames) and goodwill for impairment in accordance with ASC 350, *Intangibles – Goodwill and Other*. Pursuant to the guidance, an impairment loss is recognized if the estimated fair value of the intangible asset or reporting unit is less than its carrying amount. The fair value of our indefinite lived intangible assets and reporting units were primarily estimated using an income valuation model (discounted cash flow), which indicated that the fair value of our indefinite lived intangible assets and reporting units exceeded their carrying value, therefore, no impairment was present. The estimated fair value of our reporting units was dependent on several significant assumptions, including our weighted average cost of capital (discount rate) and future earnings and cash flow projections.

Recently Adopted and Issued Accounting Guidance

Adopted

In June 2009, the Financial Accounting Standards Board ("FASB") issued the *FASB Accounting Standards Codification* (the "Codification" or "ASC"), the authoritative guidance for U.S. generally accepted accounting principles ("GAAP"). The Codification, which changes the referencing of financial standards, became effective for interim and annual periods ending on or after September 15, 2009. The Codification is now the single official source of authoritative U.S. GAAP (other than guidance issued by the SEC), superseding existing FASB, American Institute of Certified Public Accountants, and related literature. Only one level of authoritative U.S. GAAP now exists. All other literature is considered non-authoritative. The Codification does not change U.S. GAAP. The Company adopted the Codification during the quarter ended September 26, 2009. The adoption of the Codification did not have any substantive impact on our condensed consolidated financial statements or related footnotes.

On April 1, 2009, we adopted the guidance included in ASC 820, *Fair Value Measurements and Disclosures* ("ASC 820") related to the measurement of fair value used when evaluating nonfinancial assets and liabilities. See additional disclosures related to the adoption of the standard within Note 11 to the condensed consolidated financial statements.

On April 1, 2009, we adopted the guidance included in ASC 805, *Business Combinations* ("ASC 805"), which significantly changed the accounting for and reporting of business combination transactions. The objective of this guidance is to improve the information provided in financial reports about a business combination and its effects. ASC 805 states that all business combinations (whether full, partial or step acquisitions) must apply the "acquisition method." In applying the acquisition method, the acquirer must determine the fair value of the acquired business as of the acquisition date and recognize the fair value of the acquired assets and liabilities assumed. As a result, it requires that certain forms of contingent consideration and certain acquired contingencies be recorded at fair value at the acquisition date. ASC 805 also requires that acquisition costs generally be expensed as incurred and restructuring costs be expensed in periods after the acquisition date. The impact of the adoption of ASC 805 on our financial statements will largely be dependent on the size and nature of the business combinations completed subsequent to adoption. Currently, we have not made any business acquisitions subsequent to the adoption of this standard. We estimate that approximately \$64.0 million and \$23.1 million of recorded valuation allowance and unrecognized tax benefits, respectively, which are associated with prior acquisitions, if recognized in future periods, would impact income tax expense instead of goodwill.

On April 1, 2009 we adopted the guidance included in ASC 855, *Subsequent Events* (“ASC 855”), which requires companies, if applicable, to disclose any subsequent events either as recognized subsequent events or non-recognized subsequent events. ASC 855 also modified the definition of subsequent events to refer to events or transactions that occur after the balance sheet date, but before the financial statements are issued and requires entities to disclose the date through which an entity has evaluated subsequent events and the basis for that date.

Issued

In December 2008, the FASB issued guidance included in ASC 715, *Compensation – Retirement Benefits* (“ASC 715”) which requires additional disclosures regarding assets held in an employer’s defined benefit pension or other postretirement plan. This standard requires disclosure of the fair value of each major plan asset category, disclosure of the level within the fair value hierarchy in which each major category of plan assets falls using the guidance in ASC 820 and a reconciliation of beginning and ending balances of plan asset fair values that are derived using significant unobservable inputs. The guidance is effective for fiscal years ending after December 15, 2009. We are currently reviewing the requirements of ASC 715 to determine the impact on our financial statement disclosures.

Fiscal Year

Our fiscal year ends on March 31. Throughout this MD&A, we refer to the period from September 27, 2009 through December 26, 2009 as the “third quarter of fiscal 2010” or the “third quarter ended December 26, 2009.” Similarly, we refer to the period from September 27, 2008 through December 27, 2008 as the “third quarter of fiscal 2009” or the “third quarter ended December 27, 2008.” We refer to the period from April 1, 2009 through December 26, 2009 as the “first nine months of fiscal 2010” or the “nine months ended December 26, 2009.” Similarly, we refer to the period from April 1, 2008 through December 27, 2008 as the “first nine months of fiscal 2009” or the “nine months ended December 27, 2008.”

Results of Operations

General

We are a leading, global, multi-platform industrial company strategically positioned within the markets and industries we serve. Our business is comprised of two strategic platforms: (i) Power Transmission, which produces gears, couplings, industrial bearings, flattop chain and modular conveyer belts, aerospace bearings and seals, special components and industrial chain and conveying equipment, and (ii) Water Management, which produces professional grade specification plumbing, PEX piping, commercial brass and water and wastewater treatment and control products. Our strategy is to build the Company around multi-billion dollar, global strategic platforms that participate in end markets with above average growth characteristics where we are, or have the opportunity to become, the industry leader. We have successfully completed and integrated several acquisitions and expect to continue to pursue strategic acquisitions within our existing platforms that will expand our geographic presence, broaden our product lines and allow us to move into adjacent markets. Over time, we anticipate adding additional strategic platforms to our Company. We believe that we have one of the broadest portfolios of highly engineered, mission and project critical Power Transmission products in the industrial and aerospace end markets. Our Power Transmission products are used in the plants and equipment of companies in diverse end market industries, including aerospace, aggregates and cement, air handling, construction, chemicals, energy, beverage and container, forest and wood products, mining, material and package handling, marine, natural resource extraction and petrochemical. Our Water Management platform is a leader in the multi-billion dollar, specification driven, non-residential construction market for water management products, and with recent acquisitions, we have gained entry into the municipal water and wastewater treatment markets. Our Power Transmission products are either incorporated into products sold by OEMs or sold to end users through industrial distributors as aftermarket products. We have a significant installed base of Power Transmission products comprised primarily of components that are consumed or worn out in use and that have a predictable replacement cycle. The demand for our Water Management products is primarily driven by new infrastructure, commercial and, to a lesser extent, residential construction. Categories of the infrastructure end market include: municipal water and wastewater, transportation, government, health care and education. Categories of the commercial construction end market include: lodging, retail, dining, sports arenas, and warehouse/office. We believe we have become a market leader in the industry by meeting the stringent third party regulatory, building and plumbing code requirements and subsequently achieving specification of our products into projects and applications. The majority of these stringent testing and regulatory approval processes are completed through the University of Southern California, the International Association of Plumbing and Mechanical Codes, the National Sanitation Foundation or the American Water Works Association, prior to the commercialization of our products.

Although our results of operations are dependent on general economic conditions, we believe our significant installed base generates aftermarket sales that may partially mitigate the impact of economic downturns on our results of operations.

The following information should be read in conjunction with the consolidated financial statements and notes thereto, along with Item 7 “MD&A” within our Annual Report on Form 10-K for the fiscal year ended March 31, 2009.

Restructuring and Other Similar Costs

We continued to execute certain restructuring actions during the three and nine months ended December 26, 2009 to reduce operating costs and improve profitability. The restructuring charges taken during the three and nine months ended December 26, 2009 consisted of \$1.1 million and \$4.3 million, respectively, of severance costs related to workforce reductions of approximately 550 employees, or a 9.1% reduction from our March 31, 2009 employee base.

Recovery Under Continued Dumping and Subsidy Offset Act (“CDSOA”)

As a producer of ball bearing products in the United States, we participated in the distribution of monies collected by Customs and Border Protection (“CBP”) from anti-dumping cases under the CDSOA. As a result of providing relevant information to CBP regarding historical manufacturing, personnel and development costs for previous calendar years, we received, in the third quarter and nine months ended December 26, 2009, \$0.8 million representing our pro rata share of the total CDSOA distribution. Similarly, a recovery of \$1.8 million was recorded during the third quarter and nine months ended December 27, 2008 related to the submission of previous calendar year data to CBP. These recoveries are included in other income (expense), net on the consolidated statement of operations.

In February 2006, U.S. legislation was enacted that ends CDSOA distributions to U.S. manufacturers for imports covered by anti-dumping duty orders entering the U.S. after September 30, 2007. Because monies were collected by CBP until September 30, 2007 and for prior year entries, we have continued to receive some additional distributions; however, because of the pending cases, the 2006 legislation and the administrative operation of the law, we cannot reasonably estimate the amount of CDSOA payments, if any, that we may receive in future years.

Consolidated Overview

Net sales for the third quarter of fiscal 2010 were \$365.7 million, a decrease of \$77.4 million, or 17.5%, compared to the third quarter of fiscal 2009, while net sales for the first nine months of fiscal 2010 were \$1,103.3 million, a decrease of \$346.5 million, or 23.9%, compared to the first nine months of fiscal 2009. The majority of our year-over-year net sales decline in both periods is attributable to the impact the economic downturn has had on our end-markets.

Our backlog as of December 26, 2009 has increased approximately \$3.0 million to \$376.0 million from September 26, 2009 but has declined approximately \$80.0 million from March 31, 2009. The reduction in backlog from March 31, 2009 was primarily the result of the weak macro-economic environment currently affecting a broad section of the end-markets in both our Power Transmission and Water Management platforms.

