THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the action you should take, you are recommended to seek your own advice as soon as possible from your stockbroker, bank, solicitor, accountant, fund manager or other appropriate independent financial adviser who, if you are taking advice in the United Kingdom, is appropriately authorized to provide such advice under the Financial Services and Markets Act 2000 or from another appropriately authorized independent financial adviser if you are in a territory outside the United Kingdom.

If you have sold or otherwise transferred all of your Charter Shares, please send this document at once to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee. However, such document should not be forwarded or transmitted in or into any jurisdiction in which such act would constitute a violation of the relevant laws in such jurisdiction. If you have sold or otherwise transferred part of your holding of Charter Shares, please retain these documents and consult the stockbroker, bank or other agent through whom the sale or transfer was effected.

The release, publication or distribution of this document in or into jurisdictions other than the United Kingdom, the United States or Jersey may be restricted by the laws of those jurisdiction and therefore persons into whose possession this document comes should inform themselves about, and observe, any such restrictions or applicable requirements. Failure to comply with any such restrictions or applicable requirements may constitute a violation of the securities laws of any such jurisdiction.

A copy of this document, which comprises a prospectus relating to the New Colfax Common Shares proposed to be issued pursuant to the terms of the Acquisition and has been prepared in accordance with the Prospectus Rules made under Section 84 of FSMA, has been filed with the FSA and has been made available to the public as required by section 3.2 of the Prospectus Rules.

You should read this document and the documents incorporated in it by reference in their entirety. In particular, your attention is drawn to the risk factors set out in the section of this document headed *Risk Factors*.

Colfax and the Colfax Directors, whose names appear in the section headed *Colfax Directors, Company Secretary, Registered Office and Advisers*, accept responsibility for the information contained in this document. To the best of the knowledge of Colfax and the Colfax Directors, who have taken all reasonable care to ensure that such is the case, the information contained in this document is in accordance with the facts and contains no omission likely to affect its import.

Colfax®

COLFAX CORPORATION

(Incorporated in Delaware, United States)

Proposed issue of up to 20,832,469 New Colfax Common Shares to Charter Shareholders in connection with Colfax's offer for Charter

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Investors should rely only on the information contained in this document and the documents incorporated herein by reference. No person has been authorized to give any information or make any representations other than those contained in this document and any document incorporated by reference herein and, if given or made, such information or representation must not be relied upon as having been so authorized. Colfax will comply with its obligation to publish a supplementary prospectus containing further updated information required by law or by any regulatory authority but assumes no further obligation to publish additional information.

Neither the SEC nor any state securities commission nor any other regulatory authority has approved or disapproved of the Colfax Shares or passed upon the accuracy or adequacy of this document. Any representation to the contrary is a criminal offence.

The Acquisition relates to all the Charter Shares held by all Charter Shareholders in the UK, Jersey and the US as well as any other jurisdiction where the Acquisition is capable of being lawfully made and accepted in compliance with local securities laws.

The New Colfax Common Shares have not been, and are not currently intended to be, registered under the applicable securities laws of any Restricted Jurisdiction. This document is not being made available to Charter Shareholders with registered addresses in a Restricted Jurisdiction and may not be treated as an offer or invitation to subscribe for any New Colfax Common Shares by any person resident or located in such jurisdictions. The New Colfax Common Shares may not be offered in or into any Restricted Jurisdiction or to or for the account or benefit of any national, resident or citizen of a Restricted Jurisdiction. Any persons (including, without limitation, custodians, nominees and trustees) who have a contractual or other legal obligation to forward this document or any accompanying document to a Restricted Jurisdiction should seek appropriate advice before taking any action.

Deutsche Bank AG is authorized under German Banking Law (competent authority: BaFin – Federal Financial Supervisory Authority) and authorized and subject to limited regulation by the FSA. Details about the extent of Deutsche Bank AG's authorisation and regulation by the FSA are available on request. Deutsche Bank AG is acting as financial adviser to Colfax and Bidco and no one else in connection with the contents of this document and the Acquisition and will not be responsible to any person other than Colfax and Bidco for providing the protections afforded to clients of Deutsche Bank AG nor for providing advice in relation to the Acquisition or any matters referred to herein.

THE CONTENTS OF THIS DOCUMENT ARE NOT TO BE CONSTRUED AS LEGAL, FINANCIAL, BUSINESS OR TAX ADVICE. EACH POTENTIAL INVESTOR SHOULD CONSULT HIS, HER OR ITS OWN LEGAL ADVISER, FINANCIAL ADVISER OR TAX ADVISER FOR LEGAL, FINANCIAL OR TAX ADVICE.

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SUMMARY INFORMATION

The following summary information does not purport to be complete and should be read as an introduction to the more detailed information appearing elsewhere in this document. Any decision in relation to the Acquisition, the New Colfax Common Shares and the Charter Shares should be based on consideration of this document as a whole, including the information incorporated by reference, and not solely on this summarized information. Where a claim relating to the information contained in this document is brought before a court in a member state of the EEA, the claimant may, under the national legislation of the member state where the claim is brought, be required to bear the costs of translating this document before legal proceedings are initiated if the state has implemented the relevant provisions of the Prospectus Directive (Directive 2003/71/EC). Civil liability attaches to those persons who are responsible for this summary, including any translations of this summary, but only if this summary is misleading, inaccurate or inconsistent when read together with other parts of this document.

Introduction

On September 12, 2011, the Colfax Board and the Charter Board announced that they had agreed the terms of a recommended cash and share offer to be made by Bidco for the entire issued and to be issued share capital of Charter.

It is intended that the Acquisition will be implemented by way of a court-sanctioned scheme of arrangement under Article 125 of the Companies (Jersey) Law 1991 (although Colfax has reserved the right to decide to implement the Acquisition by way of an Offer for the entire issued and to be issued share capital of Charter).

Subject to the satisfaction, or where applicable, waiver of the Conditions, it is expected that the Acquisition will become Effective on or around January 13, 2012.

The Charter Board is unanimously recommending that Charter Shareholders vote in favour of the resolutions required to effect the Scheme (or in the event that the Acquisition is implemented by way of an Offer, to accept or procure acceptance of such Offer).

Summary of the Acquisition terms

Under the terms of the Scheme, which will be subject to the Conditions, and the other terms summarized below and set out in the Scheme Document (or, if Bidco elects to implement the Acquisition by way of an Offer, the Offer Document), Charter Shareholders will be entitled to receive:

for each Charter Share	**730 pence in cash** **and** **0.1241 New Colfax Common Shares**

The Acquisition values Charter's fully diluted share capital at approximately:

- £1,528 million, being 910 pence per Charter Share on a fully diluted basis (based on the Closing Price of $23.04 per Colfax Share on September 9, 2011 (being the last business day before the 2.5 Announcement) and at an exchange rate on September 9, 2011 of £1:$1.5881). This represents a premium of approximately 48.0% to the Closing Price of 615 pence per Charter Share on June 28, 2011 (being the last business day before Charter announced it had received a preliminary approach from Melrose regarding a possible offer); and
- £1,510 million, being 900 pence per Charter Share on a fully diluted basis (based on the Closing Price of $21.60 per Colfax Share on October 14, 2011 (being the latest practicable date prior to publication of this document) and at an exchange rate on October 14, 2011 of £1:$1.5808). This represents a premium of approximately 46.3% to the Closing Price of 615 pence per Charter Share on June 28, 2011.

Based on this Acquisition value:

(a) the cash consideration for the Acquisition will be approximately £1,225 million; and

(b) up to 20,832,469 New Colfax Common Shares would be issued as part consideration for the Acquisition,

irrespective of elections made under the Mix and Match Facility.

Charter and Colfax have agreed that an appropriate adjustment will be made to the Exchange Ratio in the event of: (a) the payment of any dividend or other distribution by Colfax to its shareholders; (b) the reclassification, subdivision, consolidation or reorganisation of Colfax's share capital; (c) any issuance of equity securities pursuant to a pre-emptive invitation to the existing shareholders as a class subject only to regulatory exclusions; or (d) any transaction similar to the foregoing to the extent it would have a material disproportionate impact on those Charter Shareholders who receive New Colfax Common Shares pursuant to the Acquisition as compared to the existing Colfax Shareholders (taken as a class). As at the date of this document, no such matters have occurred.

Charter Shareholders (other than certain Overseas Shareholders) will be entitled to elect, subject to availability, to vary the proportions in which they receive New Colfax Common Shares and cash in respect of their holdings of Charter Shares. However, the total number of New Colfax Common Shares to be issued and the maximum aggregate amount of cash to be paid under the Scheme will not be varied as a result of elections under the Mix and Match Facility.

The Mix and Match Facility is conditional upon the Scheme becoming effective and further details of the Mix and Match facility are included in the Scheme Document (or, if Bidco elects to implement the Acquisition by way of an Offer, the Offer Document).

Charter Shareholders (other than certain Overseas Shareholders and US persons or persons resident in the US) will be entitled to elect to receive Loan Notes instead of all or part of the cash consideration to which they would otherwise be entitled under the terms of the Acquisition.

The Loan Note Alternative will be made available on the following basis:

for every whole £1 in cash consideration   £1 nominal value of Loan Notes

The Loan Note Alternative will be conditional upon the Acquisition becoming effective. Full details of the Loan Note Alternative are contained in the Scheme Document (or, if Bidco elects to implement the Acquisition by way of an Offer, the Offer Document) and the Form of Election.

The purpose of the Scheme is to enable Bidco to acquire the whole of the issued and to be issued share capital of Charter. The Scheme, which will be subject to the Conditions and other terms summarized below and set out in the Scheme Document (or, if Bidco elects to implement the Acquisition by way of an Offer, the Offer Document), will require the sanction of the Court.

In the event that the Acquisition is to be implemented by way of an Offer, the Charter Shares will be acquired pursuant to the Offer fully paid and free from all liens, charges, equitable interests, encumbrances and rights of pre-emption and any other interests of any nature whatsoever and together with all rights attaching thereto. Any New Charter Shares issued to Bidco pursuant to the Scheme will be issued on the same basis.

Background to and reasons for the Acquisition

Colfax believes the acquisition of Charter would complement its stated strategy which, in addition to driving organic growth, includes pursuing value-creating acquisitions within its served markets, and adding complementary growth platforms to provide scale and revenue diversity. Colfax considers Charter to be a leading player in key markets with an attractive business mix and strong technological capabilities that fits well with Colfax's acquisition criteria.

Colfax identified Charter as a business that would complement its fluid handling platform as well as adding a new welding and cutting platform. In July 2011, following the unsolicited approach for Charter by Melrose, Colfax approached Charter to express its interest in a possible acquisition.

Colfax believes that completion of the Acquisition would accelerate Colfax's growth strategy and enable Colfax to become a multi-platform business with a strong global footprint. Charter's air and gas handling business (Howden) would extend Colfax's existing fluid handling platform, and Charter's welding, cutting and automation business (ESAB) would establish a new growth platform for the Combined Group.

Colfax believes that the Acquisition will improve Colfax's business profile by providing a meaningful recurring revenue stream. It would also provide considerable exposure to emerging markets, allow the Combined Group to benefit from strong secular growth drivers and provide a balance of short and long cycle businesses.

The Acquisition is also expected to provide a platform for additional acquisitions in the fragmented welding and air handling markets.

Information on Colfax and Bidco

Colfax

Colfax, headquartered in Fulton, Maryland, USA, was founded in 1995 by Mitchell P. Rales and Steven M. Rales. Colfax is a global supplier of a broad range of fluid handling products, including pumps, fluid handling and lubrication systems and controls, and specialty valves. It is a leading manufacturer of rotary positive displacement pumps, which include screw pumps, gear pumps and progressive cavity pumps, as well as certain centrifugal pumps. Colfax designs and engineers products to high quality and reliability standards for use in critical fluid handling applications where performance is paramount. Colfax also offers customized fluid handling solutions to meet individual customer needs based on in-depth technical knowledge of the applications in which the products are used.

Colfax's products are marketed principally under the Allweiler, Baric, Fairmount Automation, Houttuin, Imo, LSC, Portland Valve, Tushaco, Warren and Zenith brand names. Colfax believes that its brands are widely known and have a premium position in its industry. Colfax believes that Allweiler, Houttuin, Imo and Warren are among the oldest and most recognized brands in the markets in which it participates, with Allweiler dating back to 1860. Colfax has a global manufacturing footprint, with production facilities in Europe, North America and Asia, as well as worldwide sales and distribution channels.

Bidco

Bidco is a newly incorporated English company which is a wholly-owned subsidiary of Colfax established to effect the Acquisition. Bidco has not traded prior to the date of the 2.5 Announcement (except for entering into transactions relating to the Acquisition).

Information on Charter

Charter is the ultimate owner (through a number of intermediate holding companies) of two international engineering businesses, ESAB, which is focused on welding, cutting and automation, and Howden, which is focused on air and gas handling.

ESAB is a leading international welding and cutting business. It formulates, develops, manufactures and supplies consumable products and equipment for use in the cutting and joining of steels, aluminium and metal alloys. ESAB's comprehensive range of welding consumables includes electrodes, cored and solid wires, and fluxes. ESAB's welding and cutting equipment ranges from small retail uses to large equipment principally used in the energy and shipbuilding sectors.

Howden is an international applications engineering business. Howden designs, manufactures, installs and maintains air and gas handling equipment for use in the power, oil and gas, petrochemical and other industries.

Charter is listed on the Official List of the UKLA and admitted to trading on the London Stock Exchange.

Current trading and prospects

There has been no significant change in the financial or trading position of the Colfax Group which has occurred since July 1, 2011, the end of the last financial period for which interim financial information has been published.

Charter's Interim Results Announcement stated that, in the six months ended June 30, 2011, Charter had revenue of £946.5 million, adjusted profit before tax of £75.6 million and adjusted earnings per share of 33.6 pence, and that the Charter Board was confident in the full year performance of Charter.

Risk Factors

An investment in the Colfax Shares involves substantial risks and uncertainties. These risks and uncertainties include, among others, those listed below:

Risks relating to the business of Colfax (and, following completion of the Acquisition, the business of the Combined Group)

- Changes in the general economy.
- Our growth strategy.

- Available insurance coverage, the number of future asbestos-related claims and the average settlement value of current and future asbestos-related claims.
- A material disruption at any of our or, following completion of the Acquisition, the Combined Group's manufacturing facilities.
- Failure to comply with US sanctions and embargoes.
- Failure to comply with export control regulations.
- Our international operations.
- Foreign trade unions representing Charter's employees and approximately 49% of our employees.
- Product liability lawsuits.
- Compliance with a variety of environmental and health and safety laws.
- Liability for environmental contamination.
- Failure to maintain and protect trademarks, trade names and technology.
- The loss of key leadership.
- Restrictions contained in the Deutsche Bank Credit Agreement.
- Any impairment in the value of intangible assets, including goodwill.
- Defined benefit pension schemes and other benefit plans.
- Charter's UK defined benefit schemes.
- Significant movements in foreign currency exchange rates.
- Dependency on the availability of raw materials, as well as parts and components used in products.
- Competitive markets.

Additional risks and other considerations relating to Charter (and, following completion of the Acquisition, the Combined Group)

- Additional funding requirements in respect of Charter's UK defined benefit pension schemes.
- Liability claims in relation to Charter's products.
- Changes in technology.

Risks and other considerations relating to the Acquisition

- Failure to realize the anticipated benefits and operating synergies expected from the Acquisition.
- Integration costs and the risk of material delays or unanticipated additional expense.
- Failure to integrate Charter into the Combined Group.
- Unanticipated liabilities incurred as a result of the Acquisition.
- Risk that the complexity of the integration and transition associated with the Acquisition may affect our internal control over financial reporting and timely reporting of our financial results.
- Provisions in our Amended and Restated Certificate of Incorporation that grant the BDT Investor certain rights.
- Provisions in our charter documents and Delaware law which could delay or prevent an acquisition of Colfax.
- Inability to acquire the entire issued share capital of Charter.
- Inability to invoke the conditions to the Acquisition and terminate the Acquisition.

Risks and other considerations relating to the Colfax Shares

- Significant influence over us capable of being exercised by the BDT Investor.
- Dilutive effect on Colfax Common Stock as a result of the transactions contemplated by the Purchase Agreements and the Implementation Agreement.
- High level of volatility in the market price of Colfax Common Stock.

IMPORTANT DATES AND TIMES

The dates and times given in the table below in connection with the Acquisition are indicative only, and are based on Colfax's current expectations and may be subject to change (including as a result of changes to Court times, the regulatory timetable and/or the process for implementation of the Acquisition)*. In particular, the dates and times for the Court hearing to sanction the Scheme (and accordingly, all subsequent principal events), may be earlier than the dates and times set out below in the event that regulatory clearance are received earlier than expected. If any of the times and/or dates above change, the revised times and/or dates will be notified by Colfax through a Regulatory Information Service*.

Event	Time and/or date(1)
Voting Record Time	6.00 p.m. on November 12, 2011
Court Meeting(2)	11.00 a.m. on November 14, 2011
Charter General Meeting(2)	11.15 a.m. on November 14, 2011
Colfax General Meeting	To be confirmed(3)
Latest time for return of Form of Election or submission of valid TTE Instruction in CREST	1.00 p.m. on January 10, 2012(4)
Suspension of listing of, and dealings, settlement and transfers in, Charter Shares	8.00 a.m. on January 11, 2012
Reorganisation Record Time	6.00 p.m. on January 11, 2012
Scheme Record Time	6.30 p.m. on January 11, 2012
Court Hearing to sanction the Scheme and confirm the Capital Reduction	January 12, 2012
Effective Date	January 13, 2012
Cancellation of listing of Charter Shares	8.00 a.m. on January 13, 2012
New Colfax Common Shares issued, listed on the NYSE and crediting of Colfax CDIs in CREST accounts	by 8.00 a.m.(5) on January 27, 2012
Latest date for despatch of Offer Consideration	January 27, 2012
Long Stop Date	March 30, 2012

(1) **All times shown in this document are Jersey times unless otherwise stated. Some dates are indicative only and will depend, *inter alia*, on the dates upon which the Court sanctions the Scheme and whether the Conditions are satisfied or waived. IF THE EXPECTED DATE OF THE COURT HEARING TO SANCTION THE SCHEME OR ANY OTHER KEY EVENT IS CHANGED, CHARTER WILL GIVE NOTICE OF THIS CHANGE BY ISSUING AN ANNOUNCEMENT VIA A REGULATORY INFORMATION SERVICE. All Charter Shareholders have the right to attend the Court Hearing in person or through counsel to support or oppose the sanctioning of the Scheme**.

(2) The Court Meeting and the Charter General Meeting will both be held at 27 Northwood House, Northwood Park, Santry, Dublin 9, Ireland on November 14, 2011. The Court Meeting will start at 11.00 a.m. and the Charter General Meeting will start at 11.15 a.m. (or as soon thereafter as the Court Meeting has been concluded or adjourned).

(3) The timing of the Colfax General Meeting is yet to be confirmed but will be held prior to the Court Hearing to sanction the Scheme and confirm the Capital Reduction. Colfax will issue an announcement notifying Colfax Shareholders of the date and time of the Colfax General Meeting following posting of the Proxy Statement.

