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| CONFORMED PERIOD OF REPORT: | 20000930 |
| FILED AS OF DATE: | 20001101 |

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COMPANY DATA:

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| CENTRAL INDEX KEY: | 0000804151 |
| STANDARD INDUSTRIAL CLASSIFICATION: | GENERAL INDUSTRIAL MACHINEF |
| IRS NUMBER: | 210733751 |
| STATE OF INCORPORATION: | DE |
| FISCAL YEAR END: | 1231 |

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BUSINESS ADDRESS:

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| STREET 1: | 1009 LENOX DR |
| STREET 2: | PO BOX 6550 |
| CITY: | LAWRENCEVILLE |
| STATE: | NJ |
| ZIP: | 08648-0550 |
| BUSINESS PHONE: | 6098967600 |

MAIL ADDRESS:

| | |
|---|---|
| STREET 1: | 1009 LENOX DR |
| STREET 2: | PO BOX 6550 |
| CITY: | LAWRENCEVILLE |
| STATE: | NJ |
| ZIP: | 08648-0550 |

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| DATE OF NAME CHANGE: | 19890313 |

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UNITED STATES

Form 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

For the quarterly period ended September 30, 2000

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 1-9294

Imo Industries Inc.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware<br>(State or other jurisdiction of incorporation or organization) | 21-0733751<br>(I.R.S. Employer Identification No.) |
| 997 Lenox Drive, Suite 111<br>Lawrenceville, New Jersey<br>(Address of principal executive offices) | 08648<br>(Zip code) |

Registrant's telephone number, including area code 609-896-7600

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, $.01 Par Value--100 shares as of November 1, 2000.

INDEX

PART I. FINANCIAL INFORMATION



PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Imo Industries Inc. and Subsidiaries
Consolidated Condensed Statements of Income and Comprehensive Income
(Dollars in thousands)

| | Three Months Ended Sept. 30, 2000 | Three Months Ended Oct. 1, 1999 | Nine Months Ended Sept. 30, 2000 | Nine Months Ended Oct. 1, 1999 |
|---|---|---|---|---|
| | (Unaudited) | | (Unaudited) | |
| Net Sales | $ 77,301 | $67,159 | $ 246,488 | $ 217,501 |
| Cost of products sold | 52,862 | 46,260 | 166,466 | 147,184 |
| Gross Profit | 24,439 | 20,899 | 80,022 | 70,317 |
| Selling, general and administrative expenses | 12,833 | 11,813 | 41,836 | 36,879 |
| Research and development expenses | 875 | 982 | 3,116 | 3,445 |
| Income From Operations | 10,731 | 8,104 | 35,070 | 29,993 |

| | | | | |
|---|---|---|---|---|
| Other (income) expense, net | (452) | 4 | (2,470) | 17 |
| Gain on sale of assets | --- | --- | (276) | --- |
| Interest expense | 4,964 | 4,219 | 14,213 | 12,443 |
| Income From Operations Before Income Taxes and Extraordinary Item | 6,219 | 3,881 | 23,603 | 17,533 |
| Income tax expense | 2,662 | 1,603 | 9,403 | 6,582 |
| Income From Operations Before Extraordinary Item | 3,557 | 2,278 | 14,200 | 10,951 |
| Extraordinary item - loss on extinguishment of debt | --- | --- | --- | (216) |
| Net Income | $3,557 | $ 2,278 | $14,200 | $10,735 |
| Other comprehensive loss, net of taxes - Foreign currency translation adjustments | (827) | 746 | (3,976) | (1,185) |
| Comprehensive Income | $2,730 | $ 3,024 | $10,224 | $ 9,550 |

The accompanying notes are an integral part of these consolidated condensed financial statements.

Imo Industries Inc. and Subsidiaries
Consolidated Condensed Balance Sheets
(Dollars in thousands except share data)

| | September 30, 2000 | December 31, 1999 |
|---|---|---|
| | (Unaudited) | |
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | $ 3,235 | $ 2,898 |
| Trade accounts and notes receivable, less allowance of $1,315 in 2000 and $1,348 in 1999 | 34,649 | 30,075 |
| Inventories | 57,879 | 57,844 |
| Deferred income tax assets | 12,136 | 11,972 |
| Prepaid expenses and other current assets | 2,336 | 3,051 |
| Total Current Assets | 110,235 | 105,840 |
| Property, plant and equipment, net of accumulated depreciation of $17,565 and $12,911 respectively | 57,758 | 61,584 |
| Net intangible assets, principally goodwill | 177,055 | 180,746 |
| Other assets | 29,353 | 28,551 |
| Total Assets | $ 374,401 | $ 376,721 |