Income from operations for the third quarter of fiscal 2010 was \$37.1 million, an increase of \$392.4 million compared to the third quarter of fiscal 2009, while income from operations for the first nine months of fiscal 2010 was \$99.3 million, an increase of \$322.0 million compared to the first nine months of fiscal 2009. The comparability of our year-over-year results has been significantly impacted by the impairment charge taken on our goodwill and other identifiable assets during the third quarter of fiscal 2009, as well as the year-over-year change in pension and restructuring expenses. Excluding the impact of impairment charges,

pension expense and restructuring expenses, income from operations would have decreased by \$5.2 million or 11.0% in the third quarter of fiscal 2010 and by \$55.7 million or 31.8% in the first nine months of fiscal 2010 versus the comparable prior year period.

Third Quarter Ended December 26, 2009 Compared with the Third Quarter Ended December 27, 2008:

Net sales

(Dollars in Millions)

	Quarter Ended		Change	% Change
	December 26, 2009	December 27, 2008		
Power Transmission	\$ 246.4	\$ 315.6	\$(69.2)	-21.9%
Water Management	119.3	127.5	(8.2)	-6.4%
Consolidated	<u>\$ 365.7</u>	<u>\$ 443.1</u>	<u>\$(77.4)</u>	<u>-17.5%</u>

Power Transmission

Power Transmission net sales in the third quarter of fiscal 2010 were \$246.4 million, a decrease of \$69.2 million, or 21.9%, from \$315.6 million in the third quarter of fiscal 2009. Excluding foreign currency fluctuations, year-over-year core net sales decreased by \$81.4 million, or 25.8%, which is attributable to the impact the economic downturn has had on our end-markets.

Water Management

Water Management net sales in the third quarter of fiscal 2010 were \$119.3 million, a decrease of \$8.2 million, or 6.4%, from \$127.5 million in the third quarter of fiscal 2009. Excluding foreign currency fluctuations, year-over-year core net sales decreased by \$9.0 million, or 7.1%, versus the prior year third quarter, which is attributable to continued softness within our commercial and residential construction end-markets as well as certain segments of our infrastructure end-markets, a trend which we expect to continue for the next several quarters. These declines were partially offset by an increase in year-over-year net sales in our water and wastewater treatment markets.

Income from Operations

(Dollars in Millions)

	Quarter Ended		Change	% Change
	December 26, 2009	December 27, 2008		
Power Transmission	\$ 27.7	\$ (95.3)	\$ 123.0	129.1%
<i>% of net sales</i>	<i>11.2 %</i>	<i>-30.2 %</i>	<i>41.4 %</i>	
Water Management	16.6	(257.3)	273.9	106.5%
<i>% of net sales</i>	<i>13.9 %</i>	<i>-201.8 %</i>	<i>215.7 %</i>	
Corporate	(7.2)	(2.7)	(4.5)	-166.7%
Consolidated	<u>\$ 37.1</u>	<u>\$ (355.3)</u>	<u>\$ 392.4</u>	<u>110.4%</u>
<i>% of net sales</i>	<i>10.1 %</i>	<i>-80.2 %</i>	<i>90.3 %</i>	

Power Transmission

Power Transmission income from operations for the third quarter of fiscal 2010 was \$27.7 million compared to a loss from operations of \$95.3 million in the third quarter of 2009. The comparability of our year-over-year results has been significantly impacted by the \$132.9 million impairment charge taken on our goodwill and other identifiable intangible assets during the third quarter of fiscal 2009. Comparability between periods has also been impacted by a change in our pension expense resulting primarily from the losses incurred on plan assets associated with our U.S. defined benefit pension plans during fiscal 2009. During the third quarter of fiscal 2010, we incurred \$2.5 million of pension expense (compared to pension expense of \$0.4 million in the third quarter of fiscal 2009). In addition, income from operations in the third quarter of fiscal 2010 includes \$1.1 million of restructuring expenses

(compared to restructuring expense of \$3.1 million in the third quarter of fiscal 2009). Excluding the impact of impairment charges, pension expense and restructuring expenses, income from operations would have decreased \$9.8 million, or 23.8%, and income from operations as a percent of net sales would have contracted by 30 basis points to 12.7% of net sales as cost reduction actions, lower material prices and productivity gains partially offset the unfavorable impact of lower sales.

Water Management

Water Management income from operations for the third quarter of fiscal 2010 was \$16.6 million compared to a loss from operations of \$257.3 million in the third quarter of 2009. The comparability of our year-over-year results has been significantly impacted by the \$269.6 million impairment charge taken on our goodwill and other identifiable intangible assets during the third quarter of fiscal 2009. Excluding the effect of impairment charges, income from operations would have increased \$4.3 million or 35% and income from operations as a percent of net sales would have expanded by 420 basis points to 13.9% of net sales as cost reduction actions, lower material prices and productivity gains more than offset the unfavorable impact of lower sales.

Corporate

Corporate expenses increased by \$4.5 million from \$2.7 million in the third quarter of fiscal 2009 to \$7.2 million in the third quarter of fiscal 2010. This increase is primarily attributable to a \$5.3 million dollar increase in pension expense, partially offset by lower professional services year-over-year.

Interest expense, net

Interest expense, net was \$45.3 million in the third quarter of fiscal 2010 compared to \$46.1 million in the third quarter of fiscal 2009. The decrease in interest expense is primarily due to lower relative variable rate borrowing costs year-over-year, partially offset by the incremental interest on a \$104.7 million net increase in the carrying value of our long term debt as a result of the completion of our debt exchange offer on April 29, 2009.

Other income (expense), net

Other income (expense), net for the quarter ended December 26, 2009, consists of management fee expense of \$0.8 million, loss on the sale of fixed assets of \$0.4 million, foreign currency translation losses of \$6.9 million, a CDSOA recovery of \$0.8 million and other miscellaneous expenses of \$1.1 million. Other income (expense), net for the quarter ended December 27, 2008, consists of management fee expense of \$0.8 million, gain on the sale of fixed assets of \$0.2 million, foreign currency transaction gains of \$2.0 million, a CDSOA recovery of \$1.8 million and other miscellaneous income of \$0.1 million.

(Benefit) provision for income taxes

The income tax benefit recorded in the third quarter of fiscal 2010 was \$(19.4) million compared to an income tax provision of \$11.8 million in the third quarter of fiscal 2009. Our effective income tax rate for the third quarter of fiscal 2010 was 116.9% versus (3.0)% in the third quarter of fiscal 2009. The extremely high effective income tax rate for the third quarter of fiscal 2010 is mainly due to the income tax benefit recognized as a result of a decrease in the liability for unrecognized tax benefits recorded during this period associated with the conclusion of the IRS examination and certain benefits provided under a new Brazilian tax settlement program. The income tax expense, associated with the loss before income taxes, for the third quarter of fiscal 2009 is primarily due to the effect of approximately \$304.8 million of non-deductible expenses recorded, as well as a \$45.7 million increase in the valuation allowance; both items relate to the impairment charge recorded during this prior period as a result of overall economic conditions. The significant increase in the valuation allowance in this prior period is the result of U.S. federal NOL carryforwards, certain state NOL carryforwards and foreign tax credit carryforwards which were generated and recognized in periods prior to the third quarter of fiscal 2009 but, as of the third quarter of fiscal 2009, had more uncertainty as to the ultimate realization of the associated tax benefits due to the deterioration of the existing economic environment.

Net income (loss)

Our net income for the third quarter of fiscal 2010 was \$2.8 million compared to a net loss of \$409.9 million in the third quarter of fiscal 2009 due to the factors described above.

Nine Months Ended December 26, 2009 Compared with the Nine Months Ended December 27, 2008:

Net sales

(Dollars in Millions)

	Nine Months Ended		Change	% Change
	December 26, 2009	December 27, 2008		
Power Transmission	\$ 719.2	\$ 1,009.8	\$(290.6)	-28.8%
Water Management	384.1	440.0	(55.9)	-12.7%
Consolidated	<u>\$ 1,103.3</u>	<u>\$ 1,449.8</u>	<u>\$(346.5)</u>	<u>-23.9%</u>

Power Transmission

Power Transmission net sales in the first nine months of fiscal 2010 were \$719.2 million, a decrease of \$290.6 million, or 28.8%, from \$1,009.8 million in the first nine months of fiscal 2009. Excluding foreign currency fluctuations, year-over-year core net sales decreased by \$280.1 million, or 27.7%, which is attributable to the impact the economic downturn has had on our end-markets.

Water Management

Water Management net sales in the first nine months of fiscal 2010 were \$384.1 million, a decrease of \$55.9 million, or 12.7%, from \$440.0 million in the first nine months of fiscal 2009. Excluding foreign currency fluctuations, year-over-year core net sales decreased by \$52.4 million or 11.9% versus the prior year nine months which is attributable to softness within our commercial and residential construction end-markets as well as certain segments of our infrastructure end-markets, a trend which we expect to continue for the next several quarters. These declines were partially offset by an increase in year-over-year net sales in our water and wastewater treatment markets.