(4) Or such earlier time and date as Charter and Colfax may announce via a Regulatory Information Service.

(5) Eastern Standard Time.

ACQUISITION STATISTICS

Number of Colfax Shares at October 14, 2011	43,602,712
New Colfax Common Shares to be issued pursuant to the terms of the Acquisition	up to 20,832,469
Colfax Common Stock to be issued pursuant to the Equity Capital Raising	20,182,293
Series A Preferred Stock to be issued pursuant to the Equity Capital Raising	13,877,552
Colfax Common Stock in issue following completion of the Acquisition	84,617,474(1)
Total voting rights attributable to the New Colfax Common Shares as a percentage of the total voting rights attributable to the Colfax Shares after completion of the Acquisition	21.5%(1)(2)

(1) Assuming (a) the special meeting of stockholders of Colfax to be held prior to the closing of the Acquisition approves the relevant increase in the number of shares of authorized capital stock of Colfax; (b) the following subscriptions of Colfax Shares are completed in full: (i) the subscription for 13,877,552 shares of Series A Preferred Stock and 14,756,945 shares of Colfax Common Stock by the BDT Investor; (ii) the subscription for 2,170,139 shares of Colfax Common Stock by Mitchell P. Rales; (iii) the subscription for 2,170,139 shares of Colfax Common Stock by Steven M. Rales; and (iv) the subscription for 1,085,070 shares of Colfax Common Stock by Markel; (c) the completion of the issuance of 20,832,469 New Colfax Common Shares as part consideration for the Acquisition; and (d) none of the shares of Series A Preferred Stock are converted into shares of Colfax Common Stock.

(2) The total voting rights attributable to the Colfax Shares comprise 84,617,474 votes in respect of shares of Colfax Common Stock and 12,173,291 votes in respect of the 13,877,552 shares of Series A Preferred Stock. The voting rights attributable to the Series A Preferred Stock are calculated on the assumption that the conversion price for the conversion of the Series A Preferred Stock to Colfax Common Stock will be $27.93. Such conversion price is subject to adjustment in certain circumstances. For further information on the voting rights and conversion price applicable to the Series A Preferred Stock, see *Part 14: Additional Information – 4. Summary of Certificate of Incorporation, Bylaws and Related Legal Provisions – Rights attaching to the Series A Preferred Stock*.

RISK FACTORS

An investment in the Colfax Shares is subject to a number of risks. Charter Shareholders and potential investors should consider the following risks and uncertainties together with all the other information set out in, or incorporated by reference into, this document prior to making any decision as to whether or not to accept the issuance of Colfax Shares contemplated by the Acquisition. The risks described below are based on information known at the date of this document, but may not be the only risks to which Colfax, Charter and/or the Combined Group might be exposed. Additional risks and uncertainties, which are currently unknown to us or that we do not currently consider to be material, may materially affect the business of Colfax, Charter and/or the Combined Group and could have a material adverse effect on the business, financial condition and results of operations of Colfax, Charter and/or the Combined Group. If any of the following risks were to occur, the business, financial condition and results of operations of Colfax, Charter and/or the Combined Group could be materially adversely affected, and the value of the Colfax Shares could decline and investors could lose all or part of the value of their investment in Colfax Shares. Charter Shareholders and potential investors should read this document as a whole, including the information incorporated by reference, and not rely solely on the information set out in this section.

Risks relating to our business (and, following completion of the Acquisition, the business of the Combined Group)

Changes in the general economy and the cyclical nature of markets could harm operations and financial performance

Colfax's and Charter's financial performance depends, in large part, on conditions in the markets we and Charter serve and on the general condition of the global economy. Any sustained weakness in demand, downturn or uncertainty in the global economy could reduce our and Charter's sales and profitability, and result in restructuring efforts. Restructuring efforts are inherently risky and we may not be able to predict the cost and timing of such actions accurately or properly estimate the impact on demand, if any. We also may not be able to realize the anticipated savings we expected from restructuring activities. In addition, our and Charter's products are sold in many industries, some of which are cyclical and may experience periodic downturns. Cyclical weakness in the industries that we and Charter serve could lead to reduced demand for our products and affect our profitability and financial performance. In 2010, the effects of the global economic slowdown started to recede in some markets but we still see sluggish demand and less than robust growth in certain areas.

We believe that many of our customers and suppliers are reliant on liquidity from global credit markets and in some cases, require external financing to purchase products or finance operations. Lack of liquidity or inability to access the credit markets by our and Charter's customers could impact our ability to collect amounts owed to us. The occurrence of any of the foregoing could have a material and adverse effect on our business, financial condition and results of operations and those of the Combined Group.

Acquisitions have formed a significant part of our growth strategy in the past and are expected to continue to do so. If we are unable to identify suitable acquisition candidates or successfully integrate the businesses we acquire or realize the intended benefits, our growth strategy may not succeed. Acquisitions involve numerous risks, including risks related to integration and undisclosed or underestimated liabilities

Historically, our business strategy has relied on acquisitions. We expect to derive a significant portion of our growth by acquiring businesses and integrating those businesses into our existing operations. We intend to seek acquisition opportunities both to expand into new markets and to enhance our position in our existing markets. However, our ability to do so will depend on a number of steps, including our ability to:

- identify suitable acquisition candidates;
- negotiate appropriate acquisition terms;
- obtain debt or equity financing that we may need to complete proposed acquisitions;
- complete the proposed acquisitions; and
- integrate the acquired business into our existing operations.

If we fail to achieve any of these steps, our growth strategy may not be successful.

In addition, acquisitions involve numerous risks, including difficulties in the assimilation of the operations, technologies, services and products of the acquired company, the potential loss of key employees of the acquired company and the diversion of our management's attention from other business concerns. This is the case particularly in the fiscal quarters immediately following the completion of an acquisition because the operations of the acquired business are integrated into the acquiring businesses' operations during this period. We cannot be sure that we will accurately anticipate all of the changing demands that any future acquisition may impose on our management, our operational and management information systems and our financial systems. The occurrence of any of the foregoing could have a material and adverse effect on our business, financial condition and results of operations.

We may underestimate or fail to discover liabilities relating to a future acquisition during the due diligence investigation and we, as the successor owner, might be responsible for those liabilities. For example, two of our acquired subsidiaries are each one of many defendants in a large number of lawsuits that claim personal injury as a result of exposure to asbestos from products manufactured with components that are alleged to have contained asbestos. Although our due diligence investigations in connection with these acquisitions uncovered the existence of potential asbestos-related liabilities, the scope of such liabilities were greater than we had originally estimated. Although we seek to minimize the impact of underestimated or potential undiscovered liabilities by structuring acquisitions to minimize liabilities and obtaining indemnities and warranties from the selling party, these methods may not fully protect us from the impact of undiscovered liabilities. Indemnities or warranties are often limited in scope, amount or duration, and may not fully cover the liabilities for which they were intended. The liabilities that are not covered by the limited indemnities or warranties could have a material adverse effect on our business, financial condition and results of operations.

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

Two of our subsidiaries are each one of many defendants in a large number of lawsuits that claim personal injury as a result of exposure to asbestos from products manufactured with components that are alleged to have contained asbestos. Such components were acquired from third-party suppliers and were not manufactured by any of our subsidiaries nor were the subsidiaries producers or direct suppliers of asbestos. For the purposes of our financial statements, we have estimated the future claims exposure and the amount of insurance available based upon certain assumptions with respect to future claims and liability costs. We estimate the liability costs to be incurred in resolving pending and forecasted claims for the next 15-year period.

Our decision to use a 15-year period is based on our belief that this is the extent of our ability to forecast liability costs. We also estimate the amount of insurance proceeds available for such claims based on the current financial strength of the various insurers, our estimate of the likelihood of payment and applicable current law. We reevaluate these estimates regularly. Although we believe our current estimates are reasonable, a change in the time period used for forecasting our liability costs, the actual number of future claims brought against us, the cost of resolving these claims, the likelihood of payment by, and the solvency of, insurers and the amount of remaining insurance available could be substantially different than our estimates, and future revaluation of our liabilities and insurance recoverables could result in material adjustments to these estimates, any of which could materially and adversely affect our business, financial condition and results of operations. In addition, we incur defense costs related to those claims, a portion of which has historically been reimbursed by our insurers. We also incur litigation costs in connection with actions against certain of the subsidiaries' insurers relating to insurance coverage. While these costs may be significant, we may not be able to predict the amount or duration of such costs. Additionally, we may experience delays in receiving reimbursement from insurers, during which time we may be required to pay cash for settlement or legal defense costs. Any increase in the actual number of future claims brought against us, the defense costs of resolving these claims, the cost of pursuing claims against our insurers, the likelihood and timing of payment by, and the solvency of, insurers and the amount of remaining insurance available, could materially and adversely affect our business, financial condition and results of operations.

A material disruption at any of our or, following completion of the Acquisition, the Combined Group's manufacturing facilities could adversely affect our ability to generate sales and meet customer demand

If operations at our or, following completion of the Acquisition, the Combined Group's manufacturing facilities were to be disrupted as a result of significant equipment failures, natural disasters, power outages, fires, explosions, terrorism, adverse weather conditions, labor disputes or other reasons, our financial performance could be adversely affected as a result of our or, following completion of the Acquisition, the Combined Group's inability to meet customer demand for our or, following completion of the Acquisition, the Combined Group's products. Interruptions in production could increase our or, following completion of the Acquisition, the Combined Group's costs and reduce our or, following completion of the Acquisition, the Combined Group's sales. Any interruption in production capability could require us or the Combined Group to make substantial capital expenditures to remedy the situation, which could negatively affect our or, following completion of the Acquisition, the Combined Group's profitability and financial condition. We maintain property damage insurance which we believe to be adequate to provide for reconstruction of facilities and equipment, as well as business interruption insurance to mitigate losses resulting from any production interruption or shutdown caused by an insured loss. However, any recovery under our insurance policies may not offset the lost sales or increased costs that may be experienced during the disruption of operations, which could adversely affect our business, financial condition and results of operations.

Our international operations are and, following completion of the Acquisition, the Combined Group's international operations will be, subject to the laws and regulations of the United States and many foreign countries. Failure to comply with these laws may affect our ability to conduct business in certain countries and may affect our financial performance

We and Charter are and, following completion of the Acquisition, the Combined Group will be, subject to a variety of laws regarding our international operations, including the US Foreign Corrupt Practices Act and regulations issued by US Customs and Border Protection, the US Bureau of Industry and Security, and the regulations of various foreign governmental agencies. We cannot predict the nature, scope or effect of future regulatory requirements to which our international sales and manufacturing operations might be subject or the manner in which existing laws might be administered or interpreted. Future regulations could limit the countries in which some of our or, following completion of the Acquisition, the Combined Group's products may be manufactured or sold, or could restrict our or, following completion of the Acquisition, the Combined Group's access to, and increase the cost of obtaining, products from foreign sources. In addition, actual or alleged violations of these laws could result in enforcement actions and financial penalties that could result in substantial costs. The occurrence of any of the foregoing could have a material and adverse effect on our business, financial condition and results of operations.

We and Charter have done and, following completion of the Acquisition, the Combined Group's foreign subsidiaries may continue to do business in countries subject to US sanctions and embargoes, and we may have limited managerial oversight over those activities. Failure to comply with these sanctions and embargoes may result in enforcement or other regulatory actions

From time to time, certain of our foreign subsidiaries and Charter's subsidiaries sell products to companies and entities located in, or controlled by the governments of, certain countries that are or have previously been subject to sanctions and embargoes imposed by the US government and/or the United Nations, such as Syria. In March 2010, the Colfax Board affirmatively prohibited any sales to Iran by us and all of our foreign subsidiaries. With the exception of the US sanctions against Cuba, the applicable sanctions and embargoes generally do not prohibit our foreign subsidiaries from selling non-US-origin products and services to countries that are or have previously been subject to sanctions and embargoes or Charter's subsidiaries from selling non-US-origin products and services in those countries. However, our and, following completion of the Acquisition, the Combined Group's US personnel and each of their domestic subsidiaries, as well as employees of the Combined Group's and each of their foreign subsidiaries who are US citizens, are prohibited from participating in, approving or otherwise facilitating any aspect of the business activities in those countries. These constraints may negatively affect the financial or operating performance of such business activities. We cannot be certain that our attempts to comply with US sanction laws and embargoes will be effective, and as a consequence we may face enforcement or other actions if our compliance efforts are not effective. Actual or alleged violations of these laws could result in substantial fines or other sanctions which could result in substantial costs. In addition, Syria is currently identified by the US State Department as a state sponsor of terrorism, and may be subject to increasingly restrictive sanctions. Because certain of our and Charter's foreign subsidiaries have contact with and transact business in such countries, including sales to enterprises controlled by agencies of the governments of such countries, our reputation may suffer due to our association with these countries, which may have a material adverse effect on the price of our shares. In addition, certain US states and municipalities have recently enacted legislation regarding investments by pension funds and other retirement systems in companies that have business activities or contacts with countries that have been identified as state sponsors of terrorism and similar legislation may be pending in other states. As a result, pension funds and other retirement systems may be subject to reporting requirements with respect to investments in companies such as Colfax or may be subject to limits or prohibitions with respect to those investments that may have a material adverse effect on the price of our shares.

In addition, one of our foreign subsidiaries made a small number of sales from 2003 through 2007 totaling approximately $60,000 in the aggregate to two customers in Cuba which may have been made in violation of regulations of the US Treasury Department's Office of Foreign Assets Control, or OFAC. Cuba is also identified by the US State Department as a state sponsor of terrorism. We have submitted a disclosure report to OFAC regarding these transactions. As a result of these sales, we may be subject to fines or other sanctions.

If we and Charter and, following completion of the Acquisition, the Combined Group fail to comply with export control regulations, we could be subject to substantial fines or other sanctions

Some of our and Charter's products manufactured or assembled in the United States are subject to the US Export Administration Regulations, administered by the US Department of Commerce, Bureau of Industry and Security, which require that an export license is obtained before such products can be exported to certain countries. Additionally, some of our and Charter's products are subject to the International Traffic in Arms Regulations, which restrict the export of certain military or intelligence-related items, technologies and services to non-US persons. Failure to comply with these laws could harm our, and following the completion of the Acquisition, the Combined Group's business by subjecting us to sanctions by the US government, including substantial monetary penalties, denial of export privileges and debarment from US government contracts. The occurrence of any of the foregoing could have a material and adverse effect on our business, financial condition and results of operations.

The majority of our sales are derived from international operations. We are and, following completion of the Acquisition, the Combined Group will be subject to specific risks associated with international operations

In the year ended December 31, 2010, we derived approximately 66% of our sales from operations outside of the US and we have manufacturing facilities in eight countries. Sales from international operations, export sales and the use of manufacturing facilities outside of the US by us and, following completion of the Acquisition, the Combined Group are subject to risks inherent in doing business outside the US. These risks include:

- economic or political instability;
- partial or total expropriation of international assets;
- trade protection measures, including tariffs or import-export restrictions;
- currency exchange rate fluctuations and restrictions on currency repatriation;
- significant adverse changes in taxation policies or other laws or regulations; and
- the disruption of operations from political disturbances, terrorist activities, insurrection or war.

If any of these risks were to materialize, they may have a material adverse effect on our business, financial condition and results of operations.

Approximately 49% of our employees are represented by foreign trade unions. Charter also has employees that are represented by trade unions. If the representation committees responsible for negotiating with these unions on our or Charter's behalf are unsuccessful in negotiating new and acceptable agreements when the existing agreements with our or Charter's employees covered by the unions expire or if the foreign trade unions chose not to support our restructuring programs, we and, following the completion of the Acquisition, the Combined Group could experience business disruptions or increased costs

As of December 31, 2010, we had 1,524 employees in foreign locations. In certain countries, labor and employment laws are more restrictive than in the US and, in many cases, grant significant job protection to employees, including rights on termination of employment. In Germany, Sweden and the Netherlands, by law, some of our employees are represented by trade unions in these jurisdictions, which subject us to employment arrangements very similar to collective bargaining agreements. Charter also has employees that are represented by trade unions. If our or Charter's and, following completion of the Acquisition, the Combined Group's employees represented by foreign trade unions were to engage in a strike, work stoppage or other slowdown in the future, we could experience a significant disruption of our or, following completion of the Acquisition, the Combined Group's operations. Such disruption could interfere with our or, following completion of the Acquisition, the Combined Group's business operations and could lead to decreased productivity, increased labor costs and lost revenue. Although we have not experienced any material recent strikes or work stoppages, we cannot offer any assurance that the representation committees that negotiate with the foreign trade unions on our behalf will be successful in negotiating new collective bargaining agreements or other employment arrangements when the current ones expire. Furthermore, future labor negotiations could result in significant increases in our labor costs. The occurrence of any of the foregoing could have a material and adverse effect on our or, following completion of the Acquisition, the Combined Group's business, financial condition and results of operations.

Our manufacturing business is and Charter's manufacturing businesses are and, following the completion of the Acquisition, the Combined Group's manufacturing business will be subject to the possibility of product liability lawsuits, which could harm our business and the business of the Combined Group

In addition to the asbestos-related liability claims described above, as the manufacturer of equipment for use in industrial markets, we face, and, following completion of the Acquisition, the Combined Group will face an inherent risk of exposure to other product liability claims. Although we and Charter maintain quality controls and procedures, we cannot be sure that our or, following completion of the Acquisition, the Combined Group's products will be free from defects. In addition, some of our and Charter's products contain components manufactured by third parties, which may also have defects. We maintain insurance coverage for product liability claims. The insurance policies have limits, however, that may not be sufficient to cover claims made. In addition, this insurance may not continue to be available at a reasonable cost. With respect to components manufactured by third-party suppliers, the contractual indemnification that we and Charter seek from our third-party suppliers may be limited and thus insufficient to cover claims made against us or, following completion of the Acquisition, the Combined Group. If insurance coverage or contractual indemnification is insufficient to satisfy product liability claims made against us or, following completion of the Acquisition, the Combined Group, the claims could have an adverse effect on our or, following completion of the Acquisition, the Combined Group's business and financial condition. Even claims without merit could harm our reputation, reduce demand for our or, following completion of the Acquisition, the Combined Group's products, cause us to incur substantial legal costs and distract the attention of our management. The occurrence of any of the foregoing could have a material and adverse effect on our or, following completion of the Acquisition, the Combined Group's business, financial condition and results of operations.