| | | |
|---|---|---|
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Notes payable and current portion of long-term debt | $12,166 | $ 10,742 |
| Trade accounts payable | 18,829 | 21,854 |
| Accrued expenses and other liabilities | 38,013 | 34,487 |
| Total Current Liabilities | 69,008 | 67,083 |
| Long-term debt | 151,716 | 159,624 |
| Other liabilities | 25,863 | 32,424 |
| Total Liabilities | 246,587 | 259,131 |
| SHAREHOLDERS' EQUITY | | |
| Preferred stock: $1.00 par value; 5,000,000 shares authorized and unissued | --- | --- |
| Common stock: $.01 par value, 100 shares authorized and issued | 1 | 1 |
| Additional paid-in capital | 120,751 | 120,751 |
| Retained earnings (deficit) | 13,748 | (452) |
| Cumulative foreign currency translation adjustments | (6,686) | (2,710) |
| Total Shareholders' Equity | 127,814 | 117,590 |
| Total Liabilities and Shareholders' Equity | $ 374,401 | $ 376,721 |

The accompanying notes are an integral part of these consolidated condensed financial statements.

Imo Industries Inc. and Subsidiaries
Consolidated Condensed Statements of Cash Flows
(Dollars in thousands)

| | Nine Months Ended | |
|---|---|---|
| | Sept. 30, 2000 | Oct. 1, 1999 |
| | (Unaudited) | |
| OPERATING ACTIVITIES | | |
| Net income | $14,200 | $10,735 |
| Adjustments to reconcile net income to net cash provided by continuing operations: | | |
| Depreciation and amortization | 9,673 | 8,294 |
| Extraordinary item | --- | 216 |
| Other | (189) | 130 |
| Other changes in operating assets and liabilities: | | |
| Accounts and notes receivable | (6,281) | (3,801) |
| Inventories | (1,341) | 5,019 |
| Accounts payable and accrued expenses | (8,370) | (3,718) |
| Other operating assets and liabilities | 3,776 | 774 |
| Net cash provided by continuing operations | 11,468 | 17,649 |
| Net cash used by discontinued operations | (791) | (1,469) |

| | | |
|---|---|---|
| Net Cash Provided by Operating Activities | 10,677 | 16,180 |
| INVESTING ACTIVITIES | | |
| Purchases of property, plant and equipment | (3,759) | (4,363) |
| Proceeds from sale of property, plant and equipment | 366 | 74 |
| Net Cash Used by Investing Activities | (3,393) | (4,289) |
| FINANCING ACTIVITIES | | |
| (Decrease) increase in notes payable | (1,194) | 231 |
| Decrease in long-term debt | (5,106) | (14,277) |
| Payment of premium on notes repurchased and debt financing costs | --- | (210) |
| Net Cash Used by Financing Activities | (6,300) | (14,256) |
| Effect of exchange rate changes on cash | (647) | (755) |
| Increase (decrease) in Cash and Cash Equivalents | 337 | (3,120) |
| Cash and cash equivalents at beginning of period | 2,898 | 6,230 |
| Cash and Cash Equivalents at End of Period | $3,235 | $ 3,110 |

| | | |
|---|---|---|
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | $ 11,525 | $9,536 |
| Income taxes | $ 2,300 | $1,925 |

The accompanying notes are an integral part of these consolidated condensed financial statements.

Imo Industries Inc. and Subsidiaries

Notes to Consolidated Condensed Financial Statements (Unaudited with respect to September 30, 2000 and October 1, 1999 and the periods then ended.)

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with generally accepted accounting principles. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 1999. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2000 are not necessarily indicative of the results that may be expected for the year ending December 31, 2000.

NOTE B - INVENTORIES

Inventories are summarized as follows:

| (in thousands) | Sept. 30, 2000 | December 31, 1999 |
|---|---|---|
| | (Unaudited) | |
| Finished products | $ 25,477 | $ 24,740 |

| | | |
|---|---|---|
| Work in process | 10,950 | 14,277 |
| Materials and supplies | 22,113 | 19,904 |
| | 58,540 | 58,921 |
| Less customers' progress payments | (661) | (1,077) |
| | $ 57,879 | $ 57,844 |

NOTE C - NOTES PAYABLE AND LONG-TERM DEBT

As of September 30, 2000, the Company had $6.0 million of outstanding standby letters of credit under the Company's existing credit agreement. The Company had $6.5 million in foreign short-term credit facilities with no amount outstanding at September 30, 2000.