Income (loss) from operations

(Dollars in Millions)

	Nine Months Ended		Change	% Change
	December 26, 2009	December 27, 2008		
Power Transmission	\$ 66.3	\$ (1.0)	\$ 67.3	6730.0%
% of net sales	9.2 %	-0.1 %	9.3 %	
Water Management	58.2	(212.0)	270.2	127.5%
% of net sales	15.2 %	-48.2 %	63.4 %	
Corporate	(25.2)	(9.7)	(15.5)	-159.8%
Consolidated	<u>\$ 99.3</u>	<u>\$ (222.7)</u>	<u>\$322.0</u>	<u>144.6%</u>
% of net sales	9.0 %	-15.4 %	24.4 %	

Power Transmission

Power Transmission income from operations for the first nine months of fiscal 2010 was \$66.3 million compared to a loss from operations of \$1.0 million in the first nine months of fiscal 2009. The comparability of our year-over-year results has been significantly impacted by the \$132.9 million impairment charge taken on our goodwill and other identifiable intangible assets during the first nine months of fiscal 2009. Comparability between periods has also been impacted by a change in our pension expense resulting primarily from the losses incurred on plan assets associated with our U.S. defined benefit pension plans during fiscal 2009. During the first nine months of fiscal 2010, we incurred \$8.7 million of pension expense (compared to pension expense of \$2.3 million in the first nine months of fiscal 2009). In addition, income from operations in the first nine months of fiscal 2010 includes \$3.8 million of restructuring expenses (compared to restructuring expense of \$3.1 million during the first nine months of fiscal 2009). Excluding the impact of the impairment charge, pension expense and restructuring expenses, income from operations would have decreased \$58.5 million, or 42.6%, and income from operations as a percent of net sales would have declined by 260 basis points to 11.0% of net sales in the first nine months of fiscal 2010 versus the comparable prior year period. The remaining decline in income from operations as a percent of net sales was primarily driven by unfavorable impact of lower year-over-year net sales, partially offset by productivity gains, cost reduction initiatives and lower material prices.

Water Management

Water Management income from operations for the first nine months of fiscal 2010 was \$58.2 million compared to a loss from operations of \$212.0 million in the first nine months of fiscal 2009. The comparability of our year-over-year results has been significantly impacted by the \$269.6 million impairment charge taken on our goodwill and other identifiable intangible assets during the first nine months of fiscal 2009. Excluding the impact of impairment charges, income from operations would have increased \$0.6 million, or 1.0%, and income from operations as a percent of net sales would have expanded by 210 basis points to 15.2% of sales in the first nine months of fiscal 2010 versus the comparable prior year period as cost reduction actions, lower material prices and productivity gains more than offset the unfavorable impact of lower sales.

Corporate

Corporate expenses increased by \$15.5 million from \$9.7 million in the first nine months of fiscal 2009 to \$25.2 million in the first nine months of fiscal 2010. This increase is primarily attributable to a \$17.7 million dollar increase in pension expense, partially offset by lower professional services year-over-year.

Interest expense, net

Interest expense, net was \$136.4 million in the first nine months of fiscal 2010 compared to \$135.3 million in the first nine months of fiscal 2009. The increase in interest expense is primarily the result of the incremental interest on a \$104.7 million net increase in the carrying value of our long term debt in the first nine months due to the completion of our debt exchange offer on April 29, 2009, which is partially offset by lower relative variable rate borrowing costs year-over-year.

Other income (expense), net

Other income (expense), net for the nine months ended December 26, 2009, consists of management fee expense of \$2.3 million, transaction costs associated with the debt exchange offer of \$6.0 million, foreign currency translation gains of \$7.9 million, loss on the sale of fixed assets of \$0.6 million, income in unconsolidated affiliates of \$0.3 million, CDSOA recovery of \$0.8 million and other miscellaneous expenses of \$1.4 million. Other income (expense), net for the nine months ended December 27, 2008, consists of management fee expense of \$2.3 million, foreign currency translation gains of \$2.6 million, a loss in unconsolidated affiliates of \$0.1 million, CDSOA recovery of \$1.8 million and other miscellaneous income of \$0.1 million.

(Benefit) provision for income taxes

The income tax benefit recorded in the first nine months of fiscal 2010 was \$(21.7) million compared to an income tax provision of \$30.6 million in the first nine months of fiscal 2009. Our effective income tax rate for the first nine months of fiscal 2010 was 56.5% versus (8.6)% in the first nine months of fiscal 2009. The effective tax rate for the first nine months of fiscal 2010 includes an income tax benefit recognized as a result of a decrease of the liability for unrecognized tax benefits associated with the conclusion of the IRS examination and certain benefits provided under a new Brazilian tax settlement program, partially offset by the accrual of state income taxes and an increase in the valuation allowance for foreign tax credits generated during this period for which realization of such benefits is not deemed more-likely-than-not. The income tax expense, associated with the loss before income taxes, for the first nine months of fiscal 2009, is mainly due to the effect of approximately \$304.8 million of non-deductible expenses recorded, as well as a \$45.7 million increase in the valuation allowance; both items relate to the impairment charge recorded in the third quarter of fiscal 2009 as a result of overall economic conditions. The significant increase in the valuation allowance in this prior period is the result of U.S. federal NOL carryforwards, certain state NOL carryforwards and foreign tax credit carryforwards which were generated and recognized in periods prior to the third quarter of fiscal 2009 but, as of the third quarter of fiscal 2009, had more uncertainty as to the ultimate realization of the associated tax benefits due to the deterioration of the existing economic environment.

Net income (loss)

Our net loss for the first nine months of fiscal 2010 was \$16.7 million compared to a net loss of \$386.5 million in the first nine months of fiscal 2009 due to the factors described above.

Liquidity and Capital Resources

Our primary source of liquidity is available cash and cash equivalents, cash flow from operations and borrowing availability under our \$150.0 million revolving credit facility and our \$100.0 million accounts receivable securitization program.

As of December 26, 2009, we had \$258.2 million of cash and cash equivalents and approximately \$194.3 million of additional borrowings available to us (\$119.1 million of available borrowings under our revolving credit facility and \$75.2 million available under our accounts receivable securitization program). Both our revolving credit facility and accounts receivable securitization program are available to fund our working capital requirements, capital expenditures and for other general corporate purposes. As of December 26, 2009, the available borrowings under our credit facility have been reduced by \$30.9 million due to outstanding letters of credit. As of December 26, 2009 the available borrowings under our accounts receivable securitization program have been reduced by \$24.8 million due to borrowing base limitations.

Cash Flows

Net cash provided by operating activities in the first nine months of fiscal 2010 was \$140.6 million compared to \$110.0 million in the first nine months of fiscal 2009. Fiscal 2010 cash provided by operating activities includes an incremental \$6.0 million of transaction costs associated with our debt exchange offer and \$14.4 million of restructuring payments. Excluding the incremental transaction and restructuring payments, cash flow from operations improved by \$51.0 million. Decreases in trade working capital (accounts receivable, inventories and accounts payable) contributed a \$94.3 million source of cash year-over-year, primarily due to the reduction in inventory. The remaining decline in operating cash flow is due to the volume impact on \$346.5 million of lower net sales, partially offset by the cash savings generated from our restructuring initiatives year-over-year.

Cash used for investing activities was \$13.6 million in the first nine months of fiscal 2010 compared to \$29.0 million in the first nine months of fiscal 2009. The year-over-year decrease in cash used for investing activities is primarily due to lower capital expenditures as we aligned our capital expenditures with current sales volume.

Cash used for financing activities was \$151.1 million in the first nine months of fiscal 2010 compared to a source of \$21.1 million in the first nine months of fiscal 2009. The cash used for financing activities in the first nine months of fiscal 2010 consisted of: financing fee payments of \$4.9 million associated with our debt exchange offer, a \$30 million dividend payment made to our indirect parent, Rexnord Holdings, Inc. ("Rexnord Holdings") (to retire a portion of its outstanding PIK Toggle Senior Indebtedness due 2013), \$115.1 million of long-term debt repayments (comprised of \$82.7 million on our revolving credit facility, \$30 million on our accounts receivable facility, \$1.0 million of mandatory repayments on our term loans and \$1.4 million on all other debt) and repayments of \$1.1 million on miscellaneous short-term debt during the nine months ended December 26, 2009. Cash provided by financing activities of \$21.1 million in the first nine months of fiscal 2009 consisted of: \$47.5 million borrowing under our revolving credit facility offset by a \$25 million dividend payment made to our indirect parent, Rexnord Holdings (to retire a portion of its outstanding PIK Toggle Senior Indebtedness due 2013), \$1.0 million of debt repayments on our term loans and \$0.4 million in repayments on other debt.

Indebtedness

As of December 26, 2009 we had \$2,130.9 million of total indebtedness outstanding as follows (in millions):

	Total Debt at December 26, 2009	Short-term Debt and Current Maturities of Long-Term Debt	Long-term Portion
Term loans	\$ 764.5	\$ 2.0	\$ 762.5
Borrowings under revolving credit facility	—	—	—
Borrowings under AR securitization facility	—	—	—
9.50% Senior notes due 2014 (1)	978.8	—	978.8
8.875% Senior notes due 2016	79.0	—	79.0
11.75% Senior subordinated notes due 2016	300.0	—	300.0
10.125% Senior subordinated notes due 2012	0.3	—	0.3
Other	8.3	4.7	3.6
Total Debt	\$ 2,130.9	\$ 6.7	\$2,124.2

(1) Includes a net unamortized bond issue discount of \$12.5 million.