As manufacturers, we and Charter are, and, following completion of the Acquisition, the Combined Group will be, subject to a variety of environmental and health and safety laws for which compliance, or liabilities that arise as a result of noncompliance, could be costly

Our and Charter's businesses are subject to international, federal, state and local environmental and safety laws and regulations, including laws and regulations governing emissions of: regulated air pollutants; discharges of wastewater and storm water; storage and handling of raw materials; generation, storage, transportation and disposal of regulated wastes; and worker safety. These requirements impose on our and Charter's businesses certain responsibilities, including the obligation to obtain and maintain various environmental permits. If we or Charter were to fail to comply with these requirements or fail to obtain or maintain a required permit, we or Charter could be subject to penalties and be required to undertake corrective action measures to achieve compliance. In addition, if our or Charter's noncompliance with such regulations were to result in a release of hazardous materials to the environment, such as soil or groundwater, we or Charter could be required to remediate such contamination, which could be costly. Moreover, noncompliance could subject us or Charter to private claims for property damage or personal injury based on exposure to hazardous materials or unsafe working conditions. Changes in applicable requirements or stricter interpretation of existing requirements may result in costly compliance requirements or otherwise subject us or Charter to future liabilities. The occurrence of any of the foregoing could have a material and adverse effect on our or, following completion of the Acquisition, the Combined Group's business, financial condition and results of operations.

As the present or former owner or operator of real property, or generator of waste, we could become subject to liability for environmental contamination, regardless of whether we caused such contamination

Under various federal, state and local laws, regulations and ordinances, and, in some instances, international laws, relating to the protection of the environment, a current or former owner or operator of real property may be liable for the cost to remove or remediate contamination on, under, or released from such property and for any damage to natural resources resulting from such contamination. Similarly, a generator of waste can be held responsible for contamination resulting from the treatment or disposal of such waste at any off-site location (such as a landfill), regardless of whether the generator arranged for the treatment or disposal of the waste in compliance with applicable laws. Costs associated with liability for removal or remediation of contamination or damage to natural resources could be substantial and liability under these laws may attach without regard to whether the responsible party knew of, or was responsible for, the presence of the contaminants. In addition, the liability may be joint and several. Moreover, the presence of contamination or the failure to remediate contamination at our and, following completion of the Acquisition, the Combined Group's properties, or properties for which we are deemed responsible, may expose us to liability for property damage or personal injury, or materially adversely affect our ability to sell our real property interests or to borrow using the real property as collateral. We cannot be sure that we will not be subject to environmental liabilities in the future as a result of historic or current operations that have resulted or will result in contamination. The occurrence of any of the foregoing could have a material and adverse effect on our business, financial condition and results of operations.

Failure to maintain and protect our and, following completion of the Acquisition, the Combined Group's trademarks, trade names and technology may affect our operations and financial performance

The market for many of our and Charter's products is, in part, dependent upon the goodwill engendered by our trademarks and trade names. Trademark protection is therefore material to a portion of our and Charter's businesses. The failure to protect our trademarks and trade names may have a material adverse effect on our business, financial condition and results of operations. Litigation may be required to enforce our and, following completion of the Acquisition, the Combined Group's intellectual property rights, protect our trade secrets or determine the validity and scope of proprietary rights of others. Any action we or, following completion of the Acquisition, the Combined Group take to protect our intellectual property rights could be costly and could absorb significant management time and attention. As a result of any such litigation, we could lose any proprietary rights we have. In addition, it is possible that others will independently develop technology that will compete with our patented or unpatented technology. The development of new technologies by competitors that may compete with our technologies could reduce demand for our products and affect our financial performance. The occurrence of any of the foregoing could have a material and adverse effect on our or, following completion of the Acquisition, the Combined Group's business, financial condition and results of operations.

The loss of key leadership could have a material adverse effect on our and, following completion of the Acquisition, the Combined Group's ability to run our business

We or, following completion of the Acquisition, the Combined Group may be adversely affected if we lose members of our senior leadership. We are highly dependent on our senior leadership team as a result of their expertise. During 2010 we added several new members to our senior leadership team, including Clay H. Kiefaber, our President and Chief Executive Officer, and C. Scott Brannan, our Senior Vice President, Finance and Chief Financial Officer. The loss of key leadership or the inability to attract, retain and motivate sufficient numbers of qualified management personnel could have a material adverse effect on our business, financial condition and results of operations.

The Deutsche Bank Credit Agreement contains restrictions that may limit our flexibility in operating our business

The Deutsche Bank Credit Agreement contains various covenants that limit our ability to engage in specified types of transactions. These covenants limit our ability to, among other things:

- incur additional indebtedness;
- pay dividends on, repurchase or make distributions in respect of, the capital stock of members of the Colfax Group;
- make certain investments;
- create liens on certain assets to secure debt;
- consolidate, merge, sell or otherwise dispose of all or substantially all its assets; and
- enter into certain transactions with affiliates.

In addition, under the Deutsche Bank Credit Agreement, the Colfax Group is required to satisfy and maintain compliance with a total leverage ratio and an interest coverage ratio. The Deutsche Bank Credit Agreement's various covenants and the additional leverage taken on by the Colfax Group could increase its vulnerability to general economic slowdowns which could have a materially adverse effect on its business, financial condition and results of operations.

Any impairment in the value of our intangible assets, including goodwill, would negatively affect our operating results and total capitalization

Our total assets reflect substantial intangible assets, primarily goodwill. The goodwill results from our acquisitions, representing the excess of cost over the fair value of the net assets we have acquired. We assess at least annually whether there has been impairment in the value of our intangible assets. If future operating performance at one or more of our business units were to fall significantly below current levels, if competing or alternative technologies emerge, or if market conditions for businesses acquired declines, we could incur, under current applicable accounting rules, a non-cash charge to operating earnings for goodwill impairment. Any determination requiring the write-off of a significant portion of unamortized intangible assets would adversely affect our business, financial condition, results of operations and total capitalization, the effect of which could be material.

Our and Charter's defined benefit pension schemes and post-retirement medical and death benefit plans are or may become subject to funding requirements or obligations that could adversely affect their business, financial condition and results of operations

We and Charter operate defined benefit pension schemes and post retirement medical and death benefit plans for our current and former employees worldwide. Each scheme's funding position is affected by the investment performance of the scheme's investments, changes in the fair value of the scheme's assets, the type of investments selected by the trustees, the life expectancy of the scheme's members, changes in the actuarial assumptions used to value the scheme's liabilities, changes in the rate of inflation and interest rates, the financial position of Colfax, Charter or, following the Acquisition, the Combined Group (as appropriate), as well as other changes in economic conditions. Furthermore, since a significant proportion of the schemes' assets are invested in publicly traded debt and equity securities, they are, and will be, affected by market risks. Any detrimental change in any of the above factors is likely to worsen the funding position of each of the relevant schemes, and this is likely to require the schemes' sponsoring employers to increase the contributions currently made to the schemes to satisfy our obligations. Any requirement to increase the level of contributions currently made could have a material and adverse effect on the business, financial condition and results of operations of Colfax, Charter or, following the Acquisition, the Combined Group.

The UK Pensions Regulator may require Colfax or Charter to provide additional funding in respect of Charter's four UK defined benefit schemes

Charter operates four UK defined benefit pension schemes. The trustees of the Charter UK defined benefit pension schemes have requested that we mitigate the impact of the Acquisition on the financial position of those schemes. Colfax may be required by the trustees to provide mitigation in the form of cash payments, security, guarantees and/or other undertakings to compensate the schemes. Discussions between Colfax and the trustees of the Charter defined benefit pension schemes in this regard are ongoing. If the trustees consider that the mitigation offered by us is insufficient the trustees may request that the UK Pensions Regulator obtains additional funding from us, Charter and/or an entity in the Combined Group by exercising its statutory powers to issue a contribution notice or financial support direction. Any requirement to provide additional funding in excess of the mitigation already offered by Colfax could have a material and adverse effect on the business, financial condition and results of operations of Colfax, Charter or, following the Acquisition, the Combined Group. For further information see *Risk Factors – Charter may be subject to additional funding requirements in respect of its UK defined benefit pension schemes as a result of a requirement to equalize guaranteed minimum pensions*.

Significant movements in foreign currency exchange rates may harm our and, following the completion of the Acquisition, the Combined Group's financial results

We are and Charter is and, following the Acquisition, the Combined Group will be exposed to fluctuations in currency exchange rates. In the year ended December 31, 2010, approximately 66% of our sales were derived from operations outside the US. A significant portion of our revenues and income are denominated in Euros, Swedish Krona and Norwegian Krone. Consequently, depreciation of the Euro, Krona or Krone against the US dollar has had a negative impact on the income from operations of our European operations. Large fluctuations in the rate of exchange between the Euro, the Krona, the Krone and the US dollar could have a material adverse effect on our business, financial condition and results of operations.

In addition, we do not engage to a material extent in hedging activities intended to offset the risk of exchange rate fluctuations. Any significant change in the value of the currencies of the countries in which we do business against the US dollar could affect our ability to sell products competitively and control our cost structure, which, in turn, could adversely affect our business, financial condition and results of operations.

We and Charter are and, following completion of the Acquisition, the Combined Group will be dependent on the availability of raw materials, as well as parts and components used in our products

While we manufacture many of the parts and components used in our products, we and Charter require and, following completion of the Acquisition, the Combined Group will require substantial amounts of raw materials and purchase parts and components from suppliers. The availability and prices for raw materials, parts and components may be subject to curtailment or change due to, among other things, suppliers' allocations to other purchasers, interruptions in production by suppliers, changes in exchange rates and prevailing price levels. Any significant change in the supply of, or price for, these raw materials or parts and components could materially affect our and Charter's and, following completion of the Acquisition, the Combined Group's business, financial condition and results of operations. In addition, delays in delivery of components or raw materials by suppliers could cause delays in our or, following completion of the Acquisition, the Combined Group's delivery of products to our or their customers.

The markets we serve are, and, following completion of the Acquisition, the markets the Combined Group serves will be highly competitive and some of our competitors may have superior resources. Responding to this competition could reduce our and/or the Combined Group's sales and operating margins

We sell most of our products in highly fragmented and competitive markets. We believe that the principal elements of competition in our markets are:

- the ability to meet customer specifications;
- application expertise and design and engineering capabilities;
- product quality and brand name;
- timeliness of delivery;

- price; and
- quality of aftermarket sales and support.

In order to maintain and enhance our competitive position, we intend to continue our investment in manufacturing quality, marketing, customer service and support, and distribution networks. We may not have sufficient resources to continue to make these investments and we may not be able to maintain our competitive position. Our competitors may develop products that are superior to our products, develop methods of more efficiently and effectively providing products and services, or adapt more quickly than us to new technologies or evolving customer requirements. Some of our and, following the completion of the Acquisition, the Combined Group's competitors may have greater financial, marketing and research and development resources than we have. As a result, those competitors may be better able to withstand the effects of periodic economic downturns. In addition, pricing pressures could cause us to lower the prices of some of our products to stay competitive. We may not be able to compete successfully with our existing competitors or with new competitors. If we or, following completion of the Acquisition, the Combined Group fail to compete successfully, the failure may have a material adverse effect on our or, following completion of the Acquisition, the Combined Group's business, financial condition and results of operations.

Additional risks and other considerations relating to Charter (and, following completion of the Acquisition, the Combined Group)

Charter may be subject to additional funding requirements in respect of its UK defined benefit pension schemes as a result of a requirement to equalize guaranteed minimum pensions

Since 1990, pension schemes in the UK have been prohibited from providing more favourable benefits to a male member compared with a female member, or vice versa. Historically, it has been unclear whether this prohibition extends to guaranteed minimum pensions. Guaranteed minimum pensions replace state scheme benefits for members who contracted-out of the UK state scheme pension for pensionable service prior to 6 April 1997. The vast majority of UK defined benefit pension schemes have not taken steps to equalize guaranteed minimum pensions for both men and women because of this uncertainty. The UK Government has recently announced that it believes that guaranteed minimum pensions must be equalized although it has not yet provided guidance on how this should be done. Equalization of guaranteed minimum pensions will require that members receive the more favourable of the benefits provided to men and to women which is likely to increase a pension scheme's liabilities and require additional funding over several years. This additional funding liability could have a material and adverse effect on Charter's business, financial conditions and results of operations. For further information see *Risk Factors – Our and Charter's defined benefit pension schemes and post-retirement medical and death benefit plans are or may become subject to funding requirements or obligations that could adversely affect their business, financial condition and results of operations*.

Charter's products may be subject to certain liability claims

In common with similar manufacturers, the Charter Group periodically receives claims alleging that its products and/or processes have caused damage to employees or third parties. While the Charter Group carries liability insurance for various risks, it could be exposed to liability claims in excess of, or beyond the scope of, this cover or, in certain circumstances, the cover may not apply. Following completion of the Acquisition, this could have a material adverse effect on the Combined Group's businesses, financial condition and/or operating results. Certain subsidiaries of Charter have, since approximately 1985, been named as defendants in asbestos-related actions in the United States alleging liability in connection with the acts of a former partially owned subsidiary, Cape plc. Currently the only pending cases are dormant and are not actively being pursued by the plaintiffs.

Howden North America, Inc. (formerly Howden Buffalo Inc.), an indirect subsidiary of Charter, has also been named as a defendant in a number of asbestos-related actions in the United States. Over the past few years, Howden North America has sought and received dismissal from over 11,700 cases and settled 499 for nuisance value amounts, much less than the cost of defending the actions at trial. EGI, an indirect subsidiary of Charter, is currently named as a defendant in a number of lawsuits in state and federal courts alleging personal injuries from exposure to manganese in fumes generated by welding consumables. Charter intends to defend these vigorously, although the outcome is of course uncertain. If any such claims were successful or the relevant plaintiff's sought to continue such claims, they may have material adverse effect on the Combined Group's business, financial condition and results of operations.

Charter may be subject to risks arising from changes in technology

The supply chains in which the Charter Group operates are subject to technological change and changes in customer requirements. Charter cannot provide any assurance that it will successfully develop new or modified types of products or technologies that may be required by its customers in the future. Following completion of the Acquisition, should Charter not be able to maintain or enhance the competitive values of its products or develop and introduce new products or technologies successfully, or if new products or technologies fail to generate sufficient revenues to offset research and development costs, the Combined Group's businesses, financial condition and operating results could be materially and adversely affected.

Risks and other considerations relating to the Acquisition

We may fail to realize the anticipated benefits and operating synergies expected from the Acquisition, which could adversely affect our business, financial condition and results of operations

The success of the Acquisition will depend, in significant part, on our ability to successfully integrate the acquired business, grow the Combined Group's revenue and realize the anticipated strategic benefits and operating synergies from the combination. We believe that the addition of Charter Group will complement our stated strategy by adding complementary growth platforms and providing scale and revenue diversity, accelerate our growth strategy and enable us to become a multi-platform business with a strong global footprint. Achieving these goals requires growth of the revenue of the Combined Group and realization of the targeted operating synergies expected from the Acquisition. This growth and the anticipated benefits of the transaction may not be realized fully or at all, or may take longer to realize than we expect. Actual operating, technological, strategic and sales synergies, if achieved at all, may be less significant than we expect or may take longer to achieve than anticipated. If we are not able to achieve these objectives and realize the anticipated benefits and synergies expected from the Acquisition within a reasonable time, our business, financial condition and results of operations may be adversely affected.

The Acquisition will result in significant integration costs and any material delays or unanticipated additional expense may harm our business, financial condition and results of operations

The complexity and magnitude of the integration effort associated with the Acquisition are significant and require that we fund significant capital and operating expense to support the integration of the combined operations. Such expenses have included significant transaction, consulting and third party service fees. We anticipate that we may incur additional integration costs during the remainder of 2011 and 2012. We have incurred and expect to continue to incur additional operating expense as we build up internal resources or engage third party providers, while we integrate the Combined Group following the Acquisition. In addition to these transition costs, we have incurred and expect to continue to incur increased expense relating to, among other things, restructuring. Any material delays, difficulties or unanticipated additional expense associated with integration activities may harm our business, financial conditions and results of operations.

We may not be able to integrate Charter into the Combined Group successfully

The acquisition by us of Charter involves the integration of two businesses that previously operated independently. The integration of the departments, systems, business units, operating procedures and information technologies of the two businesses will present a significant challenge to management. There can be no assurance that we will be able to integrate and manage these operations effectively. The failure to successfully integrate the two businesses in a timely manner, or at all, could have an adverse effect on our business, financial condition and results of operations. The difficulties of combining Colfax with Charter include:

- the necessity of coordinating geographically separated organizations;
- implementing common systems and controls;
- integrating personnel with diverse business backgrounds;

- the challenges in developing new products and services that optimizes the assets and resources of the two businesses;
- integrating the businesses' technology and products;
- combining different corporate cultures;
- unanticipated expenses related to integration, including technical and operational integration;
- increased fixed costs and unanticipated liabilities that may affect operating results;
- retaining key employees; and
- retaining and maintaining relationships with existing customers, distributors and other partners.

Also, the process of integrating operations could cause an interruption of, or loss of momentum in, the activities of one or both of us and Charter. The diversion of management's attention and any delays or difficulties encountered in connection with the transactions contemplated by the Implementation Agreement and the integration of the operations could have an adverse effect on our business, financial condition and results of operations.

The Acquisition may expose us to significant unanticipated liabilities that could adversely affect our business, financial condition and results of operations

Our purchase of Charter may expose us to significant unanticipated liabilities relating to the operation of the Charter Group. These liabilities could include employment, retirement or severance-related obligations under applicable law or other benefits arrangements, legal claims, warranty or similar liabilities to customers, and claims by or amounts owed to vendors. We may also incur liabilities or claims associated with our acquisition of Charter's technology and intellectual property including claims of infringement. Particularly in international jurisdictions, our acquisition of Charter, or our decision to independently enter new international markets where Charter previously conducted business, could also expose us to tax liabilities and other amounts owed by Charter. The incurrence of such unforeseen or unanticipated liabilities, should they be significant, could have a material adverse affect on our business, financial condition and results of operations.

The complexity of the integration and transition associated with the Acquisition, together with Charter's increased scale and global presence, may affect our internal control over financial reporting and our ability to effectively and timely report our financial results

The additional scale of Charter's operations, together with the complexity of the integration effort, including changes to or implementation of critical information technology systems, may adversely affect our ability to report our financial results on a timely basis. In addition, we will have to train new employees and third party providers, and assume operations in jurisdictions where we have not previously had operations. We expect that the Acquisition may necessitate significant modifications to our internal control systems, processes and information systems, both on a transition basis and over the longer-term as we fully integrate the Combined Group. Due to the complexity of the Acquisition, we cannot be certain that changes to our internal control over financial reporting during the 2011 fiscal year will be effective for any period, or on an ongoing basis. If we are unable to accurately report our financial results in a timely manner, or are unable to assert that our internal controls over financial reporting are effective, our business, results of operations and financial condition and the market perception thereof may be materially adversely affected.