In addition, the Company had outstanding $74.2 million (net of unamortized discount of $0.8 million) of its 11.75% senior subordinated notes ("Notes") due in 2006, $30.3 million of term loan borrowings and $58.5 million in revolver borrowings. During the first nine months of 1999, the Company purchased, in the open market at a premium, Notes in the face amounts of $3.5 million. As a result of the early extinguishment of these Notes, extraordinary charges of $0.2 million was recognized in the first nine months of 1999.

NOTE D - SEGMENT INFORMATION

The Company classifies its continuing operations into two business segments: Fluid Handling and Industrial Positioning. Detailed information regarding products by segment is contained in the section entitled "Business" included in Part I, Item I of the Company's 1999 Form 10-K Report. Information about the business of the Company by business segment is presented below:

| (Dollars in thousands) | Three Months Ended September 30, 2000 | Three Months Ended October 1, 1999 | Nine Months Ended September 30, 2000 | Nine Months Ended October 1, 1999 |
|---|---|---|---|---|
| Net Sales | | | | |
| Fluid Handling | $ 24,420 | $ 23,778 | $72,973 | $77,208 |
| Industrial Positioning | 52,881 | 43,381 | 173,515 | 140,293 |
| Total net sales | $ 77,301 | $ 67,159 | $246,488 | $217,501 |
| Segment operating income | | | | |
| Fluid Handling | $ 6,586 | $ 5,088 | $ 18,253 | $17,061 |
| Industrial Positioning | 6,280 | 4,884 | 23,785 | 18,517 |
| Total segment operating income | 12,866 | 9,972 | 42,038 | 35,578 |
| Equity in income of unconsolidated companies | 171 | --- | 689 | --- |
| Unallocated corporate expenses | (1,824) | (1,903) | (6,385) | (5,696) |
| Gain on sale of assets | --- | --- | 276 | --- |
| Other non-operating | 2 | --- | 978 | --- |
| Net interest expense | (4,996) | (4,188) | (13,993) | (12,349) |
| Income from continuing operations before Income taxes and extraordinary item | $ 6,219 | $ 3,881 | $23,603 | $17,533 |

A reconciliation of segment operating income to income from operations follows:

| (Dollars in thousands) | Three Months Ended September 30, 2000 | Three Months Ended October 1, 1999 | Nine Months Ended September 30, 2000 | Nine Months Ended October 1, 1999 |
|---|---|---|---|---|
| Segment operating income | $ 12,866 | $ 9,972 | $ 42,038 | $ 35,578 |
| Unallocated corporate expenses | (1,824) | (1,903) | (6,385) | (5,696) |
| Other (income) expense | (311) | 35 | (583) | 111 |
| Income from operations | $ 10,731 | $ 8,104 | $ 35,070 | $29,993 |

NOTE E - CONTINGENCIES

Legal Proceedings

The Company and one of its subsidiaries are two of a large number of defendants in a number of lawsuits brought in various jurisdictions by approximately 4,500 claimants who allege injury caused by exposure to asbestos. Although neither the Company nor any of its subsidiaries has ever been a producer or direct supplier of asbestos, it is alleged that the industrial and marine products sold by the Company and the subsidiary named in such complaints contained components which contained asbestos. Suits against the Company and its subsidiary have been tendered to its insurers, who are defending under their stated reservation of rights. In addition, the Company and the subsidiary are named in cases, involving approximately 40,000 claimants, which were "administratively dismissed" by the U.S. District Court for the Eastern District of Pennsylvania. Cases that have been "administratively dismissed" may be reinstated only upon a showing to the Court that (i) there is satisfactory evidence of an asbestos-related injury; and (ii) there is probative evidence that the plaintiff was exposed to products or equipment supplied by each individual defendant in the case. The Company believes that it has adequate insurance coverage or has established appropriate reserves to cover potential liabilities related to these cases.

The Company is a defendant in a lawsuit in the Supreme Court of British Columbia alleging breach of contract arising from the sale of a steam turbine delivered by the Company's former Delaval Turbine Division and claiming damages in excess of $10 million. The Company believes that there are legal and factual defenses to the claim and intends to defend the action vigorously.

The Company was a defendant in a lawsuit in the Circuit Court of Cook County, Illinois alleging performance shortfalls in products delivered by the Company's former Delaval Turbine Division. The Company has reached an agreement on December 7, 1999, with the plaintiff settling all claims between the parties. However, a co-defendant, Federal Insurance Company, continues to pursue its counterclaim against the Company for attorney's fees it alleges it incurred in its role as surety for the project from which the litigation arose. The Company believes that there are legal and factual defenses to the claim and intends to defend the action vigorously.