We have borrowed under certain secured credit facilities with a syndicate of banks and other financial institutions consisting of: (i) a \$810.0 million term loan facility with a maturity date of July 19, 2013 and (ii) a \$150.0 million revolving credit facility with a maturity date of July 20, 2012 and borrowing capacity available for letters of credit and for borrowing on same-day notice, referred to as swingline loans.

As of December 26, 2009, our outstanding borrowings under the term loan facility were apportioned between two primary tranches: a \$570.0 million term loan B1 facility and a \$194.5 million term loan B2 facility. Borrowings under the term loan B1 facility accrue interest, at our option, at the following rates per annum: (i) 2.50% plus LIBOR, or (ii) 1.50% plus the Base Rate (which is defined as the higher of the Federal funds rate plus 0.5% or the Prime rate). Borrowings under the B2 facility accrue interest, at our option, at the following rates per annum: (i) 2.25% plus LIBOR or (ii) 1.00% plus the Base Rate (which is defined as the higher of the Federal funds rate plus 0.5% or the Prime rate). The weighted average interest rate on the outstanding term loans at December 26, 2009 was 3.64%.

Borrowings under our \$150.0 million revolving credit facility accrue interest, at our option, at the following rates per annum: (i) 1.75% plus LIBOR, or (ii) 0.75% plus the Base Rate (which is defined as the higher of the Federal funds rate plus 0.5% or the Prime rate). All amounts outstanding under the revolving credit facility will be due and payable in full, and the commitments thereunder will terminate, on July 20, 2012. On September 15, 2008 Lehman Brothers Holdings, Inc. and certain of its subsidiaries (“Lehman”), who had a 5% or \$7.5 million credit commitment under our \$150.0 million credit facility, filed for bankruptcy. Therefore, the availability under our \$150.0 million revolving credit facility had been effectively temporarily reduced by \$7.5 million until such time as a replacement lender could be found to cover this credit commitment. On November 3, 2009 Barclays Bank, PLC assumed the \$7.5 million commitment under the revolving credit line that was previously unfulfilled due to the Lehman bankruptcy. In addition, \$30.9 million and \$30.3 million of the revolving credit facility was considered utilized in connection with outstanding letters of credit at December 26, 2009 and March 31, 2009, respectively. Outstanding borrowings under the revolving credit facility were \$82.7 million as of March 31, 2009.

On October 5, 2009, we entered into an Amended and Restated Credit Agreement (the “Amended and Restated Credit Agreement”) amending and restating our credit agreement dated as of July 21, 2006, to, among other things: (i) allow for one or more future issuances of secured notes, which may include, in each case, indebtedness secured on a pari passu basis with the obligations under the Amended and Restated Credit Agreement, so long as, in each case, among other things, an agreed amount of the net cash proceeds from any such issuance are used to prepay term loans under the Amended and Restated Credit Agreement at par; (ii) subject to the requirement to make such offers on a pro rata basis to all lenders, allow us to agree with individual lenders to extend the maturity of their term loans or revolving commitments, and for us to pay increased interest rates or otherwise modify the

terms of their loans or revolving commitments in connection with such an extension; and (iii) allow for one or more future issuances of additional secured notes, which may include, in each case, indebtedness secured on a pari passu basis with the obligations under the Amended and Restated Credit Agreement, in an amount not to exceed the amount of incremental facility availability under the Amended and Restated Credit Agreement.

In addition to paying interest on outstanding principal under the senior secured credit facilities, we are required to pay a commitment fee to the lenders under the revolving credit facility in respect to the unutilized commitments thereunder at a rate equal to 0.50% per annum (subject to reduction upon attainment and maintenance of a certain senior secured leverage ratio). We also must pay customary letter of credit and agency fees.

As of December 26, 2009, the remaining mandatory principal payments prior to maturity on both the term loan B1 and B2 facilities are \$1.2 million and \$7.5 million, respectively. We have fulfilled all mandatory principal payments prior to maturity on the B1 facility through March 31, 2013. Principal payments of \$0.5 million are scheduled to be made at the end of each calendar quarter until June 30, 2013 on the B2 facility. We may voluntarily repay outstanding loans under the senior secured credit facilities at any time without premium or penalty, other than customary “breakage” costs with respect to Eurocurrency loans.

The senior secured credit facilities contain a number of covenants that, among other things, restrict, subject to certain exceptions, our ability, and the ability of our subsidiaries, to: sell assets; incur additional indebtedness; repay other indebtedness; pay dividends and distributions, repurchase its capital stock, or make payments, redemptions or repurchases in respect of subordinated debt (including our 11.75% senior subordinated notes due 2016); create liens on assets; make investments, loans, guarantees or advances; make certain acquisitions; engage in certain mergers or consolidations; enter into sale-and-leaseback transactions; engage in certain transactions with affiliates; amend certain material agreements governing its indebtedness; make capital expenditures; enter into hedging agreements; amend its organizational documents; change the business conducted by it and its subsidiaries; and enter into agreements that restrict dividends from subsidiaries. Our senior secured credit facilities limit our maximum senior secured bank leverage ratio to 4.25 to 1.00. As of December 26, 2009, the senior secured bank leverage ratio was 1.86 to 1.00.

On April 29, 2009, the Company and our indirect parent, Rexnord Holdings finalized the results of a debt exchange offer to exchange (a) new 9.50% Senior Notes due 2014 (the “New Senior Notes”) for any and all of the Company’s 8.875% Senior Notes due 2016 (the “Old 2016 Notes”), (b) the New Senior Notes for any and all of Rexnord Holdings’ PIK Toggle Senior Notes due 2013 (the “Old Holdco Notes” and, together with the Old 2016 Notes, the “Old Notes”), and (c) the New Senior Notes for any and all of the senior unsecured term loans (the “Holdco Loans”) outstanding under the credit agreement, dated as of March 2, 2007, among Rexnord Holdings, Credit Suisse, as Administrative Agent, Banc of America Bridge LLC, as syndication agent, and the lenders from time to time party thereto.

Upon settlement of the exchange offer, (i) approximately \$71.0 million principal amount of Old 2016 Notes had been validly tendered and not withdrawn for exchange for New Senior Notes, (ii) approximately \$235.7 million principal amount of Old Holdco Notes had been validly tendered and not withdrawn for exchange for New Senior Notes, and (iii) approximately \$7.9 million principal amount of Holdco Loans had been validly surrendered and not withdrawn for exchange for New Senior Notes. Based on the principal amount of Old Notes and Holdco Loans validly tendered and accepted, approximately \$196.3 million of aggregate principal of New Senior Notes was issued in exchange for such Old Notes and Holdco Loans (excluding a net original issue discount of \$20.6 million). In addition, we also incurred \$11.1 million of transaction costs (\$0.2 million of these transaction costs were issued in the form of New Senior Notes) to complete the exchange offer, of which \$5.1 million was capitalized as deferred financing costs.

We accounted for the debt exchange transaction pursuant to ASC 470-50. Pursuant to this guidance, the exchange of the our Old 2016 Notes did not constitute a significant modification of debt (that is, the change in the present value of expected cash flows under the terms of the modified debt as compared to the present value of expected cash flows under the original debt was less than 10%). Therefore, the carrying value of the \$71.0 million in Old 2016 Notes tendered was carried-forward as the net carrying value of the New Senior Notes, inclusive of a \$5.5 million original issue premium. The premium is a result of the difference between the \$71.0 million carrying value of the Old 2016 notes and the \$65.5 million of corresponding face value of New Senior Notes issued with respect to this component of the exchange. This premium will be amortized as a reduction to interest expense (via the effective interest method) over the life of the New Senior Notes in conformity with the standard.

In connection with the \$235.7 million of Old Holdco Notes and \$7.9 million of Holdco Loans tendered in the exchange, we issued approximately \$130.6 million of face value of New Senior Notes, net of a \$26.1 million original issue discount. This resulted in a \$104.5 million non-cash deemed dividend (representing the fair value of corresponding New Senior Notes issued) to Rexnord Holdings.

After and including the exchange offer, we have issued a total of \$991.3 million in aggregate principal amount of 9.50% senior notes which bear interest at a rate of 9.50% per annum which will mature on August 1, 2014. This amount includes \$196.3 million of aggregate principal related to the aforementioned debt exchange. The terms of the New Senior Notes and our previously existing 9.50% Senior Notes are substantially similar with the exception of interest payment dates. Interest on the \$795.0 million of previously existing 9.50% Senior Notes is payable on February 1 and August 1, while interest on the \$196.3 million of New Senior Notes is payable on May 1 and November 1.

As of December 26, 2009, a total of \$79.0 million in aggregate principal amount of 8.875% senior notes due 2016 remained outstanding. These notes bear interest at a rate of 8.875% per annum, payable on each March 1 and September 1, and will mature on September 1, 2016.

We have issued \$300.0 million in aggregate principal amount of 11.75% senior subordinated notes due 2016. Those notes bear interest at a rate of 11.75% per annum, payable on each February 1 and August 1, and will mature on August 1, 2016.

The senior notes and senior subordinated notes are unsecured obligations of the Company. The senior subordinated notes are subordinated in right of payment to all existing and future senior indebtedness. The indentures governing the senior notes and senior subordinated notes permit us to incur all permitted indebtedness (as defined in the applicable indenture) without restriction, which includes amounts borrowed under the senior secured credit facilities. The indentures also allow us to incur additional debt as long as it can satisfy the coverage ratio specified in the indenture after giving effect thereto on a pro forma basis.