Our Amended and Restated Certificate of Incorporation contains provisions that grant the BDT Investor certain rights which may limit our flexibility in operating our business

If the Amended and Restated Certificate of Incorporation is approved by our stockholders, so long as the BDT Investor and its permitted transferees beneficially own, in the aggregate, at least 50% of the Series A Preferred Stock issued to the BDT Investor under the BDT Purchase Agreement, the BDT Investor's written consent will be required in order for us to take certain corporate actions, including:

- the incurrence of certain indebtedness (excluding certain permitted indebtedness) if the ratio of such indebtedness to EBITDA (as defined in the Deutsche Bank Credit Agreement) exceeds certain specified ratios, measured by reference to the last twelve-month period for which financial information is reported by Colfax (pro forma for acquisitions during such period);
- the issuance of any shares of preferred stock;

- any change to our dividend policy or the declaration or payment of any dividend or distribution on any of our stock ranking subordinate or junior to the Series A Preferred Stock with respect to the payment of dividends and distributions (including the Colfax Common Stock) under certain circumstances;
- any voluntary liquidation, dissolution or winding up of Colfax;
- any change in our independent auditor;
- the election of anyone other than Mr. Mitchell P. Rales as Chairman of the Colfax Board;
- any acquisition of another entity or assets for a purchase price exceeding 30% of our equity market capitalization;
- any merger, consolidation, reclassification, joint venture or strategic partnership or similar transaction, or any disposition of any assets (excluding sale/leaseback transactions and other financing transactions in the ordinary course of business) of Colfax if the value of the resulting entity, level of investment by Colfax or value of the assets disposed, as applicable, exceeds 30% of our equity market capitalization;
- any amendments to our organizational or governing documents, including the Amended and Restated Certificate of Incorporation and the Amended and Restated Bylaws; and
- any change in the size of the Colfax Board.

The Amended and Restated Certificate of Incorporation also provides that, so long as the BDT Investor and certain permitted transferees beneficially own at least 10% of the Colfax Common Stock (on a fully-diluted basis), the BDT Investor's written consent is required to alter, amend or repeal the provisions of the Amended and Restated Certificate of Incorporation which sets forth the authorized number of members of our Board and the BDT Investor's nomination rights in respect of members of our Board. The above factors could limit the Colfax Group's financial and operational flexibility, and as a result could have a material adverse effect on our business, financial condition and results of operations.

Provisions in our charter documents and Delaware law may delay or prevent an acquisition of Colfax, which could decrease the value of its shares

Our Amended and Restated Certificate of Incorporation, amended and restated bylaws, and Delaware law contain provisions that may make it difficult for a third-party to acquire us without the consent of the Colfax Board of Directors. These provisions include prohibiting stockholders from taking action by written consent, prohibiting special meetings of stockholders called by stockholders and prohibiting stockholder nominations and approvals without complying with specific advance notice requirements. In addition, the Colfax Board has the right to issue preferred stock without stockholder approval, which the Colfax Board could use to effect a rights plan or "poison pill" that could dilute the stock ownership of a potential hostile acquirer and may have the effect of delaying, discouraging or preventing an acquisition of Colfax. Delaware law also imposes some restrictions on mergers and other business combinations between Colfax and any holder of 15% or more of its outstanding voting stock. Although Mitchell P. Rales and Steven M. Rales, both individually hold more than 15% of our outstanding voting stock, and the BDT Investor will hold more than 25% of our outstanding voting stock, this provision of Delaware law does not apply to them.

Depending on the legal method for implementing the Acquisition, we may not be able to acquire the entire issued share capital of Charter, which would mean that there would be minority shareholders in Charter

If we elect to implement the Acquisition by way of a takeover offer, rather than the Scheme, we will be able to determine (within certain parameters) the level at which the acceptance condition for the offer will be set. If we set the acceptance level at (or reduce the level of the acceptance condition during the takeover process to) less than 90% by value of the Charter shares subject to the offer and of voting rights carried by those shares, it is possible that the acceptance condition will be satisfied (so that we cannot invoke the condition and withdraw our offer) but that an insufficient number of Charter shareholders will accept the offer to allow us to compulsorily acquire the shares of those shareholders who have not accepted the offer. In such circumstances, minority shareholders would retain a stake in Charter and would benefit from certain legal protections afforded to them under English law. We may be unable to realize all of the benefits that we might otherwise obtain from a successful completion of the Acquisition if there are minority shareholders in Charter after completion of the Acquisition.

Even if a material adverse change to Charter's business was to occur, it is highly unlikely that we would be able to invoke the conditions to the Acquisition and terminate the Acquisition, which could reduce the value of the Colfax Common Stock

The Acquisition is subject to certain conditions, including the condition that there have not been certain material adverse changes in the business, assets, liabilities, financial or trading position, profits or operational performance of any member of the wider Charter group. We may invoke this "material adverse change" condition to the Acquisition to cause it not to proceed only if the Panel is satisfied that the circumstances giving rise to that condition not being satisfied are of material significance to Colfax in the context of the Acquisition. In making this determination, the Panel will require there to be an adverse change of very considerable significance striking at the heart of the purpose of the transaction. In practice, it is highly unlikely that we would be able to invoke the material adverse change condition. As a result, the conditions may provide us less protection than the customary conditions in an offer for a US domestic company. If a material adverse change affecting Charter were to occur and the Panel did not allow us to invoke a condition that would cause the Acquisition not to proceed, the market price of the Colfax Common Stock could decline or our business, financial condition or results of operations could be materially adversely affected.

Risks and other considerations relating to the Colfax Shares

The BDT Investor may exercise significant influence over us, including through its ability to elect up to two members of our Board of Directors

When the transactions contemplated by the Purchase Agreements and the Implementation Agreement are completed, the shares of Colfax Common Stock and Series A Preferred Stock owned by the BDT Investor will represent approximately 27.8% of the voting rights in respect of the Company's issued share capital. The Amended and Restated Certificate of Incorporation provides that the BDT Investor's consent will be required before we may take certain actions for so long as the BDT Investor and its permitted transferees beneficially own in the aggregate at least 50% of the Series A Preferred Stock issued pursuant to the BDT Purchase Agreement. As a result, the BDT Investor may have the ability to significantly influence the outcome of any matter submitted for the vote of our stockholders. The BDT Investor may have interests that diverge from, or even conflict with, those of Colfax and our other stockholders.

The Amended and Restated Certificate of Incorporation also provides that the BDT Investor will have the right to exclusively nominate two out of eleven directors to the Colfax Board so long as the BDT Investor holds at least 20% of the outstanding Colfax Common Stock, with one of its nominees to serve on the audit committee of the Colfax Board and one of its nominees to serve on the compensation committee of the Colfax Board, and one out of ten directors to the Colfax Board so long as the BDT Investor and its permitted transferees beneficially own in the aggregate less than 20% but more than 10% of the outstanding Colfax Common Stock, with such nominee to serve on the audit committee and the compensation committee of the Colfax Board; in each case calculated on a fully diluted basis, assuming conversion of the Series A Preferred Stock at the then-existing conversion price.

In addition, following the completion of the transactions contemplated by the Purchase Agreements, the ownership position of the BDT Investor and Messrs. Rales and the governance rights of the BDT Investor could discourage a third party from proposing a change of control or other strategic transaction concerning Colfax.

The transactions contemplated by the Purchase Agreements and the Implementation Agreement could have a substantial dilutive effect on Colfax Common Stock, which may adversely affect the market price of Colfax Common Stock

When the transactions contemplated by the Purchase Agreements and the Implementation Agreement are completed, there will be up to an additional 41,014,762 shares of Colfax Common Stock outstanding as well as an additional 12,173,291 shares of Colfax Common Stock issuable upon conversion (at the initial conversion price) of the Series A Preferred Stock, which will be entitled to participate with respect to any dividends or other distributions paid on Colfax Common Stock. The New Colfax Common Shares will be issued pursuant to the exemption provided by Section 3(a)(10) under the Securities Act, and such shares of Colfax Common Stock will be freely transferable by former Charter Shareholders who are not our affiliates. As a result of the issuance of the securities pursuant to the Purchase Agreements and the Implementation Agreement, the voting interests of our current Colfax Shareholders will be significantly diluted. For example, a holder of 1,000,000 shares of Colfax Common Stock on September 30, 2011 would have owned 2.3% of the voting power of Colfax. After the issuance of the securities pursuant to the Purchase Agreements (excluding any conversion of the Series A Preferred Stock) and the acquisition of all of the Charter Shares, such holder would own 1.0% of the total voting power of Colfax.

In addition, we are unable to predict the potential effects of the issuance of the securities to the BDT Investor, Markel and Messrs. Rales pursuant to the Purchase Agreements on the trading activity and market price of Colfax Common Stock. Pursuant to the relevant registration rights agreements, we have granted the BDT Investor, Markel and Messrs. Rales and their permitted transferees registration rights for the resale of the shares of Colfax Common Stock purchased under the Purchase Agreements and, with respect to the BDT Investor, shares of Colfax Common Stock issuable upon conversion of the Series A Preferred Stock. These registration rights would facilitate the resale of such securities into the public market, and any such resale would increase the number of shares of Colfax Common Stock available for public trading. Sales by the BDT Investor, Markel or Messrs. Rales or their permitted transferees of a substantial number of shares of Colfax Common Stock in the public market, or the perception that such sales might occur, could have a material adverse effect on the price of Colfax Common Stock.

Also, if the Amended and Restated Certificate of Incorporation is approved by our stockholders, there will be additional authorized shares of Colfax Common Stock, which, if subsequently issued, could have a further dilutive effect on outstanding Colfax Common Stock.

The market price of Colfax Common Stock may experience a high level of volatility

Stock markets in general have experienced extreme volatility that has often been unrelated to the operating performance of a particular company. These broad fluctuations may adversely affect the trading price of Colfax Common Stock, regardless of our operating performance.

IMPORTANT INFORMATION

Notice to Charter Shareholders and potential investors

United States

The Scheme relates to the shares of a Jersey company that is a "foreign private issuer" as defined under Rule 3b-4 under the Exchange Act and will be governed by Jersey law. A transaction effected by means of a scheme of arrangement is not subject to the tender offer rules under the Exchange Act. Accordingly, the Scheme is subject to the disclosure requirements and practices applicable in the United Kingdom or Jersey and under the City Code to schemes of arrangement, which differ from the disclosure requirements of the US tender offer rules. Certain financial information included in this document has not been prepared in accordance with US GAAP and thus may not be comparable to the financial information of US companies or companies whose financial statements are prepared in accordance with US GAAP. If Bidco exercises its right to implement the Acquisition by way of a takeover offer, such offer will be made in compliance with applicable US laws and regulations.

The New Colfax Common Shares may not be offered, sold, or delivered, directly or indirectly, in, into or from the United States absent registration under the Securities Act or an exemption from registration. It is expected that the New Colfax Common Shares to be issued in the Scheme will be issued in reliance upon the exemption from the registration requirements of the Securities Act provided by section 3(a)(10) thereof.

For the purpose of qualifying for the exemption from the registration requirements of the Securities Act provided by section 3(a)(10) of the Securities Act with respect to the New Colfax Common Shares issued pursuant to the Scheme, Colfax will advise the Court that it will rely on the section 3(a)(10) exemption based on the Court's sanctioning of the Scheme, which will be relied upon by Colfax as an approval of the Scheme following a hearing on its fairness to Charter Shareholders at which hearing all such Charter Shareholders are entitled to attend in person or through counsel to support or oppose the sanctioning of the Scheme and with respect to which notification has been given to all such Charter Shareholders.

New Colfax Common Shares issued to a Charter Shareholder who is not an "affiliate" (within the meaning of the Securities Act) of Colfax after the Effective Date will not be "restricted securities" under the Securities Act and such New Colfax Common Shares may be sold by such person in ordinary secondary market transactions without restriction under the Securities Act.

Under applicable US securities laws, persons (whether or not US persons) who are or will be "affiliates" (within the meaning of the Securities Act) of Colfax after the Effective Date will be subject to certain transfer restrictions relating to the New Colfax Common Shares received in connection with the Scheme. Persons who may be deemed to be affiliates of Colfax include individuals who, or entities that, control directly or indirectly, or are controlled by or are under common control with, Colfax and may include certain officers and directors of Colfax and Colfax's principal shareholders (such as, for example, a holder of more than 10% of the outstanding capital stock). Charter Shareholders who are affiliates, in addition to reselling their New Colfax Common Shares in the manner permitted by Rule 144 under the Securities Act, may also sell their New Colfax Common Shares under any other available exemption under the Securities Act, including Regulation S under the Securities Act. Charter Shareholders who believe they may be affiliates for the purposes of the Securities Act should consult their own legal advisers prior to any sale of New Colfax Common Shares received pursuant to the Scheme.

The New Colfax Common Shares will not be registered under the securities laws of any state of the United States, and will be issued in the United States in compliance with, or in reliance on, available exemptions from such state law registration requirements.

Neither the SEC nor any other US federal or state securities commission or regulatory authority has approved or disapproved the New Colfax Common Shares or passed upon the accuracy or adequacy of this document. Any representation to the contrary is a criminal offence in the United States.

Charter Shareholders who are citizens or residents of the United States should consult their own legal and tax advisers with respect to the legal and tax consequences of the Scheme or, if Colfax decides to implement the Acquisition by way of an Offer, the Offer, in their particular circumstances.

Other jurisdictions

This document and any accompanying documents are not being made available to Overseas Shareholders with registered addresses in any Restricted Jurisdiction and may not be treated as an invitation to subscribe for any New Colfax Common Shares by any person resident or located in such jurisdictions or any other Restricted Jurisdiction.

The New Colfax Common Shares and the Loan Notes have not been, and will not be, registered under the applicable securities laws of any Restricted Jurisdiction. Accordingly, the New Colfax Common Shares and the Loan Notes may not be offered, sold, delivered or transferred, directly or indirectly, in or into any Restricted Jurisdiction to or for the account or benefit of any national, resident or citizen of any Restricted Jurisdiction.

The implications of the Scheme (including the right to make an election under the Mix and Match Facility) for Overseas Shareholders may be affected by the laws of relevant jurisdictions. Such Overseas Shareholders should inform themselves about, and observe, any applicable legal requirements. It is the responsibility of each overseas person who is to receive New Colfax Common Shares pursuant to the Scheme to satisfy himself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required or the compliance with other necessary formalities which are required to be observed and the payment of any issue, transfer or other taxes due in such jurisdiction.

This document has been prepared for the purposes of complying with English law, Jersey Law and the Prospectus Rules, and the information disclosed may not be the same as that which would have been disclosed if this document had been prepared in accordance with the laws of jurisdictions outside of England and Wales.

Overseas Shareholders should consult their own legal and tax advisers with respect to the legal and tax consequences of the Scheme in their particular circumstances.

THIS DOCUMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITY. NONE OF THE SECURITIES REFERRED TO IN THIS DOCUMENT SHALL BE SOLD, ISSUED OR TRANSFERRED IN ANY JURISDICTION IN CONTRAVENTION OF APPLICABLE LAW.

No incorporation of website information

Neither the content of Colfax's website nor Charter's website, nor the content of any website accessible from hyperlinks on Colfax's website or Charter's website, is incorporated into, or forms part of, this document.

Market, economic and industry data

The market, economic and industry data used in this document have been obtained by Colfax from industry data supplied by The Freedonia Group, European Industrial Forecasting and the Federal Reserve Bank of New York. The information sourced from The Freedonia Group, European Industrial Forecasting and the Federal Reserve Bank of New York has been accurately reproduced and, so far as Colfax is aware and is able to ascertain from information published by those third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Forward-looking statements

This document includes forward-looking statements. The words ''believe'', ''anticipate'', ''expect'', ''intend'', ''aim'', ''plan'', ''predict'', ''continue'', ''assume'', ''positioned'', ''may'', ''will'', ''should'', ''shall'', ''risk'' and other similar expressions that are predictions of or indicate future events and future trends identify forward-looking statements. These forward-looking statements include all matters that are not current or historical facts. In particular, forward-looking statements appear, without limitation, under the headings *Summary* and *Risk Factors* and in *Part 2: Information on Colfax*, *Part 3: Information on Charter*, *Part 6: Colfax Operating and Financial Review*, *Part 7: Charter Operating and Financial Review* and *Part 13: Profit Forecast*.

These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond the control of Colfax, that could cause Colfax's actual results to differ materially from those indicated in any such statements. Such factors include, but are not limited to, continued volatility of input costs, pricing actions, increased competition, unanticipated expenses in connection with litigation, settlement of legal disputes, regulatory investigations or enforcement actions, Colfax's indebtedness, risks from operating outside the US, tax law changes, failure to obtain necessary regulatory approvals or to satisfy any of the other conditions of the Acquisition, adverse effects on the market price of Colfax Shares and on Colfax's operating results because of a failure to complete the Acquisition, failure to realise the expected benefits of the Acquisition, significant transaction costs and general economic and business conditions that affect the Combined Group following the completion of the Acquisition. For more information on these and other factors that could affect these forward-looking statements, see *Risk Factors*, which should be read in conjunction with the other cautionary statements included in this document.

Charter Shareholders and potential investors should not place undue reliance on forward-looking statements because they involve known and unknown risks, uncertainties and other factors that are in many cases beyond the control of Colfax. By their nature, forward-looking statements involve risks and uncertainties because such statements relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not indicative of future performance and Colfax's actual results of operations and financial condition, and the development of the industry in which Colfax operates, may differ materially from those made in or suggested by the forward-looking statements contained in this document. The cautionary statements set out above should be considered in connection with any subsequent written or oral forward-looking statements that Colfax, or persons acting on its behalf, may issue.

These forward-looking statements reflect Colfax's judgment at the date of this document and are not intended to give any assurances as to future results. Save for those forward-looking statements required by the Prospectus Rules, the Disclosure and Transparency Rules and other applicable regulations, Colfax undertakes no obligation to update or revise these forward-looking statements, and will not publicly release any revisions it may make to these forward-looking statements that may result from events or circumstances arising after the date of this document. Colfax will comply with its obligations to publish updated information as required by law or by any regulatory authority but assumes no further obligation to publish additional information.

Presentation of Colfax and Charter financial information

The financial information in relation to the Colfax Group in this document has been extracted without material adjustment from the financial information referred to in *Part 8: Colfax Financial Information.* Financial information extracted from the financial information referred to in *Part 8: Colfax Financial Information* is to be found in the sections headed *Summary, Part 2: Information on Colfax, Part 5: Colfax Selected Financial Information* and *Part 6: Colfax Operating and Financial Review*.

The financial information in relation to the Charter Group in this document has been extracted without material adjustment from the financial information referred to in *Part 9: Charter Financial Information*, which has been incorporated into this document by reference. Financial information extracted from the financial information referred to in *Part 9: Charter Financial Information* is to be found in the sections headed *Summary, Part 3: Information on Charter* and *Part 7: Charter Operating and Financial Review*.

Charter Shareholders and potential investors should ensure that they read the whole of this document and not just rely on key information or information summarized within it.

IFRS and US GAAP

Colfax's consolidated financial statements are prepared in accordance with US GAAP whereas Charter's consolidated financial statements are prepared in accordance with IFRS. US GAAP differs from IFRS in a number of significant respects. Colfax has not prepared, and does not currently intend to prepare, its financial statements in, or reconcile them to, IFRS and hence has not quantified these differences for Charter Shareholders or potential investors. For a general discussion of the significant differences between IFRS and US GAAP, see *Part 12: Summary of Significant Differences between IFRS and US GAAP*. In making an investment decision, Charter Shareholders and potential investors must rely on their own examination of Colfax, the terms of the Acquisition and the financial information in this document. Charter Shareholders and potential investors should consult their own professional advisers for an understanding of the differences between IFRS and US GAAP.