On June 3, 1997, the Company was served with a complaint in a case brought in the Superior Court of New Jersey which alleges damages in excess of $10 million incurred as a result of losses under a Government Contract Bid transferred in connection with the sale of the Company's former Electro-Optical Systems business. The Electro-Optical Systems business was sold in a transaction that closed on June 2, 1995. The sales contract provided certain representations and warranties as to the status of the business at the time of sale. The complaint alleges that the Company failed to provide notice of a "reasonably anticipated loss" under a bid that was pending at the time of the transfer of the business and therefore a representation was breached. The contract was subsequently awarded to the Company's Varo subsidiary and thereafter transferred to the buyer of the Electro-Optical Systems business. The Company believes that there are legal and factual defenses to the claims and intends to defend the action vigorously.

The operations of the Company, like those of other companies engaged in similar businesses, involve the use, disposal and clean up of substances regulated under environmental protection laws. In a number of instances the Company has been identified as a Potentially Responsible Party by the U.S. Environmental Protection Agency, with respect to the disposal of hazardous wastes at a number of facilities that have been targeted for clean-up pursuant to CERCLA or similar state law. Similarly, the Company has received notice that it is one of a number of defendants named in an action filed in the United States District Court, for the Southern District of Ohio Western Division by a group of plaintiffs who are attempting to allocate a share of cleanup costs, for which they are responsible, to a large number of additional parties, including the Company. Although CERCLA and corresponding state law liability is joint and several, the Company believes that its liability will not have a material adverse effect on the financial condition of the Company since it believes that it either qualifies as a de minimis or minor contributor at each site. Accordingly, the Company believes that the portion of remediation costs that it will be responsible for will not be material.

The Company is also involved in various other pending legal proceedings arising out of the ordinary course of the Company's business. None of these legal proceedings is expected to have a material adverse effect on the financial condition of the Company. With respect to these proceedings and the litigation and claims described in the preceding paragraphs, management of the Company believes that it either will prevail, has adequate insurance coverage or has established appropriate reserves to cover potential liabilities. There can be no assurance, however, as to the ultimate outcome of any of these matters, and if all or substantially all of these legal proceedings were to be determined adversely to the Company, there could be a material adverse effect on the financial condition of the Company.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following paragraphs provide Management's discussion and analysis of the significant factors, which have affected the Company's consolidated results of operations and financial condition during the nine months ended September 30, 2000. This section should be read in conjunction with the Company's 1999 Form 10-K Management's Discussion and Analysis of Financial Condition and Results of Operations.

### Recent Events

Sierra International Inc. Acquisition: On December 1, 1999, the Company purchased the stock of Sierra International Inc. ("Sierra") from Echlin Inc., a subsidiary of Dana Corporation. Sierra sells and distributes replacement parts for marine and power equipment applications and marine hose products. Sierra has become part of the Company's Industrial Positioning segment.

### Results of Operations

The Company's continuing businesses are grouped into two business segments for management and segment reporting purposes: Fluid Handling and Industrial Positioning.

Three Months Ended September 30, 2000 Compared to Three Months Ended October 1, 1999

Sales. Net sales from continuing operations for the third quarter of 2000 were $77.3 million compared with $67.2 million in the comparable 1999 period. Third quarter 2000 net sales increased 2.7% for the Fluid Handling segment and increased 21.9% for the Industrial Positioning segment, respectively, compared to the prior year period. The increase in the Fluid Handling segment is due to the strengthening of the crude oil market in the third quarter of 2000 and increased parts sales to the U.S. Navy, offset by unfavorable foreign currency fluctuations of the Swedish Krona. The increase in the Industrial Positioning segment is due to the purchase of Sierra on December 1, 1999.

Gross Profit. Gross profit increased as a percentage of sales to 31.6% for the third quarter of 2000 compared with 31.1% in the third quarter of 1999, as a result of productivity improvements in each segment.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased as a percentage of sales to 16.6% for the third quarter of 2000 compared with 17.6% in the third quarter of 1999, due to cost reduction programs at each segment.

Interest Expense. Average borrowings in the third quarter of 2000 were approximately $3.5 million higher than the third quarter of 1999, due to the increase in borrowings for the purchase of Sierra. Total interest expense was $5.0 million for the third quarter of 2000 compared with $4.2 million for the same period in 1999.

Provision for Income Taxes. Provision for income taxes for continuing operations was $2.7 million and $1.6 million for the third quarters of 2000 and 1999, respectively. These amounts represent both current tax expense for foreign income taxes and deferred federal income taxes, as the Company is utilizing existing U.S. net operating loss carryforwards with its U.S. earnings.

Net Income. The net income in the third quarter of 2000 was $3.6 million compared with net income of $2.3 million in the comparable 1999 period.