The indentures governing the senior notes and senior subordinated notes contain customary covenants, including among others, limiting dividends, investments, purchases or redemptions of stock, transactions with affiliates and mergers and sales of assets, and requiring us to make an offer to purchase notes upon the occurrence of a change in control, as defined in the indentures. These covenants are subject to a number of important qualifications. For example, the indentures do not impose any limitation on the incurrence by the Company of liabilities that are not considered "indebtedness" under the indentures, such as certain sale/leaseback transactions; nor do the indentures impose any limitation on the amount of liabilities incurred by our subsidiaries, if any, that might be designated as "unrestricted subsidiaries" (as defined in the applicable indenture).

The indentures governing the senior notes and the senior subordinated notes permit optional redemption of the notes on certain terms and at certain prices, as described below.

The indentures provide that, prior to August 1, 2011 (or in the case of the 9.50% senior notes due 2014, prior to August 1, 2010), the notes may be redeemed at our option in whole at any time or in part from time to time, upon not less than 30 and not more than 60 days' prior notice, at a redemption price equal to (i) 100% of the principal amount of the notes redeemed, plus (ii) a "make whole" premium as set forth in the applicable indenture, plus (iii) accrued and unpaid interest and additional interest, if any, to the applicable redemption date.

Further, on or after August 1, 2011 (or in the case of the 9.50% senior notes due 2014, on or after August 1, 2010), the indentures permit optional redemption of the notes, in whole or in part upon not less than 30 and not more than 60 days' prior notice, at the redemption prices stated in the indentures.

Notwithstanding the above, our ability to make payments on, redeem, repurchase or otherwise retire for value, prior to the scheduled repayment or maturity, the senior notes or senior subordinated notes may be restricted or prohibited under the above-referenced senior secured credit facilities and, in the case of the senior subordinated notes, by the provisions in the indentures governing the senior notes.

At December 26, 2009 and March 31, 2009, various wholly-owned subsidiaries had additional debt of \$8.3 million and \$9.8 million, respectively, comprised primarily of borrowings at various foreign subsidiaries and capital lease obligations.

Account Receivable Securitization Program

On September 26, 2007, three of our wholly-owned domestic subsidiaries entered into an accounts receivable securitization program (the “AR Securitization Program” or the “Program”) whereby they continuously sell substantially all of their domestic trade accounts receivable to Rexnord Funding LLC (a wholly-owned bankruptcy remote special purpose subsidiary) for cash and subordinated notes. Rexnord Funding LLC in turn may obtain revolving loans and letters of credit from General Electric Capital Corporation (“GECC”) pursuant to a five year revolving loan agreement. The maximum borrowing amount under the Receivables Financing and Administration Agreement is \$100 million, subject to certain borrowing base limitations related to the amount and type of receivables owned by Rexnord Funding LLC. All of the receivables purchased by Rexnord Funding LLC are pledged as collateral for revolving loans and letters of credit obtained from GECC under the loan agreement.

The AR Securitization Program does not qualify for sale accounting under ASC 860, and as such, any borrowings are accounted for as secured borrowings on the consolidated balance sheet. Financing costs associated with the Program are recorded within “Interest expense, net” in the consolidated statement of operations with respect to revolving loans or letters of credit obtained under the loan agreement.

Borrowings under the loan agreement bear interest at a rate equal to LIBOR plus 1.35%. Outstanding borrowings mature on September 26, 2012. In addition, a non-use fee of 0.30% is applied to the unutilized portion of the \$100.0 million commitment. These rates are per annum and the fees are paid to GECC on a daily basis.

At March 31, 2009, \$30.0 million was outstanding under the Program and was classified as long-term debt in the consolidated balance sheets. Due to the volatile credit markets, management did not intend to repay the outstanding balance under the Program within one year and accordingly classified the borrowings as long-term debt. At December 26, 2009 the Company’s available borrowing capacity under the AR Securitization Program was \$75.2 million. All of the receivables purchased by Rexnord Funding LLC are pledged as collateral for revolving loans and letters of credit obtained from GECC under the loan agreement. Additionally, the Program requires compliance with certain covenants and performance ratios contained in the Receivables Financing and Administration Agreement. As of December 26, 2009, Rexnord Funding LLC was in compliance with all applicable covenants and performance ratios.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk during the normal course of business from changes in foreign currency exchange rates and interest rates. The exposure to these risks is managed through a combination of normal operating and financing activities and derivative financial instruments in the form of foreign exchange forward contracts and interest rate collars and swaps to cover known foreign exchange transactions and interest rate volatility.

Foreign Currency Exchange Rate Risk

Our exposure to foreign currency exchange rates relates primarily to our foreign operations. For our foreign operations, exchange rates impact the United States Dollar (“USD” or “U.S. Dollar”) value of our reported earnings, our investments in the subsidiaries and the intercompany transactions with the subsidiaries. See “Risk Factors—Our international operations are subject to uncertainties, which could adversely affect our operating results”, in our Annual Report on Form 10-K for the fiscal year ended March 31, 2009.

Approximately 25% of our sales originate outside of the United States, with approximately 15% generated from our European operations that use the Euro as their functional currency. As a result, fluctuations in the value of foreign currencies against the U.S. Dollar, particularly the Euro, may have a material impact on our reported results. Revenues and expenses denominated in foreign currencies are translated into U.S. Dollars at the end of the fiscal period using the average exchange rates in effect during the period. Consequently, as the value of the U.S. Dollar changes relative to the currencies of our major markets, our reported results vary.

Fluctuations in currency exchange rates also impact the U.S. Dollar amount of our stockholders' equity. The assets and liabilities of our non-U.S. subsidiaries are translated into U.S. Dollars at the exchange rates in effect at the end of the fiscal periods. The U.S. Dollar has weakened during fiscal 2010 relative to many foreign currencies. As of December 26, 2009, stockholders' equity increased by \$3.8 million from March 31, 2009 as a result of foreign currency translation adjustments. If the U.S. Dollar had strengthened by 10% as of December 26, 2009, the result would have decreased stockholders' equity by an additional \$12.3 million.

As we continue to expand our business globally, our success will depend, in large part, on our ability to anticipate and effectively manage these and other risks associated with our international operations. However, any of these factors could adversely affect our international operations and, consequently, our operating results.

At December 26, 2009, we had outstanding forward foreign currency contracts that exchange Canadian dollars ("CAD") for USD as well as USD for CAD which were entered into to hedge firm and anticipated monthly cash flows through fiscal 2010. The forward contracts currently in place expire between January and June of calendar 2010 and have notional amounts of \$6.5 million CAD (\$5.9 million USD) and \$4.5 million USD (\$4.9 million CAD) and contract rates ranging from \$1CAD:\$0.9060 USD to \$1CAD:\$0.9421 USD. These contracts are not designated as effective cash flow hedges for ASC 815 accounting purposes and as such, the outstanding contracts are marked to market through earnings. We believe that a hypothetical 10% adverse change in the foreign currency exchange rates would have resulted in a \$0.6 million decrease in the fair value of foreign exchange forward contracts as of December 26, 2009.

Interest Rate Risk

We utilize a combination of short-term and long-term debt to finance our operations and are exposed to interest rate risk on these debt obligations.

A substantial portion of our indebtedness, including indebtedness under the senior secured credit facilities bears interest at rates that fluctuate with changes in certain short-term prevailing interest rates. As of December 26, 2009, our outstanding borrowings under the senior secured term loan credit facility were \$764.5 million. The term loan credit facility is apportioned between two primary tranches: a \$570.0 million term loan B1 facility and a \$194.5 million term loan B2 facility. Borrowings under the term loan B1 facility accrue interest, at our option, at the following rates per annum: (i) 2.50% plus the LIBOR, or (ii) 1.50% plus the Base Rate (which is defined as the higher of the Federal funds rate plus 0.5% or the Prime rate). Borrowings under the B2 facility accrue interest, at our option, at the following rates: (i) 2.25% plus the LIBOR per annum or (ii) 1.00% plus the Base Rate (which is defined as the higher of the Federal funds rate plus 0.5% or the Prime rate). The weighted average interest rate on the outstanding term loans at December 26, 2009 was 3.64%. Through the third quarter ended December 26, 2009, we entered into three interest rate swaps to hedge the variability in future cash flows associated with our variable-rate term loans. All three interest rate swaps became effective beginning October 20, 2009 and mature on July 20, 2012. The three swaps convert an aggregate of \$370.0 million of our variable-rate term loans to a fixed interest rates ranging from 2.08% to 2.39%, plus the applicable margin.

Our results of operations would likely be affected by changes in market interest rates on the un-hedged portion of these variable-rate obligations. Based upon our un-hedged variable rate debt as of December 26, 2009, a 100 basis point increase in the December 26, 2009 interest rates would increase interest expense by approximately \$3.9 million on an annual basis.

ITEM 4T. CONTROLS AND PROCEDURES.

We maintain a set of disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

We carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rules 13a-15 and 15d-15 of the Exchange Act. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures are adequate and effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports that we file or submit under the Exchange Act and that such information is accumulated and communicated to our management, including the Chief Executive

Officer and Chief Financial Officer, in a manner allowing timely decisions regarding required disclosure. As such, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the period covered by this report.