Rounding

Certain figures contained in this document or incorporated by reference in this document, including financial, statistical and operating information, have been subject to rounding adjustments. Accordingly, in certain instances, the sum of the numbers in a column or a row in tables contained in this document or incorporated by reference in this document may not conform exactly to the total figure given for that column or row.

Currency presentation

Unless otherwise indicated, all references in this document to "US dollars", "dollars", "$" or "cents" are to the lawful currency of the US, all references to "pounds sterling", "sterling", "£", "pence" or "p" are to the lawful currency of the UK, all references to "€", "EUR" or "Euro" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended and all references to "Brazilian Real", "BRL" or "R$" are to the lawful currency of the Federative Republic of Brazil.

Exchange rate information

In this document, unless otherwise stated, pounds sterling have been translated into US dollars at the noon buying rate in New York City for cable transfers in pounds sterling as certified for customs purposes by the Federal Reserve Bank of New York on the date indicated.

The following table shows, for the periods and dates indicated, information concerning the exchange rate between US dollars and pounds sterling. The information in the following table is expressed in US dollars per pound sterling and is based on the noon buying rate in New York City for cable transfers in pounds sterling as certified for customs purposes by the Federal Reserve Bank of New York. The average rates for the interim periods and annual periods presented in these tables were calculated by taking the simple average of the noon buying rates on each business day of each month during the relevant period.

	Period-end rate	Average rate	High	Low
Interim period data				
Six months ended July 1, 2011	$ 1.607	$ 1.617	$ 1.669	$ 1.549
Six months ended July 2, 2010	1.518	1.524	1.637	1.434
Annual Data (year ended December 31)				
2010	1.539	1.545	1.637	1.434
2009	1.617	1.566	1.698	1.366
2008	1.462	1.854	2.031	1.440

On October 7, 2011 (being the latest practicable day prior to the publication of this document), the noon buying rate in New York City for cable transfers in pounds sterling as certified for customs purposes by the Federal Reserve Bank of New York was $1.5628 per £1.00. Each Monday (unless Monday is a Federal Holiday in the US), the exchange rates that the Federal Reserve Bank of New York certifies for customs purposes are released by The Federal Reserve Board, in respect of the previous business week. Accordingly, the most recent US dollar exchange rate information available prior to the printing and publication of this prospectus is as of October 7, 2011.

These translations should not be construed as a representation that the US dollar amounts actually represent, or could be converted into, pounds sterling at the rates indicated.

Interpretation and defined terms

In this document, references to "we", "us" and "our" refer to Colfax and/or the Colfax Group, as appropriate.

Certain terms used in this document, including capitalized terms and certain technical and other items, are defined and explained in *Part 15: Definitions*. Certain technical terms are explained in *Part 16: Glossary*.

RELEVANT DOCUMENTATION AND INCORPORATION BY REFERENCE

Charter financial information

The following documents which Charter has filed with the FSA, and are available as described below, contain information about Charter which is relevant to the Acquisition:

- Charter's interim results for the six months ended June 30, 2011;
- Charter's Annual Report 2010;
- Charter's Annual Report 2009; and
- Charter's Annual Report 2008.

Charter's interim results for the six months ended June 30, 2011 as announced on July 26, 2011 contain Charter's unaudited consolidated financial statements for the six months ended June 30, 2011 (prepared in accordance with IFRS). Charter's Annual Reports listed above contain Charter's audited consolidated financial statements for the financial years ended December 31, 2010, December 31, 2009 and December 31, 2008 (each prepared in accordance with IFRS), together with the audit report in respect of each year.

Information incorporated by reference

The table below sets out the various sections of the various documents referred to above which are incorporated by reference into this document, so as to provide the information required pursuant to paragraphs 20.1, 20.4, 20.5, 20.6 and 23.1 of Annex 1 to Appendix 3 to the Prospectus Rules and to ensure that Charter Shareholders and potential investors are aware of all information which, according to the particular nature of Colfax and of the New Colfax Common Shares, is necessary to enable Charter Shareholders and potential investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of Colfax and of the rights attaching to the New Colfax Common Shares.

Information incorporated by reference into this document	Reference document	Page number in reference document
For the six months ended June 30, 2011		
Consolidated income statement for the six months ended June 30, 2011	Charter's Interim Results Announcement	16
Consolidated statement of comprehensive income for the six months ended June 30, 2011	Charter's Interim Results Announcement	17
Consolidated statement of changes in equity for the six months ended June 30, 2011	Charter's Interim Results Announcement	18
Consolidated balance sheet at June 30, 2011	Charter's Interim Results Announcement	19
Consolidated cash flow statement for the six months ended June 30, 2011	Charter's Interim Results Announcement	20
Notes to the interim financial statements	Charter's Interim Results Announcement	21 to 30
Independent review report to Charter International plc	Charter's Interim Results Announcement	31

Information incorporated by reference into this document	Reference document	Page number in reference document
For the financial year ended December 31, 2010		
Independent Auditors' report to the members of Charter International plc	Charter's Annual Report 2010	59
Consolidated income statement for the year ended December 31, 2010	Charter's Annual Report 2010	60
Consolidated statement of comprehensive income for the year ended December 31, 2010	Charter's Annual Report 2010	61
Consolidated statement of changes in equity for the year ended December 31, 2010	Charter's Annual Report 2010	62
Consolidated balance sheet at December 31, 2010	Charter's Annual Report 2010	63
Consolidated cash flow statement for the year ended December 31, 2010	Charter's Annual Report 2010	64
Notes to the consolidated financial statements	Charter's Annual Report 2010	65 to 105

Information incorporated by reference into this document	Reference document	Page number in reference document
For the financial year ended December 31, 2009		
Independent Auditors' report to the members of Charter International plc	Charter's Annual Report 2009	62
Consolidated income statement for the year ended December 31, 2009	Charter's Annual Report 2009	64
Consolidated statement of comprehensive income for the year ended December 31, 2009	Charter's Annual Report 2009	65
Consolidated statement of changes in equity for the year ended December 31, 2009	Charter's Annual Report 2009	66
Consolidated balance sheet at December 31, 2009	Charter's Annual Report 2009	67
Consolidated cash flow statement for the year ended December 31, 2009	Charter's Annual Report 2009	68
Notes to the consolidated financial statements for the year ended December 31, 2009	Charter's Annual Report 2009	69 to 108

Information incorporated by reference into this document	Reference document	Page number in reference document
For the financial year ended December 31, 2008		
Independent Auditors' report to the members of Charter International plc	Charter's Annual Report 2008	56
Consolidated income statement for the year ended December 31, 2008	Charter's Annual Report 2008	58
Consolidated balance sheet at December 31, 2008	Charter's Annual Report 2008	59
Consolidated cash flow statement for the year ended December 31, 2008	Charter's Annual Report 2008	60
Consolidated statement of recognised income and expense for the year ended December 31, 2008	Charter's Annual Report 2008	61
Notes to the consolidated financial statements for the year ended December 31, 2008	Charter's Annual Report 2008	62 to 98

Availability of information

Copies of the documents of which all or part are incorporated herein by reference are available as provided in *Part 14: Additional Information – 19. Documents for inspection*.

Copies of each of the documents under the heading *Charter Financial Information* above are available on Charter's website (http://www.charter.ie/chtr_int/investors/recommended-acquisition/).

Neither the content of Charter's website, nor the content of any other website including any other website accessible from hyperlinks on Charter's website, is incorporated into, or forms part of, this document.

COLFAX DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE AND ADVISERS

Directors	**Function**
Mitchell P. Rales	Chairman
Clay Kiefaber	President and Chief Executive Officer
Patrick W. Allender	Director
Joseph O. Bunting III	Director
Thomas S. Gayner	Director
Rhonda L. Jordan	Director
A. Clayton Perfall	Director
Steven E. Simms	Director
Rajiv Vinnakota	Director

Corporate Secretary
A. Lynne Puckett

Headquarters and principal place of business
8170 Maple Lawn Boulevard
Suite 180
Fulton
Maryland 20759
United States

Registered Office
2711 Centerville Road
Suite 400
City of Wilmington
Delaware 19808
United States

Financial Adviser
Deutsche Bank AG
1 Great Winchester Street
London
EC2N 2DB
United Kingdom

Legal Adviser to Colfax as to English and US Law
Skadden, Arps, Slate, Meagher & Flom (UK) LLP
40 Bank Street
Canary Wharf
London
E14 5DS
United Kingdom

Auditor and Reporting Accountant
Ernst & Young LLP
The Edgeworth Building
Suite 201
2100 East Cary Street
Richmond
Virginia 23223
United States

PART 1: INFORMATION ON THE ACQUISITION

Introduction

On September 12, 2011, the Colfax Board and the Charter Board announced that they had agreed the terms of a recommended cash and share offer to be made by Bidco for the entire issued and to be issued share capital of Charter.

It is intended that the Acquisition will be implemented by way of a court-sanctioned scheme of arrangement under Article 125 of the Companies (Jersey) Law 1991 (although Colfax has reserved the right to decide to implement the Acquisition by way of an Offer for the entire issued and to be issued share capital of Charter).

Subject to the satisfaction, or where applicable, waiver of the Conditions, it is expected that the Acquisition will become Effective on or around January 13, 2012.

The Charter Board is unanimously recommending that Charter Shareholders vote in favour of the resolutions required to effect the Scheme (or in the event that the Acquisition is implemented by way of an Offer, to accept or procure acceptance of such Offer).

Summary of the terms of the Acquisition

Under the terms of the Scheme, which will be subject to the Conditions, and the other terms summarized below and set out in the Scheme Document (or, if Bidco elects to implement the Acquisition by way of an Offer, the Offer Document), Charter Shareholders will be entitled to receive:

for each Charter Share	**730 pence in cash** **and** **0.1241 New Colfax Common Shares**

The Acquisition values Charter's fully diluted share capital at approximately:

- £1,528 million, being 910 pence per Charter Share on a fully diluted basis (based on the Closing Price of $23.04 per Colfax Share on September 9, 2011 (being the last business day before the 2.5 Announcement) and at an exchange rate on September 9, 2011 of £1:$1.5881). This represents a premium of approximately 48.0% to the Closing Price of 615 pence per Charter Share on June 28, 2011 (being the last business day before Charter announced it had received a preliminary approach from Melrose regarding a possible offer); and
- £1,510 million, being 900 pence per Charter Share on a fully diluted basis (based on the Closing Price of $21.60 per Colfax Share on October 14, 2011 (being the latest practicable date prior to publication of this document) and at an exchange rate on October 14, 2011 of £1:$1.5808). This represents a premium of approximately 46.3% to the Closing Price of 615 pence per Charter Share on June 28, 2011.

Based on this Acquisition value:

(a) the cash consideration for the Acquisition will be approximately £1,225 million; and

(b) up to 20,832,469 New Colfax Common Shares would be issued as part consideration for the Acquisition,

irrespective of elections made under the Mix and Match Facility.

Charter and Colfax have agreed that an appropriate adjustment will be made to the Exchange Ratio in the event of: (a) the payment of any dividend or other distribution by Colfax to its shareholders; (b) the reclassification, subdivision, consolidation or reorganisation of Colfax's share capital; (c) any issuance of equity securities pursuant to a pre-emptive invitation to the existing shareholders as a class subject only to regulatory exclusions; or (d) any transaction similar to the foregoing to the extent it would have a material disproportionate impact on those Charter Shareholders who receive New Colfax Common Shares pursuant to the Acquisition as compared to the existing Colfax Shareholders (taken as a class). As at the date of this document, no such matters have occurred.

The purpose of the Scheme is to enable Bidco to acquire the whole of the issued and to be issued share capital of Charter. The Scheme, which will be subject to the Conditions and other terms summarized below and set out in the Scheme Document (or, if Bidco elects to implement the Acquisition by way of an Offer, the Offer Document), will require the sanction of the Court.

In the event that the Acquisition is to be implemented by way of an Offer, the Charter Shares will be acquired pursuant to the Offer fully paid and free from all liens, charges, equitable interests, encumbrances and rights of pre-emption and any other interests of any nature whatsoever and together with all rights attaching thereto. Any New Charter Shares issued to Bidco pursuant to the Scheme will be issued on the same basis.

Background to and reasons for the Acquisition

Colfax believes the acquisition of Charter would complement its stated strategy which, in addition to driving organic growth, includes pursuing value-creating acquisitions within its served markets, and adding complementary growth platforms to provide scale and revenue diversity. Colfax considers Charter to be a leading player in key markets with an attractive business mix and strong technological capabilities that fits well with Colfax's acquisition criteria.

Colfax identified Charter as a business that would complement its fluid handling platform as well as adding a new welding and cutting platform. In July 2011, following the unsolicited approach for Charter by Melrose, Colfax approached Charter to express its interest in a possible acquisition.

Colfax believes that completion of the Acquisition would accelerate Colfax's growth strategy and enable Colfax to become a multi-platform business with a strong global footprint. Charter's air and gas handling business (Howden) would extend Colfax's existing fluid handling platform, and Charter's welding, cutting and automation business (ESAB) would establish a new growth platform for the Combined Group.

Colfax believes that the Acquisition will improve Colfax's business profile by providing a meaningful recurring revenue stream. It would also provide considerable exposure to emerging markets, allow the Combined Group to benefit from strong secular growth drivers and provide a balance of short and long cycle businesses.

The Acquisition is also expected to provide a platform for additional acquisitions in the fragmented welding and air handling markets.

Background to and reasons for the recommendation

On June 29, 2011, Charter announced it had received an indicative offer from Melrose that may or may not lead to an offer for the entire issued share capital of Charter. This initial offer from Melrose of 780 pence per Charter Share (inclusive of Charter's interim dividend) was rejected by the Charter Board on June 30, 2011.

On July 11, 2011, the Charter Board received a revised increased proposal from Melrose of 840 pence per Charter Share (again inclusive of Charter's interim dividend). The Charter Board reviewed this proposal and rejected it on July 15, 2011, as undervaluing Charter and its prospects. At that time, the Charter Board confirmed that it remained committed to maximizing value for its shareholders and that it was exploring a full range of strategic alternatives.

On September 1, 2011, the Charter Board announced that it had received a revised indicative proposal from Melrose, indicating that Melrose was prepared, subject to certain pre-conditions, to increase the value of its possible offer for Charter by 18 pence per Charter Share. Based on Melrose's share price at the time, the revised proposal represented an 850 pence per Charter Share possible offer for Charter, on the basis set out in the announcement, and also allowed Charter Shareholders to retain the interim dividend of 8 pence per Charter Share declared on July 26, 2011 and paid to Charter Shareholders on September 2, 2011. The revised proposal comprised 553 pence in Melrose shares and 297 pence in cash for each Charter Share. The announcement also stated that, on the basis of the increased proposal, and in light of the recent heightened economic uncertainty and financial market volatility, Charter had agreed to commence discussions with Melrose about its revised indicative proposal and to allow Melrose to complete its confirmatory due diligence.

On September 27, 2011 Melrose announced that it would not be making an offer for Charter.

Following the initial approach by Melrose, Charter, through its financial advisers, Goldman Sachs International, J.P. Morgan Cazenove and RBS, spoke to certain parties, including Colfax, regarding their possible interest in Charter. On August 1, 2011, Colfax provided formal written confirmation of its interest in Charter. On August 23, 2011, Charter announced that it was in discussions with a potential offeror other than Melrose regarding a possible offer for Charter. Colfax announced on September 4, 2011 that it was in preliminary discussions regarding a possible all-cash offer to acquire Charter.

Against this background, the directors of Charter have therefore concluded that the price of 910 pence for each Charter Share is fair and reasonable and have recommended the Acquisition to Charter Shareholders. The terms of the Acquisition allow Charter Shareholders to realize a significant proportion of their investment in Charter for cash whilst also providing the opportunity to retain an on-going interest in Charter's businesses through a shareholding in the Combined Group.

Financing of the Acquisition

The Acquisition will be funded from a combination of proceeds of the Equity Capital Raising, new debt facilities and Colfax's existing cash resources.

Debt financing

The debt financing available to Bidco under certain loan facilities has been arranged by Deutsche Bank AG, New York Branch and HSBC Bank USA, N.A. Approximately $2 billion will be available under the Deutsche Bank Credit Agreement in order to fund part of the Acquisition.

For further information on the terms of the debt financing of the Acquisition, see *Part 14: Additional Information – 12. Material Contracts*.

Equity Capital Raising

Colfax expects to raise $805 million by way of equity capital financing in order to fund part of the Acquisition. BDT CF Acquisition Vehicle, LLC, an entity controlled by BDT Capital Partners Fund I, L.P. has agreed to subscribe for 13,877,552 shares of Series A Preferred Stock, which is convertible into Colfax Common Stock, and up to 14,756,944 shares of Colfax Common Stock for $680 million in the aggregate. In addition, Messrs. Rales and Markel (an entity in which one of the Colfax directors is an officer) have agreed to subscribe for Colfax Common Stock for $125 million in the aggregate. All these subscriptions for shares of Colfax Common Stock are being made at $23.04 which is the Closing Price of a Colfax Share on September 9, 2011, being the last business day before the 2.5 Announcement. The Exchange Ratio was also determined on this basis as 0.1241 of a New Colfax Common Share was valued at 180 pence.

For further information on the terms of the Equity Capital Raising, see *Part 14: Additional Information – 3. Share Capital* and *Part 14: Additional Information – 12. Material Contracts*.

The Equity Capital Raising requires the approval of Colfax Shareholders and accordingly Colfax intends to convene a meeting of its shareholders in order to approve the Equity Capital Raising. The resolutions to be proposed at the meeting will require the approval of Colfax Shareholders holding more than 50% of the issued share capital of Colfax. Colfax has undertaken to Charter that the Colfax Board will use reasonable endeavours to finalise the documentation required in connection with the shareholder meeting in accordance with legal and regulatory requirements and, thereafter, to hold the shareholder meeting, in each case as soon as reasonably practicable. Colfax has also undertaken that the Colfax Board will, subject to the Colfax Director's fiduciary duties, recommend that Colfax Shareholders vote in favour of the resolutions to be proposed at the shareholder meeting. The Acquisition is conditional upon the Equity Capital Raising being approved at the meeting of Colfax's Shareholders.

Mitchell P. Rales and Steven M. Rales who together hold or control 18,291,220 Colfax Shares, representing approximately 42% of Colfax's issued share capital, have agreed with Charter that (save if the Charter Board recommendation ceases to be unanimous or is withdrawn, if the Acquisition terminates, or if the Implementation Agreement is terminated) they will vote in favour of the resolutions regarding the Equity Capital Raising at the shareholder meeting. The other directors of Colfax intend to vote in favour of the resolutions in respect of their entire beneficial holdings of 505,144 Colfax Shares in aggregate, representing approximately 1.16% of Colfax's issued share capital.

All issuances of Colfax Common Stock and Series A Preferred Stock described above will be settled six business days following the Effective Date.