Nine Months Ended September 30, 2000 Compared to Nine Months Ended October 1, 1999

Sales. Net sales from continuing operations for the first nine months of 2000 were $246.5 million compared with $217.5 million in the comparable 1999 period. Net sales decreased 5.5% for the Fluid Handling segment and increased 23.7% for the Industrial Positioning segment, respectively, compared to the prior year period. The decrease in the Fluid Handling segment is due to downturns in the crude oil and elevator pump markets during the first six months of 2000 and unfavorable foreign currency fluctuations of the Swedish Krona. The increase in the Industrial Positioning segment is due to the purchase of Sierra on December 1, 1999.

Gross Profit. Gross profit increased as a percentage of sales to 32.5% for the first nine months of 2000 compared with 32.3% for first nine months of 1999 as a result of productivity improvements in each segment.

Selling, General and Administrative Expenses. Selling, general and administrative expenses remained constant as a percentage of sales at 17.0% for the first nine months of 2000 and the first nine months of 1999.

Interest Expense. Average borrowings in the first nine months of 2000 were approximately $2.2 million higher than the first nine months of 1999, due to the increase in borrowings for the purchase of Sierra. Total interest expense was $14.2 million for the first nine months of 2000 compared with $12.4 million for the same period in 1999.

Provision for Income Taxes. Provision for income taxes for continuing operations was $9.4 million and $6.6 million for the first nine months of 2000 and 1999, respectively. These amounts represent both current tax expense for foreign income taxes and deferred federal income taxes, as the Company is utilizing existing U.S. net operating loss carryforwards with its U.S. earnings.

Extraordinary Item. During the first nine months of 1999, the Company purchased, in the open market at a premium, Notes in the face amount of $3.5 million. As a result of the early extinguishment of these Notes, an extraordinary charge of $0.2 million was recognized in the first nine months of 1999.

Net Income. The net income in the first nine months of 2000 was $14.2 million compared with net income of $10.7 million in the comparable 1999 period.

Liquidity and Capital Resources

Short-term and Long-term Debt

As of September 30, 2000 the Company had $6.0 million of outstanding standby letters of credit under the Company's existing credit agreement. The Company had $6.5 million in foreign short-term credit facilities with no amount outstanding at September 30, 2000.

In addition, the Company had outstanding $74.2 million (net of unamortized discount of $0.8 million) of its 11.75% senior subordinated notes due in 2006, $30.3 million of term loan borrowings and $58.5 million in revolver borrowings.

Cash Flow

The Company's operating activities provided net cash of $11.0 million in the first nine months of 2000 compared with cash provided of $16.2 million in the comparable 1999 period. The cash provided by operating activities in 2000 was attributable to net operating profits offset by the increase in working capital in the period. Cash and cash equivalents were $3.2 million at September 30, 2000 compared with $2.9 million at December 31, 1999.

Management believes that cash flow from operations and cash available from unused credit facilities will be sufficient to meet the Company's foreseeable liquidity needs.

CAUTIONARY STATEMENT FOR PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. Except for historical matters, the matters discussed in this Form 10-Q Report are forward-looking statements based on current expectations and involve risks and uncertainties. Forward-looking statements include, but are not limited to, statements under the following headings: (i) Legal Proceedings - the future impact of legal proceedings on the financial condition of the Company; and, (ii) "Results of Operations" - the future performance of various programs and foreign market conditions in each segment and the impact of such programs and foreign market conditions on future sales and on operating income. The Company wishes to caution the reader that, in addition to the matters described above, various factors such as delays in contracts from key customers, demand and market acceptance risk for new products, continued or increased competitive pricing and the effects of under-utilization of plants and facilities, particularly in Europe, and the impact of worldwide economic conditions on demand for the Company's products, could cause results to differ materially from those in any forward-looking statement.

The Company is filing this report pursuant to the filing requirements related to the 11.75% Senior Subordinated Notes due in 2006.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

For information regarding certain pending lawsuits, reference is made to the Company's Form 10-K for the year ended December 31, 1999, which is incorporated herein by reference, and to Note E in Part I of this Form 10-Q Report.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits:

The following exhibits are being filed as part of this Report:

| Exhibit No. | Description |
|---|---|
| 27 | Financial Data Schedule as of September 30, 2000 |

(b) Reports on Form 8-K:

None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Imo Industries Inc.
(Registrant)

Date: November 1, 2000

/s/ JOHN A. YOUNG

John A. Young
Chief Financial Officer

Date: November 1, 2000

/s/ SCOTT FAISON

Scott Faison
Corporate Controller

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