There have been no changes in our internal control over financial reporting identified in connection with the evaluation discussed above that occurred during the third quarter of our fiscal year 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

Information with respect to our legal proceedings is contained in Item 3, Legal Proceedings of our Annual Report on Form 10-K for the fiscal year ended March 31, 2009. Management believes that for the period from April 1, 2009 through February 4, 2010, there have been no material changes to this information. However, certain updates have been made to this information which can be found under the heading “Commitments and Contingencies” in Note 12 to the condensed consolidated financial statements contained in Part I, Item 1 of this report.

ITEM 1A. RISK FACTORS.

Information with respect to our risk factors is contained in Item 1A, Risk Factors, of our Annual Report on Form 10-K for the fiscal year ended March 31, 2009. Management believes that as of February 4, 2010, there have been no material changes to this information.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

None.

ITEM 6. EXHIBIT INDEX.

<u>Exhibit</u> <u>No.</u>	<u>Ref.</u>	<u>Description</u>
10.1	(1)	Amended and Restated Credit Agreement, dated as of October 5, 2009, among Chase Acquisition I, Inc., RBS Global, Inc., and Rexnord LLC, Credit Suisse, Cayman Islands Branch, as administrative agent and the lenders party thereto
10.2	(1)	Amended and Restated Guarantee and Collateral Agreement, dated as of October 5, 2009, among Chase Acquisition I, Inc., RBS Global, Inc., Rexnord LLC, the subsidiary guarantors party thereto and Credit Suisse, Cayman Islands Branch, as administrative agent
10.3	(2)	Employment Separation and General Release Agreement, effective as of September 11, 2009, by and between Robert A. Hitt, Rexnord LLC, RBS Global, Inc. and Rexnord Holdings, Inc.
10.4		Non-Qualified Stock Option Agreement between Rexnord Holdings, Inc. and Praveen R. Jeyarajah*
10.5		Stock Option Cancellation and Release Agreement, dated as of October 29, 2009, by and among Rexnord Holdings, Inc. and Cypress Industrial Holdings, LLC*
31.1		Certification of Chief Executive Officer
31.2		Certification of Chief Financial Officer

(1) Incorporated by reference to the Form 8-K/A filed by the registrants on October 5, 2009.

(2) Incorporated by reference to the Form 8-K filed by the registrants on October 14, 2009.

* Denotes management plan or compensatory plan or arrangement.

**NON-QUALIFIED STOCK OPTION AGREEMENT
OF
REXNORD HOLDINGS, INC.**

THIS AGREEMENT (this "Agreement") dated as of October 29, 2009 is made by and between Rexnord Holdings, Inc., a Delaware corporation (the "Company"), and Praveen R. Jeyarajah, a non-employee director of the Company (as defined herein) (the "Optionee")

WHEREAS, the Company wishes to carry out the 2006 Stock Option Plan of Rexnord Holdings, Inc. (as may be amended from time to time, the "Plan"), the terms of which are hereby incorporated by reference and made a part of this Agreement; and

WHEREAS, in consideration for the Optionee's agreement to continue to serve as a member of the Board and serve as Chairman of the Executive Committee, the Board has determined that it would be to the advantage and best interest of the Company and its stockholders to grant the Optionee the Non-Qualified Stock Option to purchase shares of the Company's common stock, par value \$0.01 per share ("Common Stock"), provided for herein (the "Option").

NOW, THEREFORE, in consideration of the mutual covenants herein contained and other good and valuable consideration, receipt and sufficiency of which is hereby acknowledged, the parties hereto do hereby agree as follows:

**ARTICLE I
DEFINITIONS**

Whenever the following terms are used in this Agreement, they shall have the meaning specified below unless the context clearly indicates otherwise. Capitalized terms used in this Agreement and not defined herein shall have the meaning given to such terms in the Plan. The singular pronoun shall include the plural, where the context so indicates.

"Cumulative Debt Repayment" for a given fiscal year shall mean the positive excess, if any, of (a) the weighted average of the debt (excluding debt associated with the Company's PIK Notes) outstanding during the 60 calendar days preceding April 30, 2009, as such debt outstanding may be increased or decreased as appropriate for the effect of any post closing adjustment as determined by the Committee, over (b) the weighted average of the debt (excluding debt associated with the Company's PIK Notes) outstanding during the 60 calendar days preceding April 30 of the fiscal year immediately following the given fiscal year.

"Cumulative Debt Repayment Target" for a period commencing on or after April 1, 2009 shall be as set forth in Appendix A to this Agreement, subject to the provisions of Section 6.6 hereof.

"Cumulative EBITDA" as of a given date shall mean the total of EBITDA from and after April 1, 2009 through such date.

"Cumulative EBITDA Target" for a given period commencing on or after April 1, 2009, shall be as set forth in Appendix A of this Agreement, subject to the provisions of Section 6.6 hereof.

"Debt Repayment" for a given fiscal year of the Company shall mean, excluding any debt repayment in conjunction with an equity offering of securities of the Company, the positive excess, if any, of (a) the weighted average of the debt (excluding debt associated with the Company's PIK Notes) outstanding during the 60 calendar days preceding April 30 of the given fiscal year, over (b) the weighted average of the debt (excluding debt associated with the Company's PIK Notes) outstanding during the 60 calendar days preceding April 30 of the fiscal year immediately following the given fiscal year.

“Debt Repayment Target” for a period commencing on or after April 1, 2009 shall be as set forth in Appendix A to this Agreement, subject to the provisions of Section 6.6 hereof.

“EBITDA” for a given period shall mean consolidated net income before interest, taxes, depreciation, amortization, noncash charges, extraordinary items (including Other Income and Expense items as well as LIFO Income and Expense items) and management or similar fees payable to Apollo Management, L.P. or any of its Affiliates, as reflected on the Company’s audited consolidated financial statements for such period. Consolidated net income shall be determined in accordance with generally accepted accounting principles except that gains or losses from extraordinary, unusual or non-recurring items may be excluded in the discretion of the Committee.

“EBITDA Target” for a given period commencing on or after April 1, 2009, shall be as set forth in Appendix A of this Agreement, subject to the provisions of Section 6.6 hereof.

“Principal Stockholder(s) Investment” means direct or indirect investments in shares of Common Stock, preferred stock or other debt or equity securities of the Company or any of its Subsidiaries made by the Principal Stockholder(s) on or after July 21, 2006.

“Principal Stockholder(s) CAGR” means the pretax compound annual growth rate calculated on a quarterly basis based on the cash proceeds realized to the Principal Stockholder(s) in a Liquidity Event on the Principal Stockholder(s) Investment (which proceeds, for purposes hereof, shall be determined after deducting all transaction costs and all investment banking, accounting, attorney, consultant and similar fees paid or payable by the Principal Stockholder(s) to the extent not paid or reimbursed by the Company or any other third party) and the aggregate amount invested by the Principal Stockholder(s) for all Principal Stockholder(s) Investments, assuming all Principal Stockholder(s) Investments were purchased by one Person and were held continuously by such Person, after dilution for outstanding options, warrants or other rights to acquire shares of Common Stock or other equity securities of the Company. The Principal Stockholder(s) CAGR shall be determined based on the actual time of each Principal Stockholder(s) Investment and including, as a return on such investment, any cash dividends, cash distributions or cash interest paid by the Company or any Subsidiary of the Company in respect of such investment during such period, but shall exclude any management or monitoring fees paid to Apollo Management, L.P. or any of its Affiliates.

ARTICLE II GRANT OF OPTION

Section 2.1 Grant of Option

In consideration of the Optionee’s service as a member of the Board and as Chairman of the Executive Committee, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, on the date hereof the Company irrevocably grants to the Optionee the Option to purchase any part or all of an aggregate of One Hundred Thirty Thousand Seven Hundred Forty-three (130,743) shares of Common Stock upon the terms and conditions set forth in the Plan and this Agreement.

Section 2.2 Option Subject to Plan

The Option granted hereunder is subject to the terms and provisions of the Plan, including without limitation, Article V and Sections 7.1, 7.2, 7.3 and 7.10 thereof.

Section 2.3 Option Price

The purchase price of the shares of Common Stock covered by the Option shall be Twenty and no/100 Dollars (\$20.00) per share (without commission or other charge).

ARTICLE III
EXERCISABILITY

Section 3.1 Commencement of Exercisability

(a) Subject to Section 3.1(e) and Section 3.3 of this Agreement, seventy percent (70%) of the Option granted pursuant to this Agreement, shall become vested in three (3) cumulative installments, provided that the Optionee remains a director of the Company from the date of grant through such date, as follows:

- (i) The first installment shall become vested on October 29, 2010;
- (ii) The second installment shall become vested on October 29, 2011;
- (iii) The final installment shall become vested on October 29, 2012.

(b) Subject to Section 3.1(e) and Section 3.3 of this Agreement, thirty percent (30%) of the Option granted pursuant to this Agreement, shall become vested as follows:

(i) An installment of up to 2.5% of the shares of Common Stock covered by the Option shall become vested on, or within 120 days following, March 31 of each fiscal year 2010 through 2012, in each case as determined by the Committee in its sole discretion as follows:

(A) if the Debt Repayment for any such fiscal year equals or exceeds 90%, but is less than 95%, of the Debt Repayment Target for such fiscal year, then 1.25% of the shares of Common Stock covered by the Option shall become vested; or

(B) if the Debt Repayment for any such fiscal year equals or exceeds 95%, but is less than 100%, of the Debt Repayment Target for such fiscal year, then 1.875% of the shares of Common Stock covered by the Option shall become vested; or

(C) if the Debt Repayment for any such fiscal year equals or exceeds the Debt Repayment Target for such fiscal year, then 2.5% of the shares of Common Stock covered by the Option shall become vested.