Colfax's strategic plans for Charter

Following completion of the Acquisition, Colfax intends to work with the management and employees of Charter to grow the business, utilizing the existing strong brands of Howden and ESAB. The first step to achieving this goal will be carrying out a strategic review of Charter's business and operations within an approximately four month period. This strategic review is required because Colfax has to date been provided with restricted access to information relating to the Charter Group and its employees, with the result that Colfax has had limited access to certain sensitive information. As part of this strategic review, Colfax will be examining the ways in which:

(a) Charter's Howden business and Colfax's existing fluid handling business can extend and complement one another;

(b) Charter's ESAB business can establish a new growth platform for the Combined Group; and

(c) Colfax's established management techniques can improve both margin and return on invested capital in Charter,

in the context of creating a Combined Group that is stronger than the combined sum of the Charter and Colfax businesses as they stand today.

Since this strategic review has not yet been undertaken, and while Colfax has no firm intentions regarding any rationalization of facilities (other than those already in process and/or publicly announced by Charter) it is possible that the combination of the Charter and Colfax businesses could in the future lead to a rationalization of certain facilities.

Management, employees and intentions regarding the Charter Group

Colfax attaches great importance to the active participation and continued commitment of Charter's management and employees. Accordingly, Colfax intends and has given assurances to the Charter Board that, upon and following completion of the Acquisition, the existing contractual and statutory employment rights and pension rights of all employees will be fully safeguarded and the Charter Group employers will continue to comply with the contractual and other entitlements in relation to pension and employment rights of existing employees.

As a result of Colfax's current restricted access to information relating to the Charter Group and its employees (including limited access to certain sensitive information), until the strategic review is completed, Colfax cannot be certain as to what, if any, repercussions there will be on employment of the management and employees of the Combined Group, the location of Colfax's or Charter's places of business or any redeployment of Charter's fixed assets and currently has no firm intentions with regard to any of the foregoing (other than those already publicly announced by Charter). However, Colfax recognises that the employees and management of the Combined Group, including those of Charter, will be key to the success of the Combined Group going forward.

It is intended that, upon the Scheme becoming effective, each of the non-executive members of the Charter Board will resign from his office as a director of Charter.

Implementation Agreement

Charter, Bidco and Colfax entered into the Implementation Agreement on September 12, 2011 in relation to the implementation of the Acquisition. For further information see *Part 14: Additional Information – 12. Material contracts*.

Irrevocable Undertakings

Those members of the Board of Charter who hold beneficial interests in Charter Shares have irrevocably undertaken to vote in favour of the resolutions relating to the Acquisition at the Meetings (or, in the event that the Acquisition is implemented by way of a takeover offer, to accept the Offer) in respect of their own beneficial holdings of 176,977 Charter Shares representing in aggregate approximately 0.1% of Charter's issued share capital at the date of this document. These irrevocable undertakings will continue to be binding even if a competing offer is made for Charter which exceeds the value of the Acquisition and even if such higher offer is recommended for acceptance by the Board of Charter.

These irrevocable undertakings cease to be binding only in the event that: (a) the Scheme Document is not published within 28 days of the date of the 2.5 Announcement (or such other time agreed with the Panel), unless due to the default of Charter; (b) the Offer Document (should the

Acquisition be implemented by way of the Offer) is not posted to Charter Shareholders within the period provided by the City Code or as otherwise agreed with the Panel; (c) the Panel agrees or requires that the Bidco may not make the Acquisition; (d) the Acquisition fails, closes, lapses or is withdrawn; or (e) the Scheme has not become effective by the Long Stop Date.

Further details of the Acquisition

The Scheme

It is intended that the Acquisition will be effected by a court sanctioned scheme of arrangement between Charter and the Scheme Shareholders under Article 125 of the Companies (Jersey) Law 1991. The purpose of the Scheme is to provide for Bidco to become owner of the whole of the issued and to be issued share capital of Charter.

Under the Scheme, the Acquisition is to be principally achieved by:

- the cancellation of the Scheme Shares held by Scheme Shareholders in consideration for which Scheme Shareholders will receive Offer Consideration;
- amendments to Charter's articles of association to ensure that any Charter Shares issued (other than to Bidco or any subsidiaries or nominees of Colfax) between approval of the Scheme at the Court Meeting and the Scheme Record Time will be subject to the Scheme and that any Charter Shares issued after the Scheme Record Time will automatically be acquired by Bidco; and
- the issue of New Charter Shares to Bidco provided for in the Scheme which will result in Charter becoming an indirect, wholly-owned subsidiary of Colfax.

The Acquisition will be subject to the Conditions, and the other terms summarized herein and set out in the Scheme Document (or, if Bidco elects to implement the Acquisition by way of an Offer, the Offer Document).

To become effective, the Scheme requires the approval of the Charter Shareholders by the passing of a resolution at the Court Meeting. The resolution must be approved by a majority in number representing not less than three-fourths of the voting rights of the holders of the Charter Shares (or the relevant class or classes thereof, if applicable) present and voting, either in person or by proxy, at the Court Meeting. To become effective, the Scheme also requires the passing of a special resolution at the Charter General Meeting, requiring the approval of Charter Shareholders representing at least two-thirds of the votes cast at the Charter General Meeting (either in person or by proxy). The Charter General Meeting will be held immediately after the Court Meeting.

Following the Meetings, the Scheme must be sanctioned by the Court and the associated Capital Reduction must be confirmed by the Court. The Scheme will become effective in accordance with its terms on delivery of the Scheme Court Order, the Reduction Court Order and the minute of the Capital Reduction attached thereto to the Registrar of Companies, and, in relation to the Capital Reduction, the Reduction Court Order and attached minute being filed with and registered by the Registrar of Companies.

Upon the Scheme becoming effective, it will be binding on all Charter Shareholders, irrespective of whether or not they attended or voted at the Meetings and the consideration due under the Acquisition will be despatched by Bidco to Scheme Shareholders no later than 14 days after the Effective Date.

The Scheme will contain a provision for Bidco and Charter to jointly consent, on behalf of all persons concerned, to any modification of or addition to the Scheme or to any condition that the Court may approve or impose. Charter has been advised that the Court would be unlikely to approve any modification of, or addition to, or impose a condition to the Scheme which might be material to the interests of Scheme Shareholders unless Scheme Shareholders were informed of such modification, addition or condition. It would be a matter for the Court to decide, in its discretion, whether or not a further meeting of the Scheme Shareholders should be held in these circumstances.

The Scheme Document will include full details of the Scheme, together with notices of the Court Meeting and the Charter General Meeting and the expected timetable, and will specify the action to be taken by Scheme Shareholders.

The Scheme will be governed by Jersey law. The Scheme will be subject to the applicable requirements of the City Code, the Panel, the London Stock Exchange and the UK Listing Authority.

Mix and Match Facility

Charter Shareholders (other than certain Overseas Shareholders) will be entitled to elect, subject to availability, to vary the proportions in which they receive New Colfax Common Shares and cash in respect of their holdings of Charter Shares. However, the total number of New Colfax Common Shares to be issued and the maximum aggregate amount of cash to be paid under the Scheme will not be varied as a result of elections under the Mix and Match Facility.

Accordingly, elections made by Charter Shareholders under the Mix and Match Facility will only be satisfied to the extent that other Charter Shareholders make off-setting elections. To the extent that elections cannot be satisfied in full, they will be scaled down on a *pro rata* basis. As a result, Charter Shareholders who make an election under the Mix and Match Facility will not know the exact number of New Colfax Common Shares or the amount of cash they will receive until settlement of the consideration due to them in respect of the Acquisition.

The Mix and Match Facility is conditional upon the Scheme becoming effective and further details of the Mix and Match Facility are included in the Scheme Document (or, if Bidco elects to implement the Acquisition by way of an Offer, the Offer Document).

Loan Note Alternative

Charter Shareholders (other than certain Overseas Shareholders and US persons or persons resident in the US) will be entitled to elect to receive Loan Notes instead of all or part of the cash consideration to which they would otherwise be entitled under the terms of the Acquisition.

The Loan Note Alternative will be made available on the following basis:

for every whole £1 in cash consideration	£1 nominal value of Loan Notes

The Loan Notes will be governed by English law and will be issued, credited as fully paid, in integral multiples of £1 nominal value. The Loan Notes will have the benefit of an unsecured guarantee from Colfax in respect of all obligations for the life of the Loan Notes. All fractional entitlements to the Loan Notes will be disregarded and will not be issued. The Loan Notes will be non-transferable other than to relatives and family trusts and no application will be made for them to be listed or dealt in on any stock exchange. The Loan Notes will not be qualifying corporate bonds for United Kingdom tax purposes for holders who are individuals.

The Loan Notes will bear interest from the date of issue to the relevant holder of the Loan Notes at a rate per annum of the higher of: (a) 0.50% below LIBOR; and (b) zero. Interest will be payable semi-annually on June 30 and December 31 each year, or if that day is not a business day, on the immediately following business day, with the first interest payment date being June 30, 2012. The Loan Notes will be redeemable at par (together with accrued interest less any tax required by law to be withheld or deducted therefrom) in whole or in part, for cash at the option of the noteholders (i) on the date falling six months and one day after the date of issue of the Loan Notes and (ii) subsequently semi-annually on June 30 and December 31 each year (or, if that day is not a business day, on the immediately following business day). In certain circumstances, Bidco will have the right to redeem all of the Loan Notes. If not previously redeemed, the final redemption date will be the date falling five years after the date of issue of the Loan Notes. On such final redemption date, or in circumstances where Bidco has the right to redeem the Loan Notes, Bidco is entitled to redeem the Loan Notes in US dollars rather than sterling.

No Loan Notes will be issued unless, on or before the Effective Date, valid elections have been received in respect of at least £2 million in nominal value of Loan Notes. If insufficient elections are received, Charter Shareholders electing for the Loan Note Alternative will instead receive cash in accordance with the terms of the Acquisition. If at any time after the date that falls six months from the date of issue, the outstanding nominal amount of Loan Notes is equal to or less than £2 million, Bidco will be entitled to redeem all of the then outstanding Loan Notes.

The Loan Note Alternative will be conditional upon the Acquisition becoming effective. Full details of the Loan Note Alternative are contained in the Scheme Document (or, if Bidco elects to implement the Acquisition by way of an Offer, the Offer Document) and the Form of Election. The

Loan Notes are not being offered to Overseas Shareholders and US persons or persons resident in the US.

Charter Shareholders should consider carefully, in light of their own investment objectives and tax position, whether they wish to elect for Loan Notes under the Loan Note Alternative and are strongly advised to seek their own independent financial advice before making any such election.

Withdrawals and amendments under the Mix and Match Facility and/or the Loan Note Alternative

Charter Shareholders who return a Form of Election and subsequently wish to withdraw or amend their election will have the right to do so by contacting the Receiving Agent in writing by no later than 1.00 p.m. on January 10, 2012 or such later time or date (if any) as Charter and Colfax may announce through a Regulatory Information Service. Charter Shareholders should clearly specify whether they would like to withdraw or amend the election that they have made and should ensure that the request contains an original signature. Any written requests of this nature should be sent to the Receiving Agent at Computershare, Corporate Actions 2, Bristol, BS99 6AG. If an election was made through a TTE Instruction, please contact the Receiving Agent as soon as possible to arrange electronic withdrawal or amendment.

Colfax CDIs

Issue of Colfax CDIs

Unlike Charter Shares, New Colfax Common Shares are not capable of being held, transferred or settled through the usual UK settlement systems such as CREST.

In addition, Charter Shareholders who currently hold their Charter Shares in certificated form (that is, they hold a share certificate) may find holding and trading the New Colfax Common Shares directly involves a number of formalities that will be unfamiliar for UK and certain other investors. Dealing with a transfer agent (the equivalent of a registrar in the UK) in a different jurisdiction and time zone may also prove inconvenient in certain circumstances.

For these reasons, Charter Shareholders will not be issued with New Colfax Common Shares directly but will be issued with Colfax CDIs (as explained in more detail below and subject to the position of Restricted Holders).

The Colfax CDI arrangements do not affect the economic rights attached to the New Colfax Common Shares. However, while the holders of Colfax CDIs will have an entitlement to the underlying New Colfax Common Shares, they will not be the registered holders of the New Colfax Common Shares.

New Colfax Common Shares to which Charter Shareholders (other than Restricted Holders) will be entitled under the Acquisition will be delivered, held and settled in CREST by means of the CREST International Settlement Links Service and, in particular, CREST's established link with DTC, the US settlement and clearance system. This link operates via the services of CREST International Nominees Limited, which is a participant in DTC.

Under the CREST International Settlement Links Services, CREST Depository Limited, a subsidiary of Euroclear, issues dematerialised depositary interests representing entitlements to non-UK securities (such as New Colfax Common Shares) called CDIs. CDIs may be held, transferred and settled exclusively through CREST.

The terms on which CDIs are issued and held in CREST are set out in the CREST Manual (and, in particular, the deed poll set out in the CREST International Manual) and the CREST Terms and Conditions issued by Euroclear.

On settlement, Colfax will instruct its transfer agent to cause the credit of the New Colfax Common Shares through DTC to the securities deposit account of CREST International Nominees Limited, as nominee for CREST Depository Limited. CREST Depository Limited will then issue the Colfax CDIs through CREST to the Registrar for delivery, in the case of Uncertificated Holders, to the securities deposit account in CREST in which each such Uncertificated Holder previously held Charter Shares or, in the case of Certificated Holders (other than Restricted Holders), to the CSN, in its capacity as nominee for the Certificated Holders. For further information see – *CSN for Certificated Holders* below.

A custody fee, as determined by CREST from time to time, is charged at the user level for the use of Colfax CDIs.

CSN for Certificated Holders

As the Colfax CDIs can only be held through CREST, Bidco will arrange for the CSN to act as a corporate sponsored nominee for Certificated Holders (other than Restricted Holders) pursuant to which the CSN will hold Colfax CDIs on behalf of all Certificated Holders (other than Restricted Holders). The detailed provisions of these nominee arrangements are set out in an agreement between Bidco and the CSN and include the terms and conditions on which the CSN Facility will be provided by the CSN to Certificated Holders.

The CSN Facility will not be made available to any Charter Shareholder who holds Charter Shares in certificated form and who has a registered address in the US or in any other CSN Restricted Jurisdiction (any such persons are referred to in – *Charter Shareholders who will not receive Colfax CDIs* below).

Certificated Holders will be sent a Statement of Ownership (setting out their Colfax CDI entitlements) on settlement and at least annually thereafter. They will also be sent a booklet with the Statement of Ownership describing the terms and conditions on which the CSN provides them with the CSN Facility.

Charter Shareholders who will not receive Colfax CDIs

The ability to participate in the CSN Facility may be restricted or made onerous by law in certain jurisdictions. Accordingly, any Charter Shareholder who holds his Charter Shares in certificated form and who has a registered address in the US or in any other CSN Restricted Jurisdiction will not be entitled to participate in the CSN Facility.

Restricted Holders who are entitled to receive New Colfax Common Shares pursuant to the Acquisition will be sent certificated New Colfax Common Shares on settlement unless to do so would or might infringe the laws of the relevant CSN Restricted Jurisdiction or would or might require Charter, Colfax or Bidco to obtain any governmental or other consent or to effect any registration, filing or other formality in the relevant CSN Restricted Jurisdiction with which, in the opinion of Charter, Colfax and Bidco, it would be unable to comply or which it regards as unduly onerous.

In this event, Restricted Holders in that CSN Restricted Jurisdiction will instead receive the cash proceeds from the sale of the New Colfax Common Shares to which they were entitled in sterling (net of transaction costs). The Restricted Holders do not need to elect for the New Colfax Common Shares to be sold on their behalf. The New Colfax Common Shares will be issued to a nominee for such Restricted Holders who shall sell the New Colfax Common Shares so issued as soon as possible after the Effective Date at the market price at that time. The proceeds of the sale will be converted into sterling at the exchange rate available at the time. No discretion will be exercised as to the timing of the sale of the New Colfax Common Shares. Transaction costs will be met out of the proceeds of the sale of the New Colfax Common Shares and the Restricted Holders will receive the sale consideration net of transaction costs.

Dealing Facility

Following the 2.5 Announcement, Colfax and Charter investigated the possibility of Colfax providing a low-cost dealing facility to assist those Charter Shareholders who wish to dispose of the New Colfax Common Shares they receive under the Scheme. Following completion of those investigations, Colfax advised the Charter Board that it is unfortunately not practicable to provide such a facility due to regulatory restrictions. Charter Shareholders who wish to dispose of their interest in the New Colfax Common Shares they receive under the Scheme are accordingly advised to contact their broker.

However, by implementing settlement of the share element of the Offer Consideration through the CDI arrangements described above (rather than through the issue of New Colfax Common Shares directly to Charter Shareholders) it is anticipated that Charter Shareholders will be able to deal in their interests in New Colfax Common Shares at rates which are broadly comparable to dealing costs payable on dealings in UK shares.

Transfer and cancellation of Colfax CDIs

Uncertificated Holders, who hold their Colfax CDIs through CREST, will be able to cancel their Colfax CDIs by settling a cross border delivery transaction in respect of the underlying New Colfax Common Shares through CREST to a DTC participant, in accordance with the rules and practices of CREST and DTC.

Certificated Holders who wish to hold the New Colfax Common Shares to which they are entitled by the Acquisition through an intermediary of their own choosing (who must be a DTC participant) will be able to instruct the CSN to transfer that holder's New Colfax Common Shares. Details of the manner in which such instructions may be given will be included in the information booklet to be sent to Certificated Holders by the CSN together with the first Statement of Ownership.

Transaction fees will be payable by a holder of Colfax CDIs who executes a transaction through CREST (including a cancellation of Colfax CDIs). In addition, Certificated Holders whose Colfax CDIs are held through the CSN Facility will be required to pay a fee to the CSN in order to effect such transfer. Uncertificated Holders of Colfax CDIs will be charged a custody fee by CREST in relation to the Colfax CDIs which they hold.

A copy of the terms and conditions of the CSN Facility is being made available as provided in *Part 14: Additional Information – 19. Documents for inspection*.

Charter Executive Share Schemes and Phantom Restricted Share Plan

Charter and Bidco will be writing to participants in the Charter Executive Share Schemes and Phantom Restricted Share Plan to inform them of the effect of the Scheme on their rights under the Charter Executive Share Schemes and Phantom Restricted Share Plan.

Break Payment

Charter has agreed to pay to Bidco an amount (exclusive of any amounts chargeable in respect of VAT) equal to £15,275,000 (subject to certain adjustments) if:

(a) a Competing Proposal is announced; and

(b) such Competing Proposal, or any other Competing Proposal announced during the Offer Period, subsequently becomes or is declared wholly unconditional or otherwise becomes effective.

Charter has also agreed to pay to Bidco an amount (exclusive of any amounts chargeable in respect of VAT) equal to £7,638,000 (subject to certain adjustments) if:

(a) following posting of the Scheme Document, the directors of Charter recommend a Competing Proposal or withdraw, qualify or adversely modify their recommendation to accept or vote in favour of the Acquisition or if such recommendation ceases to be unanimous; or

(b) Charter issues any scheme document in respect of a Competing Proposal or takes steps to implement such Competing Proposal; or

(c) Charter makes any changes to the agreed timetable, extension of time, adjournment, postponement or reconvention of either of the Meetings thus preventing, or which would reasonably be expected to prevent, the Scheme from becoming Effective prior to the Long Stop Date.