(ii) An installment of up to 2.5% of the shares of Common Stock covered by the Option shall become vested on, or within 120 days following, March 31 of each fiscal year 2010 through 2012 as determined by the Committee in its sole discretion as follows:

(A) if the Cumulative Debt Repayment for any such fiscal year equals or exceeds 90%, but is less than 95%, of the Cumulative Debt Repayment Target for such fiscal year, then 1.25% of the shares of Common Stock covered by the Option shall become vested; or

(B) if the Cumulative Debt Repayment for any such fiscal year equals or exceeds 95%, but is less than 100%, of the Cumulative Debt Repayment Target for such fiscal year, then 1.875% of the shares of Common Stock covered by the Option shall become vested; or

(C) if the Cumulative Debt Repayment for any such fiscal year equals or exceeds the Cumulative Debt Repayment Target for such fiscal year, then 2.5% of the shares of Common Stock covered by the Option shall become vested.

(iii) If the Cumulative Debt Repayment as of the end of any fiscal year 2010 through 2012 is less than the Cumulative Debt Repayment Target through the end of such fiscal year, that portion of the Option that was subject to accelerated vesting pursuant to Section 3.1(b)(i) and 3.1(b)(ii), but which did not become vested pursuant to Sections 3.1(b)(i)(A), (B) or (C) or 3.1(b)(ii)(A), (B) or (C), with respect to such fiscal year, subject to Sections 3.2 and 3.4, shall become vested, as determined by the Committee, on, or within 120 days following, the last day of the first fiscal year in which the Cumulative Debt Repayment equals or exceeds the Cumulative Debt Repayment Target for such fiscal year.

(iv) An installment of up to 2.5% of the shares of Common Stock covered by the Option shall become vested on, or within 120 days following, March 31 of each fiscal year 2010 through 2012 as determined by the Committee in its sole discretion as follows:

(A) if EBITDA for any such fiscal year equals or exceeds 90%, but is less than 95%, of the EBITDA Target for such fiscal year, then 1.25% of the shares of Common Stock covered by the Option shall become vested; or

(B) if EBITDA for any such fiscal year equals or exceeds 95%, but is less than 100%, of the EBITDA Target for such fiscal year, then 1.875% of the shares of Common Stock covered by the Option shall become vested; or

(C) if EBITDA for any such fiscal year equals or exceeds the EBITDA Target for such fiscal year, then 2.5% of the shares of Common Stock covered by the Option shall become vested.

(v) An installment of up to 2.5% of the shares of Common Stock covered by the Option shall become vested on, or within 120 days following, March 31 of each fiscal year 2010 through 2012 as determined by the Committee in its sole discretion as follows:

(A) if Cumulative EBITDA for any such fiscal year equals or exceeds 90%, but is less than 95%, of the Cumulative EBITDA Target for such fiscal year, then 1.25% of the shares of Common Stock covered by the Option shall become vested; or

(B) if Cumulative EBITDA for any such fiscal year equals or exceeds 95%, but is less than 100%, of the Cumulative EBITDA Target for such fiscal year, then 1.875% of the shares of Common Stock covered by the Option shall become vested; or

(C) if Cumulative EBITDA for any such fiscal year equals or exceeds the Cumulative EBITDA Target for such fiscal year, then 2.5% of the shares of Common Stock covered by the Option shall become vested.

(vi) if Cumulative EBITDA as of the end of any fiscal year 2010 through 2012 is less than the Cumulative EBITDA Target through the end of such fiscal year, that portion of the Option that was subject to accelerated vesting pursuant to Sections 3.1(b)(iv) and 3.1(b)(v), but which did not become vested pursuant to Sections 3.1(b)(iv)(A), (B) or (C) or 3.1(b)(v)(A), (B) or (C), with respect to such fiscal year, subject to Sections 3.2 and 3.4, shall become vested, as determined by the Committee, on, or within 120 days following, the last day of the first fiscal year in which Cumulative EBITDA equals or exceeds the Cumulative EBITDA Target for such fiscal year.

(c) Notwithstanding the foregoing provisions of this Section 3.1, upon the occurrence of the first Liquidity Event, the following shall immediately prior to the effective date of such Liquidity Event become vested in full:

(i) that portion of the Option that remains eligible to become vested pursuant to Section 3.1(a);

(ii) at the election and sole discretion of the Committee, that portion of the Option that has not, as of such Liquidity Event, become eligible to become vested pursuant to Sections 3.1(b)(i), 3.1(b)(ii), 3.1(b)(iv) or 3.1(b)(v);

(iii) that portion of the Option that remains eligible to become vested pursuant to Section 3.1(b), but only if the Principal Stockholder(s) CAGR as of the Liquidity Event equals or exceeds 25%.

(d) The Committee shall make the determination as to whether the respective Debt Repayment, Cumulative Debt Repayment, EBITDA, and Cumulative EBITDA Targets have been met, and shall determine the extent, if any, to which the Option as become vested, on any such date as the Committee in its sole discretion shall determine; *provided, however*, that with respect to each fiscal year such date shall not be later than the 120th day following March 31 of such fiscal year.

(e) Except with respect to any portion of the Option that as of the Optionee's Termination of Directorship is eligible to vest pursuant to Section 3.1(b) for the fiscal year preceding the fiscal year in which the Optionee's Termination of Directorship occurs, no portion of the Option which is unvested at the Optionee's Termination of Directorship shall thereafter become vested.

Section 3.2 Duration of Exercisability

The installments provided for in Section 3.1 are cumulative. Each such installment which becomes vested pursuant to Section 3.1 shall remain vested and may be exercised until the Option expires pursuant to Section 3.3.

Section 3.3 Expiration of Option

The Option may not be exercised to any extent by any Person after the first to occur of any of the following events:

(a) The expiration of ten years from the date the Option was granted;

(b) If the Optionee's Termination of Directorship is for any reason other than (i) by the Company for "cause" (in accordance with the Company's Bylaws), or (ii) on account of the Optionee's death or disability (as defined in Section 22(e)(3) of the Code), the later of (x) the ninetieth day following the date of the Optionee's Termination of Directorship or (y) to the extent that, as of the Optionee's Termination of Directorship, any portion of the Option remains eligible to vest pursuant to Section 3.1(b) for the fiscal year preceding the fiscal year in which the Optionee's Termination of Directorship occurs, the thirtieth day following the date of the Committee's determination under Section 3.1(d) for such fiscal year;

(c) The date of the Optionee's Termination of Directorship by the Company for "cause" (in accordance with the Company's Bylaws);

(d) If the Optionee's Termination of Directorship is on account of the Optionee's death or disability (within the meaning of Section 22(e)(3) of the Code), the expiration of 12 months from the date of the Optionee's Termination of Directorship; or

(e) The occurrence of a Liquidity Event, provided that any portion of the Option that is vested as of the occurrence of the Liquidity Event may be exercised concurrently therewith.

Section 3.4 Partial Exercise

Any vested portion of the Option or the entire Option, if then wholly vested, may be exercised in whole or in part at any time prior to the time when the Option or portion thereof expires; *provided, however*, that each partial exercise shall be for not less than 100 shares of Common Stock and shall be for whole shares of Common Stock only.

Section 3.5 Exercise of Option

The exercise of the Option shall be governed by the terms of this Agreement and the terms of the Plan, including without limitation, the provisions of Article V of the Plan, which, among other things, require that the Optionee (or, in the event of the Optionee's death or disability, the Optionee's Eligible Representative) deliver an executed copy of a Joinder to the Stockholders' Agreement designated by the Company (in the form attached to such Stockholders' Agreement) to the Secretary as a condition to the exercise of the Option.

ARTICLE IV OTHER PROVISIONS

Section 4.1 Optionee's Service as a Director

Nothing in this Agreement or in the Plan shall confer upon the Optionee any right to continue in the service of the Company or any of its affiliates (whether as a director or otherwise).

Section 4.2 Shares Subject to Plan and Stockholder Agreement

The Optionee acknowledges that any shares of Common Stock acquired upon exercise of the Option are subject to the terms of the Plan and the Stockholders' Agreement, including without limitation, the restrictions set forth in Section 5.6 of the Plan.

Section 4.3 Construction

This Agreement shall be administered, interpreted and enforced under the laws of the state of New York, without regard to conflicts of laws provisions that would give effect to the laws of another jurisdiction.

Section 4.4 Conformity to Securities Laws

The Optionee acknowledges that the Plan is intended to conform to the extent necessary with all provisions of the Securities Act and the Exchange Act and any and all regulations and rules promulgated thereunder by the Securities and Exchange Commission, including without limitation, Rule 16b-3. Notwithstanding anything herein to the contrary, the Plan shall be administered, and the Option is granted and may be exercised, only in such a manner as to conform to such laws, rules and regulations. To the extent permitted by applicable law, the Plan and this Agreement shall be deemed amended to the extent necessary to conform to such laws, rules and regulations.

Section 4.5 Adjustments in Debt Repayment and EBITDA Targets

The Debt Repayment and EBITDA Targets (including the Cumulative Debt Repayment and Cumulative EBITDA Targets) specified in Appendix A are based upon certain revenue and expense assumptions about the future business of the Company as of the date the Option is granted. Accordingly, in the event that, after such date, the Committee determines, in its sole discretion, that any acquisition or disposition of any business by the Company or any dividend or other distribution (whether in the form of cash, Common Stock, other securities, or other property), recapitalization, reclassification, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Common Stock or other securities of the Company, issuance of warrants or other rights to purchase Common Stock or other securities of the Company, any unusual or nonrecurring transactions or events affecting the Company, or the financial statements of the Company, or change in applicable laws, regulations, or accounting principles occurs such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan or with respect to the Option, then the Committee shall, in good faith and in such manner as it may deem equitable, adjust the financial targets set forth on Appendix A to reflect the projected effect of such transaction(s) or event(s) on Debt Repayment and/or EBITDA, subject to Section 7.1 of the Plan.

Section 4.6 Entire Agreement

The parties hereto acknowledge that this Agreement and the Plan set forth the entire agreement and understanding of the parties and supersede all prior written or oral agreements or understandings with respect to the subject matter hereof. The obligations imposed by this Agreement are severable and should be construed independently of each other. The invalidity of one provision shall not affect the validity of any other provision. If any provision of this Agreement shall be invalid or unenforceable, in whole or in part, or as applied to any circumstances, under the laws of any jurisdiction which may govern for such purpose, then such provision shall be deemed, to the extent allowed by the laws of such jurisdiction, to be modified or restricted to the extent and in the manner necessary to render the same valid and enforceable, either generally or as applied to such circumstance, or shall be deemed exercised from this Agreement, as the case may require, and this Agreement shall be construed and enforced to the maximum extent permitted by law, as if such provision had been originally incorporated herein as so modified or restricted, or as if such provision had not been originally incorporated herein, as the case may be.

Section 4.7 Amendment

The Board at any time, and from time to time, may amend the terms of this Agreement, *provided, however*, that the rights of the Optionee shall not be adversely impaired without the Optionee's written consent. The Company shall provide the Optionee with notice and a copy of any amendment made to this Agreement

Section 4.8 Arbitration; Waiver of Jury Trial

Any dispute or controversy arising under, out of, or in connection with or in relation to this Agreement or the Plan shall be finally determined and settled by arbitration in New York, New York in accordance with the Commercial Rules of the American Arbitration Association, and judgment upon the award may be entered in any court having jurisdiction. Within 20 days of the conclusion of the arbitration hearing, the arbitrator shall prepare written findings of fact and conclusions of law. It is mutually agreed that the written decision of the arbitrator shall be valid, binding, final and non-appealable; *provided, however*, that the parties hereto agree that the arbitrator shall not be empowered to award punitive damages against any party to such arbitration. To the extent permitted by law, the arbitrator's fees and expenses will be borne equally by each party. In the event that an action is brought to enforce the provisions of this Agreement or the Plan pursuant to this Section 4.8, each party shall pay its own attorney's fees and expenses regardless of whether in the opinion of the court or arbitrator deciding such action there is a prevailing party. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES ALL RIGHT TO TRIAL, INCLUDING TRIAL BY JURY, IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THE PLAN OR THIS AGREEMENT.

Section 4.9 Notices

All notices, requests, consents and other communications hereunder to any party hereto shall be deemed to be sufficient if contained in a written instrument and shall be deemed to have been duly given when delivered in person, by telecopy, by nationally-recognized overnight courier, or by first class registered or certified mail, postage prepaid, addressed to such party at the address set forth below or such other address as may hereafter be designated in writing by the addressee to the addressor:

- (i) if to the Company, to:

Rexnord Holdings, Inc.
4701 Greenfield Avenue
Milwaukee, WI 53214
Attention: Patty Whaley

with copies to:

Rexnord Holdings, Inc.
c/o Apollo Management, L.P.
10250 Constellation Blvd, Suite 2900
Los Angeles, CA 90067
Fax: (310) 843-1933
Attention: Larry Berg

and

Rexnord Holdings, Inc.
c/o Apollo Management, L.P.
9 West 57th Street, 43rd Floor
New York, NY 10019
Fax: (212) 515-3288
Attention: Steven Martinez

and

O'Melveny & Myers LLP
Times Square Tower
7 Times Square
New York, NY 10036
Fax: (212) 326-2061
Attention: John M. Scott, Esq.

(ii) if to the Optionee, to the Optionee's home address on file with the Company.

Section 4.10 Counterparts

This Agreement may be executed in several counterparts, including via facsimile transmission, each of which shall be deemed to be an original, but all of which together will constitute one and the same Agreement.

[Signature Page to Follow]

IN WITNESS WHEREOF, this Agreement has been executed and delivered by the parties hereto as of the day, month and year first set forth above.

THE COMPANY:

REXNORD HOLDINGS, INC.

By: /s/ Patricia M. Whaley
Name: Patricia M. Whaley
Title: Vice President, General Counsel & Secretary

THE OPTIONEE:

Signature: /s/ Praveen R. Jeyarajah
Print Name: Praveen R. Jeyarajah

STOCK OPTION CANCELLATION AND RELEASE AGREEMENT

This Stock Option Cancellation and Release Agreement (hereinafter “Agreement”), dated as of October 29, 2009, is made by and among Rexnord Holdings, Inc., a Delaware corporation (the “Company”), Cypress Industrial Holdings, LLC, a Maryland limited liability company (“Industrial”), and Cypress Group, LLC, a Maryland limited liability company (the “Optionee”).

WHEREAS, pursuant to that certain Non-Qualified Stock Option Agreement of Rexnord Holdings, Inc., dated as of April 19, 2007, by and between the Company, Industrial and Optionee (the “Stock Option Agreement”), the Company granted a stock option to Optionee covering 130,743 shares of Company common stock and with an exercise price of \$19.94 per share (the “Option”); and

WHEREAS, Optionee desires and has requested the Company to cancel the Option and all rights thereunder in order that the Company may grant additional options under the 2006 Stock Option Plan of Rexnord Holdings, Inc. (the “Plan”), and the Company has agreed to such cancellation.

NOW, THEREFORE, the Company and Optionee agree as follows:

1. Option Cancellation. The Option is hereby cancelled. Optionee shall have no further rights to exercise the Option or to acquire Company stock pursuant to the Option.

2. Cancellation Payment. As a payment in lieu of whatever benefits, if any, to which Optionee may be entitled under the Option, and in exchange for the release of claims and covenants contained herein, the Company shall pay Optionee the amount of \$1.

3. Optionee Release. Optionee agrees that, in exchange for the good and valuable consideration described in this Agreement, including but not limited to Section 2 hereof, the sufficiency of which is hereby acknowledged, and in order to permit the Company to grant additional stock options under the Plan, Optionee hereby releases and discharges fully and forever the Company from any and all present or future claims, demands, and causes of action which may relate to the Option.

4. Binding Effect. This Agreement shall be binding upon and shall inure to the benefit of both the Company and Optionee and their respective successors, heirs, and legal representatives. Optionee’s signature below on this Agreement affirms that it has read and understands all provisions of this Agreement and Optionee agrees to comply with all terms hereof.

5. Entire Agreement. This Agreement constitutes the entire agreement between the Company and Optionee and contains all the agreements between them with respect to the subject matter hereof; provided, however, that this Agreement shall not affect any other agreements existing between the Company, Industrial and Optionee, including but not limited to any such agreements related to shares of Company stock owned by Industrial or Optionee or any stockholders, consulting or similar agreements or arrangements.

6. Applicable Law. This Agreement shall be construed and enforced under and in accordance with the laws of the State of New York.

[SIGNATURE PAGE TO FOLLOW.]

IN WITNESS WHEREOF, this Agreement has been executed and delivered by the parties hereto as of the day, month and year first set forth above.

THE COMPANY:

Rexnord Holdings, Inc.

By: /s/ Patricia M. Whaley
Name: Patricia M. Whaley
Title: Vice President, General Counsel & Secretary

THE OPTIONEE:

Cypress Group, LLC

By: /s/ George M. Sherman
Print Name: George M. Sherman
Title: Managing Member

INDUSTRIAL:

Cypress Industrial Holdings, Inc.

By: /s/ George M. Sherman
Print Name: George M. Sherman
Title: Managing Member

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Todd A. Adams, President and Chief Executive Officer of **RBS Global, Inc.** and **Rexnord LLC**, certify that:

1. I have reviewed this quarterly report on Form 10-Q of RBS Global, Inc. and Rexnord LLC;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrants' other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrants and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrants, including their consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrants' disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrants' internal control over financial reporting that occurred during the registrants' most recent fiscal quarter (the registrants' fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrants' internal control over financial reporting; and
5. The registrants' other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrants' auditors and the audit committee of registrants' board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrants' ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrants' internal control over financial reporting.

Date: February 4, 2010

By: /s/ TODD A. ADAMS

Name: Todd A. Adams

Title: President and Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, George C. Moore, Chief Financial Officer and Executive Vice President of **RBS Global, Inc.** and **Rexnord LLC**, certify that:

1. I have reviewed this quarterly report on Form 10-Q of RBS Global, Inc. and Rexnord LLC;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrants' other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrants and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrants, including their consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrants' disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrants' internal control over financial reporting that occurred during the registrants' most recent fiscal quarter (the registrants' fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrants' internal control over financial reporting; and
5. The registrants' other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrants' auditors and the audit committee of registrants' board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrants' ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrants' internal control over financial reporting.

Date: February 4, 2010

By: /s/ GEORGE C. MOORE
Name: George C. Moore
Title: Executive Vice President and Chief Financial Officer