The maximum amount which Charter may be obliged to pay under the Implementation Agreement is limited to £15,275,000 (exclusive of any amounts chargeable in respect of VAT).

For further information see *Part 14: Additional Information – 12. Material contracts*. Further details of the above arrangements are summarized in the Scheme Document.

Conditions

The Acquisition is conditional upon the satisfaction of certain terms and conditions, including (amongst others) the following Conditions:

(a) the Scheme becoming unconditional and effective by the Long Stop Date (or such later date (if any) as Bidco and Charter may (with the consent of the Panel) agree);

(b) in respect of the Scheme:

    (i) it being approved by a majority in number representing not less than three-fourths of the voting rights of the holders of Charter Shares (or the relevant class or classes thereof, if applicable) present and voting, either in person or by proxy, at the Court Meeting;

    (ii) all resolutions necessary to approve and implement the Scheme being duly passed by the requisite majority or majorities at the Charter General Meeting or at any adjournment of that meeting; and

(iii) the sanction of the Scheme with or without modification (but subject to any such modification being acceptable to Bidco and Charter) and the confirmation of the Capital Reduction by the Court, and the delivery of the Scheme Court Order to the Registrar of Companies and the registration of the Reduction Court Order and minute of the Capital Reduction being filed with and registered by the Registrar of Companies;

(c) the approval of the Colfax Shareholders of the Equity Capital Raising by the requisite simple majority at a duly convened meeting of Colfax Shareholders;

(d) insofar as the Acquisition constitutes, or is deemed to constitute, a concentration with an European Union dimension within the scope of Regulation (EC) 139/2004 or the European Commission otherwise accepts jurisdiction to examine the Acquisition under Regulation (EC) 139/2004:

(i) the European Commission indicating that it does not intend to initiate proceedings under Article 6(1)(c) of Regulation (EC) 139/2004 in respect of the proposed acquisition of Charter by Bidco or any aspect of such acquisition or its financing (or being deemed to have done so under Article 10(6) of Regulation (EC) 139/2004);

(ii) in the event that any request or requests under Article 9(2) of Regulation (EC) 139/2004 have been made by any European Union or EFTA states, the European Commission indicating that it does not intend to refer the proposed acquisition of Charter by Bidco or any aspect of such acquisition or its financing, to any competent authority of a European Union or EFTA state in accordance with Article 9(3) of Regulation (EC) 139/2004; and

(iii) no indication having been made that a European Union or EFTA state may take appropriate measures to protect legitimate interests pursuant to Article 21(4) of Regulation (EC) 139/2004 in relation to the proposed acquisition of Charter by Bidco or any aspect of such acquisition or its financing;

(e) all necessary filings having been made under the United States Hart-Scott-Rodino Antitrust Improvements Act of 1976 (as amended) and the regulations promulgated thereunder, and the waiting period thereunder having expired, lapsed or been terminated as appropriate in each case in respect of the Acquisition or any aspect of the Acquisition or its financing (including, for the avoidance of doubt, the Equity Capital Raising), the acquisition or proposed acquisition of any shares or other securities in, or control of, Charter or any other member of the Wider Charter Group by any member of the Wider Colfax Group;

(f) all necessary notifications, filings and applications having been made, all regulatory and statutory obligations in any relevant jurisdiction having been complied with, all appropriate waiting and other time periods (including any extensions of such waiting and other time periods) under any applicable legislation or regulations of any relevant jurisdiction having expired, lapsed or been terminated in each case in respect of the Acquisition or any aspect of the Acquisition or its financing (including, for the avoidance of doubt, the Equity Capital Raising), the acquisition or proposed acquisition of any shares or other securities in, or control of, Charter or any other member of the Wider Charter Group by any member of the Wider Colfax Group or the carrying on by any member of the Wider Charter Group of its business;

(g) no material adverse change or deterioration having occurred (or circumstances having arisen which would or might be expected to result in any adverse change or deterioration) in the business, assets, liabilities, financial or trading position or profits, operational performance, prospects of any member of the Wider Charter Group, which is material in the context of the Wider Charter Group, taken as a whole; and

(h) the satisfaction or waiver of other Conditions which are considered customary for a transaction of this nature, such Conditions being as set out in the Scheme Document.

Bidco reserves the right to waive, in whole or in part, all or any of Conditions, except for the Conditions set out in (b), (c) and (e) above.

The Conditions (excluding the Condition described in (b)(iii) above) must be fulfilled, or be determined by Bidco to be or remain satisfied or (if capable of waiver) be waived, prior to the commencement of the Court Hearing, failing which the Acquisition will lapse and the Scheme will not proceed.

The Acquisition will lapse and the Scheme will not proceed if, prior to the date of the Court Meeting, the Acquisition, or any matter arising from the Acquisition, is referred to a serious doubts investigation under Article 6(1)(C) of Regulation (EC) 139/2004 or if the Acquisition, or any matter arising from the Acquisition, is referred to the Competition Commission in the United Kingdom.

Certain further terms of the Acquisition

The Acquisition will not be made, directly or indirectly, in or into, or by use of the mails of, or by any means or instrumentality (including, without limitation, facsimile transmission, telex, telephone, internet or e-mail) of interstate or foreign commerce of, or of any facility of a national securities exchange of any Restricted Jurisdiction and the Acquisition will not be capable of acceptance by any such use, means, instrumentality or facility or from within any Restricted Jurisdiction.

The New Colfax Common Shares to be issued pursuant to the Acquisition have not been and will not be registered under any of the relevant securities laws of any Restricted Jurisdiction. Accordingly, the New Colfax Common Shares may not be offered, sold or delivered, directly or indirectly to any person in any Restricted Jurisdiction, except pursuant to exemptions from applicable requirements of any such Restricted Jurisdiction.

The New Colfax Common Shares will be issued credited as fully paid and will rank *pari passu* in all respects with the existing Colfax Common Stock. Fractions of New Colfax Common Shares will not be allotted or issued under the Acquisition.

Charter Shares which will be acquired under the Acquisition will be acquired fully paid and free from all liens, equities, charges, encumbrances, options, rights of pre-emption and any other third party rights and interests of any nature and together with all rights now or hereafter attaching or accruing to them, including voting rights and the right to receive and retain in full all dividends and other distributions (if any) declared, made or paid on or after the date of this document.

ESAB India Limited

ESAB India Limited is listed on BSE Limited and the National Stock Exchange of India Limited, and Charter (through its subsidiaries) currently indirectly holds approximately 56% of the issued share capital of the company. Under applicable Indian legislation, Bidco (alone or in conjunction with Colfax) will be required to make a mandatory open offer for part of the outstanding shares in ESAB India Limited. The relevant Indian regulations are in the process of being repealed and replaced with the new regulations effective from October 22, 2011. It is not yet certain whether the existing or the new regulations will be applicable to the open offer. The new regulations require an open offer to be made for at least 26% of the issued share capital of ESAB India Limited, as compared to at least 20% of the issued share capital under the existing regulations. The open offer price to be paid pursuant to any such open offer will also be dependent on which regulations apply. In any event, irrespective of which regulations apply to the open offer, Bidco (alone or in conjunction with Colfax) will comply with its obligations with respect to such a mandatory open offer and resources will be available to Bidco (alone or in conjunction with Colfax) to ensure that it is able to satisfy its obligations in connection with such an open offer. Any such open offer will not be required to be made until such time as the acquisition of Charter has been completed.

Regulatory Approvals

Antitrust in the United States

Under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 and the related rules and regulations that have been issued by the Federal Trade Commission, certain acquisition transactions may not be consummated until premerger notification and report forms have been furnished to the Federal Trade Commission and the Antitrust Division of the Department of Justice and certain waiting period requirements have been satisfied. These requirements of the Hart-Scott-Rodino Antitrust Improvements Act of 1976 apply to the Acquisition.

Under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, the Acquisition may not be completed until the expiration of a 30-day waiting period following filing of a premerger notification and report form concerning the proposed Acquisition with the Federal Trade Commission and the Antitrust Division of the Department of Justice, unless the waiting period is earlier terminated by the Federal Trade Commission and the Antitrust Division of the Department of Justice.

Colfax filed a premerger notification and report form on September 30, 2011 with the Federal Trade Commission and the Antitrust Division of the Department of Justice in connection with the

Acquisition and the required waiting period will expire 30 days after such filing unless earlier terminated by the Federal Trade Commission and the Antitrust Division of the Department of Justice or a request for additional information or documentary material is received prior to that time. If within the 30-day waiting period either the Federal Trade Commission or the Antitrust Division issues such a second request to Colfax, the waiting period will be extended for an additional period of 10 days following the date Colfax complies with that request.

At any time before or after the Acquisition, the Antitrust Division of the Department of Justice or the Federal Trade Commission could take such action under the antitrust laws as it deems necessary or desirable in the public interest, including seeking to enjoin the Acquisition or seeking the divestiture of Charter or the divestiture of substantial assets of Colfax or its subsidiaries or of Charter or its subsidiaries.

In addition, the Acquisition may be reviewed by the attorneys general in the various states in which Colfax and Charter operate. These authorities may claim that there is authority, under the applicable state and federal antitrust laws and regulations, to investigate and/or disapprove of the Acquisition under the circumstances and based upon the review set forth in applicable state laws and regulations. Colfax cannot assure you that one or more state attorneys general will not attempt to file an antitrust action to challenge the Acquisition. Private parties also may seek to take legal action under the antitrust laws in some circumstances.

Other Foreign Competition Law Filings

Both Colfax and Charter sell products in a number of other jurisdictions throughout the world, where antitrust filings or approvals may be required or advisable in connection with the completion of the Acquisition. Colfax and, where necessary, Charter currently intends to submit or has already submitted notifications in order to seek approvals in certain jurisdictions, including Argentina, Brazil, Germany, Italy, Norway, Poland, Portugal, Russia, South Africa, South Korea, Spain and Ukraine. Colfax believes that completion of the Acquisition will be approved without conditions in all such other countries, if any, where approval is required. However, Colfax cannot rule out the possibility that any foreign antitrust authority might seek to require remedial undertakings as a condition to its approval.

Colfax cannot assure you that all of the regulatory approvals described above will be obtained and, if obtained, Colfax cannot assure you as to the timing of any approvals, Colfax's ability to obtain the approvals on satisfactory terms or the absence of any litigation challenging such approvals. Colfax also cannot assure you that the Department of Justice, the FTC or any state attorney general or any other governmental entity or any private party will not attempt to challenge the completion of the Acquisition on antitrust grounds, and, if such a challenge is made, Colfax cannot assure you as to its result.

Delisting and re-registration

Prior to the Scheme becoming effective, a request will be made to the London Stock Exchange to cancel trading in Charter Shares on its market for listed securities on the first business day following the Effective Date and the UK Listing Authority will be requested to cancel the listing of the Charter Shares from the Official List on the first business day following the Effective Date.

Share certificates in respect of the Charter Shares will cease to be valid and should be destroyed on the first business day following the Effective Date.

In addition, entitlements held within the CREST system to the Charter Shares will be cancelled on the first business day following the Effective Date.

As soon as practicable after the Effective Date, it is intended that Charter will be re-registered as a private limited company.

Overseas Charter Shareholders

The distribution of this document to, and the availability of the Acquisition to, persons who are not resident in the United Kingdom, Jersey or the United States may be affected by the laws of their relevant jurisdiction. Such persons should inform themselves of and observe any applicable legal or regulatory requirements of their jurisdiction. Further details in relation to overseas Charter Shareholders are contained in the Scheme Document.

Notice to Charter Shareholders and potential investors

United States

The Scheme relates to the shares of a Jersey company that is a "foreign private issuer" as defined under Rule 3b-4 under the Exchange Act and will be governed by Jersey law. A transaction effected by means of a scheme of arrangement is not subject to the tender offer rules under the Exchange Act. Accordingly, the Scheme is subject to the disclosure requirements and practices applicable in the United Kingdom or Jersey and under the City Code to schemes of arrangement, which differ from the disclosure requirements of the US tender offer rules. Certain financial information included in this document has not been prepared in accordance with US GAAP and thus may not be comparable to the financial information of US companies or companies whose financial statements are prepared in accordance with US GAAP. If Bidco exercises its right to implement the Acquisition by way of a takeover offer, such offer will be made in compliance with applicable US laws and regulations.

The New Colfax Common Shares may not be offered, sold, or delivered, directly or indirectly, in, into or from the United States absent registration under the Securities Act or an exemption from registration. It is expected that the New Colfax Common Shares to be issued in the Scheme will be issued in reliance upon the exemption from the registration requirements of the Securities Act provided by section 3(a)(10) thereof.

For the purpose of qualifying for the exemption from the registration requirements of the Securities Act provided by section 3(a)(10) of the Securities Act with respect to the New Colfax Common Shares issued pursuant to the Scheme, Colfax will advise the Court that it will rely on the section 3(a)(10) exemption based on the Court's sanctioning of the Scheme, which will be relied upon by Colfax as an approval of the Scheme following a hearing on its fairness to Charter Shareholders at which hearing all such Charter Shareholders are entitled to attend in person or through counsel to support or oppose the sanctioning of the Scheme and with respect to which notification has been given to all such Charter Shareholders.

New Colfax Common Shares issued to a Charter Shareholder who is not an "affiliate" (within the meaning of the Securities Act) of Colfax after the Effective Date will not be "restricted securities" under the Securities Act and such New Colfax Common Shares may be sold by such person in ordinary secondary market transactions without restriction under the Securities Act.

Under applicable US securities laws, persons (whether or not US persons) who are or will be "affiliates" (within the meaning of the Securities Act) of Colfax after the Effective Date will be subject to certain transfer restrictions relating to the New Colfax Common Shares received in connection with the Scheme. Persons who may be deemed to be affiliates of Colfax include individuals who, or entities that, control directly or indirectly, or are controlled by or are under common control with, Colfax and may include certain officers and directors of Colfax and Colfax's principal shareholders (such as, for example, a holder of more than 10% of the outstanding capital stock). Charter Shareholders who are affiliates, in addition to reselling their New Colfax Common Shares in the manner permitted by Rule 144 under the Securities Act, may also sell their New Colfax Common Shares under any other available exemption under the Securities Act, including Regulation S under the Securities Act. Charter Shareholders who believe they may be affiliates for the purposes of the Securities Act should consult their own legal advisers prior to any sale of New Colfax Common Shares received pursuant to the Scheme.

The New Colfax Common Shares will not be registered under the securities laws of any state of the United States, and will be issued in the United States in compliance with, or in reliance on, available exemptions from such state law registration requirements.

Neither the SEC nor any other US federal or state securities commission or regulatory authority has approved or disapproved the New Colfax Common Shares or passed upon the accuracy or adequacy of this document. Any representation to the contrary is a criminal offence in the United States.

Charter Shareholders who are citizens or residents of the United States should consult their own legal and tax advisers with respect to the legal and tax consequences of the Scheme or, if Colfax decides to implement the Acquisition by way of an Offer, the Offer, in their particular circumstances.

Other jurisdictions

This document and any accompanying documents are not being made available to Overseas Shareholders with registered addresses in any Restricted Jurisdiction and may not be treated as an invitation to subscribe for any New Colfax Common Shares by any person resident or located in such jurisdictions or any other Restricted Jurisdiction.

The New Colfax Common Shares and the Loan Notes have not been, and will not be, registered under the applicable securities laws of any Restricted Jurisdiction. Accordingly, the New Colfax Common Shares and the Loan Notes may not be offered, sold, delivered or transferred, directly or indirectly, in or into any Restricted Jurisdiction to or for the account or benefit of any national, resident or citizen of any Restricted Jurisdiction.

The implications of the Scheme (including the right to make an election under the Mix and Match Facility) for Overseas Shareholders may be affected by the laws of relevant jurisdictions. Such Overseas Shareholders should inform themselves about, and observe, any applicable legal requirements. It is the responsibility of each overseas person who is to receive New Colfax Common Shares pursuant to the Scheme to satisfy himself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required or the compliance with other necessary formalities which are required to be observed and the payment of any issue, transfer or other taxes due in such jurisdiction.

This document has been prepared for the purposes of complying with English law, Jersey Law and the Prospectus Rules, and the information disclosed may not be the same as that which would have been disclosed if this document had been prepared in accordance with the laws of jurisdictions outside of England and Wales.

Overseas Shareholders should consult their own legal and tax advisers with respect to the legal and tax consequences of the Scheme in their particular circumstances.

THIS DOCUMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITY. NONE OF THE SECURITIES REFERRED TO IN THIS DOCUMENT SHALL BE SOLD, ISSUED OR TRANSFERRED IN ANY JURISDICTION IN CONTRAVENTION OF APPLICABLE LAW.

Meetings

The notices to convene the Meetings are set out in the Scheme Document. Please refer to the Scheme Document for details of the Meetings and the resolutions required to implement the Scheme.

Bidco's right to implement the Acquisition by means of an Offer

Bidco has reserved the right, subject to the consent of the Panel, to implement the Acquisition by means of an Offer. In the event that the Acquisition is to be implemented by way of an Offer, the Charter Shares will be acquired pursuant to the Offer fully paid and free from all liens, charges, equitable interests, encumbrances and rights of pre-emption and any other interests of any nature whatsoever and together with all rights attaching thereto.

In the event Bidco exercises its right to implement the Acquisition by means of an Offer, Bidco and/or Colfax will publish a prospectus containing information in respect of the Offer pursuant to their obligations under the City Code and the Prospectus Rules.

PART 2: INFORMATION ON COLFAX

The following information should be read in conjunction with the information appearing elsewhere in this document, including the financial and other information in Part 6: Colfax Operating and Financial Review and Part 8: Colfax Financial Information. The financial information included in this Part 2: Information on Colfax has been extracted without material adjustment from Part 6: Colfax Operating and Financial Review or the financial information included in Part 8: Colfax Financial Information, or from the accounting records of the Colfax Group, which formed the underlying basis of the financial information included in Part 8: Colfax Financial Information.

Introduction

Colfax is a global supplier of a broad range of fluid handling products, including pumps, fluid handling systems and controls, and specialty valves. We believe that we are a leading manufacturer of rotary positive displacement pumps, which include screw pumps, gear pumps and progressive cavity pumps. We design and engineer our products to high quality and reliability standards for use in critical fluid handling applications where performance is paramount. We also offer customized fluid handling solutions to meet individual customer needs based on our in-depth technical knowledge of the applications in which our products are used.

Our products are marketed principally under the Allweiler, Baric, Fairmount Automation, Houttuin, Imo, LSC, Portland Valve, Tushaco, Warren and Zenith brand names. We believe that our brands are widely known and have a premium position in our industry. We believe Allweiler, Houttuin, Imo and Warren are among the oldest and most recognized brands in the markets in which we participate, with Allweiler dating back to 1860. We have a global manufacturing footprint, with production facilities in Europe, North America and Asia, as well as worldwide sales and distribution channels.

We employ a disciplined strategic planning and execution methodology referred to as the Colfax Business System, or CBS. CBS is designed to achieve excellence and world-class financial performance in all aspects of our business by focusing on the *Voice of the Customer* and continuously improving quality, delivery and cost. Modeled on the Danaher Business System, CBS focuses on conducting root-cause analysis, developing process improvements and implementing sustainable systems. Our approach addresses the entire business, not just manufacturing operations.

We currently serve markets that have a need for highly engineered, critical fluid handling solutions and are global in scope. Our strategic markets include:

Strategic Markets	**Applications**
Commercial Marine	Fuel oil transfer; lubrication; water and wastewater handling; cargo handling
Oil and Gas	Crude oil gathering; pipeline services; unloading and loading; rotating equipment lubrication; lube oil purification
Power Generation	Fuel unloading, transfer, burner and injection; rotating equipment lubrication
Global Defense	Fuel oil transfer; oil transport; water and wastewater handling; firefighting; fluid control
General Industrial	Machinery lubrication; hydraulic elevators; chemical processing; pulp and paper processing; food and beverage processing; distribution

We serve a global customer base across multiple markets through a combination of direct sales and marketing associates and third-party distribution channels. Our customer base is highly diversified and includes commercial, industrial and government customers such as Alfa Laval Group, General Dynamics Corporation, Siemens AG, the US Navy and various other sovereign navies around the world. Our business is not dependent on any single customer or a few customers. In 2010, no single customer represented more than 6% of sales.

History

Our business began with an initial investment by our founders in 1995 with the intention to acquire, manage and create a world-class industrial manufacturing company. We seek to acquire businesses with leading market positions and brands that exhibit strong cash flow generation potential. With our management expertise and the introduction of CBS into our acquired businesses, we pursue growth in revenues, improvements in operating margins and increasing cash flow.

Since our acquisitions of Imo and Allweiler in 1997 and 1998, respectively, we have completed additional acquisitions that have broadened our fluid handling product portfolio and geographic footprint. A summary of recent acquisition activity follows:

- In January 2007, we acquired LSC, a manufacturer of fluid handling systems. LSC designs, manufactures, installs and maintains oil mist lubrication and oil purification systems in refineries, petrochemical plants and other processing facilities.
- In November 2007, we acquired Fairmount, an original equipment manufacturer of mission critical programmable automation controllers in fluid handling applications primarily for the US Navy.
- In August 2009, we acquired PD-Technik, a provider of marine aftermarket related products and services.
- In August 2010, we acquired Baric, a premier supplier of engineered fluid handling systems primarily for the oil and gas market.
- In February 2011, we acquired Rosscor, a supplier of multiphase pumping technology and certain other highly engineered fluid-handling systems.

In addition to our acquisitions, in 2005 we opened a green-field production facility in Wuxi, China to manufacture and assemble complete products and systems for our customers in China and other Asian markets and to supply low cost components and parts for our existing operations.

Industry

Based on industry data supplied by The Freedonia Group and European Industrial Forecasting, we estimate the worldwide fluid handling market, which we define as industrial pumps, valves, and gaskets and seals, to have been $130 billion in 2009. Within this market, we primarily compete in the estimated $5 billion global rotary positive displacement pump market, a sub-section of the estimated $14 billion positive displacement pump market. We are also a competitor in the estimated $28 billion centrifugal pump market and the estimated $50 billion valve market.

We believe that there are over 9,000 companies competing in the worldwide fluid handling industry. The fluid handling industry's customer base is broadly diversified across many sectors of the economy, and we believe customers place a premium on quality, reliability, availability, design and application engineering support. Because products in the fluid handling industry often are used as components in critical applications, we believe the most successful industry participants are those that have the technical capabilities to meet customer specifications, offer products with reputations for quality and reliability, and can provide timely delivery and strong aftermarket support.

Competitive strengths

Strong market positions, broad product portfolio and leading brands

We believe that we are a leading manufacturer of rotary positive displacement pumps, which include screw pumps, gear pumps and progressive cavity pumps. We offer a broad portfolio of fluid handling products that fulfill critical needs of customers across numerous industries. We believe that our brands are widely known and have a premium position in our industry.

Strong application expertise

We believe that our reputation for quality and technical expertise positions us as a premium supplier of fluid handling products. With 150 years of experience, we have significant expertise in designing and manufacturing fluid handling products that are used in critical applications, such as lubricating power generation turbines, transporting crude oil through pipelines, and transferring heavy fuel oil in commercial marine vessels.

Extensive global sales, distribution and manufacturing network

We sell our products through more than 400 direct sales, customer service and marketing associates and approximately 185 authorized distributors in more than 95 countries. We believe that our global reach within the highly fragmented, worldwide fluid handling industry provides us with an ability to better serve our customers. Our European, North American and Asian manufacturing capabilities provide us with the ability to optimize material sourcing, transportation and production costs and reduce foreign currency risk.

Use of CBS to continuously improve business

CBS is our business system designed to encourage a culture of continuous improvement in all aspects of our operations and strategic planning. Modeled on the Danaher Business System, CBS focuses on conducting root-cause analysis, developing process improvements and implementing sustainable systems. Our approach addresses the entire business, not just manufacturing operations.

Large installed base generating aftermarket sales and service

With a history dating back to 1860, we have a significant installed base across numerous industries. Because of the critical applications in which our products are used and the high quality and reliability of our products, we believe there is a tendency to replace "like for like" products. This tendency leads to significant aftermarket demand for replacement products as well as for spare parts and service. In the year ended December 31, 2010, approximately 24% of our revenues were derived from aftermarket sales and services.

Broad and diverse customer base

Our customer base spans numerous industries and is geographically diverse. Approximately 75% of our sales in 2010 were delivered to customers outside of the US. In addition, no single customer represented more than 6% of our sales during this period.

Leadership team with focus on CBS and experience in integrating acquisitions

We are led by a senior leadership team with experience in the application of CBS methodology to all aspects of industrial manufacturing operations. We believe that we have extensive experience in acquiring and effectively integrating attractive acquisition targets.

Growth strategy

We intend to continue to increase our sales, expand our geographic reach, broaden our product offerings, and improve our profitability through the following strategies:

Apply CBS to drive profitable sales growth and increase shareholder value

The core element of our operating philosophy is CBS. CBS focuses our organization on continuous improvement and performance goals in order to develop innovative strategies to meet customer needs. Rather than a static process, CBS continues to evolve as we benchmark ourselves against best-in-class industrial companies.

Beyond the traditional application of cost control, overhead rationalization, global process optimization, and implementation of lean manufacturing techniques, we utilize CBS to identify strategic opportunities to enhance future sales growth. The foremost principle of CBS is the *Voice of the Customer*, which drives our activities to continuously improve customer service, product quality, delivery and cost. The *Voice of the Customer* is instrumental in the development of differentiated products, services and solutions by utilizing a formal interview process with the end users of our products to identify "pain points" or customer needs. By engaging end users in the discussion, rather than solely relying on salespeople or anecdotal input, we are able to identify the real issues and opportunities. We then prioritize these opportunities with the intention of implementing novel or breakthrough ideas to solve end-users' needs. As we continue to apply the methodology of CBS to our existing business as well as to future acquisitions, we believe that we will be able to continue to introduce differentiated products and solutions, improve operating margins and increase the asset utilization of our businesses. As a result, we believe we can create profitable sales growth, generate excess cash flow to fund future acquisitions and increase shareholder value.

Execute market focused strategies

We have aligned our marketing and sales organization into market focused teams designed to coordinate global activity around five strategic markets: commercial marine, oil and gas, power generation, global defense and general industrial. These markets have a need for highly engineered, critical fluid handling solutions and are attractive due to their ongoing capital expenditure requirements, long term growth rates and global nature. We intend to continue to use our application expertise, highly engineered and specialized products, broad product portfolio and recognized product brands to generate high margin incremental revenue.

Commercial marine

We provide complete fluid handling packages to shipbuilders throughout the world primarily for use in engine room applications. We believe our products are widely recognized for their superior reliability and lower total cost of ownership. The increased rate of commercial marine vessel construction in recent years has expanded our installed base of fluid handling products and has generated increased aftermarket revenues. In addition to supplying our products for new vessels, we intend to continue to grow our aftermarket sales and services by optimizing our channels to improve market coverage. We are also addressing changing environmental requirements with our products. We also intend to continue to expand our global reach by utilizing our Chinese operations to offer locally manufactured products, to reduce production costs and to provide local customer service and support for the Asia Pacific region, an area where the majority of the commercial marine vessels are constructed.

Oil and gas

We provide a broad portfolio of fluid handling products for many oil and gas applications around the world. In particular, we have a strong presence in oil field tank farms, pipelines and refineries and also in Floating Production Storage and Offloading (FPSO) installations. We intend to continue to execute our strategy in the global crude oil transport market by targeting applications where our products can replace less efficient fluid handling alternatives. We also intend to leverage our position as a leading supplier of 2-screw pumps by developing complex turnkey systems to capture the growing need for fluid handling solutions that can undertake the difficult task of handling varying mixtures of heavy crude oil, natural gas and water at the same time. Additionally, we expect to continue to broaden our presence within the refinery market through our acquisition of Baric. We are also adding resources to the growing oil and gas markets around the world, including Asia, the Middle East and developing nations.

Power generation

We provide fluid handling products used in critical lubrication and fuel injection services for fossil fuel, hydro and nuclear power plants around the world. We believe that we have in-depth knowledge of fuel injection and lubrication applications, strong product brand names and a reputation for reliability in the power generation industry. Within this market we intend to continue our growth as a provider of turnkey systems by utilizing our expertise in power generation applications to develop innovative solutions. We also plan to continue to leverage our global presence to strengthen our relationships with large original equipment manufacturers of power generation equipment.

Global defense

For over 90 years we have supplied our specialty centrifugal and screw pumps to sovereign navies around the world, including the US Navy and most of the major navies in Europe. With the acquisitions of Portland Valve and Fairmount, we broadened our offering to include specialty valves and advanced control systems, respectively. We intend to continue to design, manufacture and sell high value fluid handling systems in order to meet the evolving requirements and standards of the navies around the world. Our engineers are also working with the US Navy to incorporate electronics and advanced control algorithms into our products. We are also focused on expanding our repair and service capabilities as work is outsourced to private shipyards. As part of this strategy, we have established a waterfront repair and service facility in San Diego, California to complement our Portland, Maine facility (which is being relocated to Warren, Massachusetts) in order to provide more responsive aftermarket support to the US Navy.

General industrial

We provide fluid handling solutions for a broad array of general industrial applications, including machinery lubrication, commercial construction, chemical processing, pulp and paper processing and food and beverage processing, among others. We intend to continue to apply our application and engineering expertise to supply our customers with a portfolio of products that can solve their most critical fluid handling needs. We also intend to continue to expand our presence in the general industrial market by targeting new applications for our existing products, deploying regionally focused strategies and leveraging our global presence and sales channels to sell our solutions worldwide.

Target faster growing regions by leverage of global manufacturing, sales and distribution network

We intend to continue to leverage our strong global presence and worldwide network of distributors to capitalize on growth opportunities by selling regionally developed and marketed products and solutions throughout the world. As our customers have become increasingly global in scope, we have likewise increased our global reach to serve our customers by maintaining a local presence in numerous markets and investing in sales, marketing and manufacturing capabilities globally.

Develop differentiated products, applications and technologies

We will continue to engineer our key products to meet the needs of new and existing customers and also to improve our existing product offerings to strengthen our market position. We plan to continue to develop technological, or ''SMART,'' solutions, which incorporate advanced electronics, sensors and controls, through the use of our *Voice of the Customer* process to solve specific customer needs. We believe our SMART solutions will reduce our customers' total cost of ownership by providing real-time diagnostic capabilities to minimize downtime, increase operational efficiency and avoid unnecessary costs. We also intend to leverage Fairmount's portfolio of advanced controls into our broader industrial offerings to develop innovative SMART fluid handling solutions.

Growth of offerings of systems and solutions

We will continue to provide high value added fluid handling solutions by utilizing our engineering and application expertise along with our brand recognition and sales channels to drive incremental revenue. We intend to establish regional system manufacturing capabilities to address our customers' desire to purchase turnkey modules and their preference for outsourced assembly.

Continue to pursue strategic acquisitions that complement its platform

We believe that the fragmented nature of the fluid handling industry presents substantial consolidation and growth opportunities for companies with access to capital and the management expertise to execute a disciplined acquisition and integration program. We have successfully applied this strategy since our inception and plan to continue to seek companies that:

- enhance our position in our strategic markets;
- have recognized, leading brands and strong industry positions;
- present opportunities to expand our product lines and services;
- have a reputation for high quality products;
- will broaden our global manufacturing footprint;
- complement or augment our existing worldwide sales and distribution networks; or
- present opportunities to provide operational synergies and improve the combined business operations by implementing CBS.

Our acquisition strategy considers a broad range of industrial businesses, including businesses in or complementary to our existing business, as well as industrial businesses not associated with fluid handling. It is likely that our acquisition efforts will focus on similar or complementary businesses in the near term.

Products

We design, manufacture and distribute fluid handling products that transfer or control liquids in a variety of applications. We also sell replacement parts and perform repair services for our manufactured products.

Our primary products, brands and their end uses include:

Fluid Handling Products	Primary Brands	Primary End Uses
Pumps	Allweiler, Houttuin, Imo, Warren, Tushaco and Zenith	Commercial marine, oil and gas, machinery lubrication, power generation, defense, chemical and commercial construction
Fluid Handling Systems	Allweiler, Baric, Fairmount Automation, Houttuin, Imo, LSC and Warren	Commercial marine, oil and gas, power generation and defense
Specialty Valves	Portland Valve	Global defense

Pumps

Rotary positive displacement pumps

We believe that we are a leading manufacturer of rotary positive displacement pumps with a broad product portfolio and globally recognized brands. Rotary positive displacement pumps consist of a casing containing screws, gears, vanes or similar components that are actuated by the relative rotation of that component to the casing, which results in the physical movement of the liquid from the inlet to the discharge at a constant rate. Positive displacement pumps generally offer precise, quiet and highly efficient transport of viscous fluids. The US Hydraulic Institute accredits 11 basic types of rotary positive displacement pumps, of which we manufacture five (3-screw, 2-screw, progressive cavity, gear and peristaltic).

Specialty centrifugal pumps

Centrifugal pumps use the kinetic energy imparted by rotating an impeller inside a configured casing to create pressure. While traditionally used to transport large quantities of thin liquids, our centrifugal pumps use specialty designs and materials to offer customers high quality, reliability and customized solutions for a wide range of viscosities, temperatures and applications. We position our specialty centrifugal pumps for applications where customers clearly recognize our brands or in markets where centrifugal and rotary pumps are complementary.

Fluid handling systems

We manufacture complete fluid handling systems used primarily in the oil and gas, power generation, commercial marine and global defense markets. We offer turnkey systems and support, including design, manufacture, installation, commission and service. Our systems include:

- lubrication systems, which are used in rotating equipment in oil refineries and other process industries;
- custom designed packages used in crude oil pipeline applications;
- lubrication and fuel forwarding systems used in power generation turbines;
- complete packages for commercial marine engine rooms; and
- fire suppression systems for navy applications.

Specialty valves

Our specialty valves are used primarily in naval applications. Our valve business has specialized machining, welding and fabrication capabilities that enable it to serve as a supplier to the US Navy. In addition to designing and manufacturing valves, we also offer repair and retrofit services for products manufactured by other valve suppliers through our aftermarket support centers located in Portland, Maine (which is being relocated to Warren, Massachusetts) and San Diego, California.

Raw materials and backlog

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

Manufacturing turnaround time is generally sufficiently short to allow us to manufacture to order for most of our products, which helps to limit inventory levels. Backlog generally is a function of requested customer delivery dates and may range from days to several years. Backlog of orders as of December 31, 2010 was $313.5 million, compared with $290.9 million as of December 31, 2009. We expect to ship approximately 70% of our December 31, 2010 backlog during 2011; however, orders may be subject to postponement or cancellation.

Operations

Our products and services are available worldwide. We believe this geographic diversity allows us to draw on the skills of a worldwide workforce, provides stability to our operations, allows us to drive economies of scale, provides revenue streams that may offset economic trends in individual economies, and offers us an opportunity to access new markets for products. In addition, we believe that future growth is dependent in part on our ability to develop products and sales models that target developing countries. Our principal markets outside the United States are in Europe, Asia, the Middle East and South America.

The manner in which our products and services are sold differs by region. Most of our sales in non-US markets are made by subsidiaries located outside the United States, though we also sell into non-US markets through various representatives and distributors and directly from the US. In countries with low sales volumes, we generally sell through representatives and distributors.

Colfax's operations on a geographic basis are as follows:

(Thousands)	**Year Ended December 31,**		
	2010	**2009**	**2008**
Net sales by origin:			
United States	$ 183,803	$ 177,373	$ 189,924
Foreign locations:			
Germany	196,399	180,917	239,723
Other	161,785	166,734	175,207
Total foreign locations	358,184	347,651	414,930
Total net sales	541,987	525,024	604,854
Net sales by product:			
Pumps, including aftermarket parts and service	444,907	443,073	529,300
Systems, including installation service	78,598	69,339	58,231
Valves	14,568	10,081	10,094
Other	3,914	2,531	7,229
Total net sales	541,987	525,024	604,854

(Thousands)	**December 31,**	
	2010	**2009**
Long-lived assets:		
United States	$ 27,757	$ 24,785
Foreign locations:		
Germany	42,619	48,232
Other	18,870	19,073
Total foreign locations	61,489	67,305
Total long-lived assets	89,246	92,090

Competition

Our products and services are marketed on a worldwide basis. We believe that the principal elements of competition in our markets are:

- the ability to meet customer specifications;
- application expertise and design and engineering capabilities;
- product quality and brand name;
- timeliness of delivery;
- price; and
- quality of aftermarket sales and support.

The markets we serve are highly fragmented and competitive. Because we compete in selected niches of the fluid handling industry, there is no single company that competes directly with us across all of our markets. As a result, we have many different competitors in each of our strategic markets. In the commercial marine market, we compete primarily with Naniwa Pump Manufacturing Co., Ltd., Shinko Industries, Ltd., Shin Shin Machinery Group Co., Ltd. and Taiko Kikai Industries Co., Ltd. In the oil and gas market, we compete primarily with Joh. Heinr. Bornemann GmbH and Leistritz Pumpen GmbH. In the power generation market, we compete primarily with Buffalo Pumps, a subsidiary of Ampco-Pittsburgh Corporation. In the global defense market, we compete primarily with Buffalo Pumps, Carver Pump Company, Curtiss-Wright Corporation and Tyco International, Inc.

Research and development

We closely integrate research and development with marketing, manufacturing and product engineering in meeting the needs of our customers. Our business product engineering teams are continuously enhancing our existing products and developing new product applications for our growing base of customers that require custom solutions. We believe these capabilities provide a significant competitive advantage in the development of high quality fluid handling systems. Our product engineering teams focus on:

- lowering the cost of manufacturing our existing products;
- redesigning existing product lines to increase their efficiency or enhance their performance; and
- developing new product applications.

Expenditures for research and development for the six months ended July 1, 2011 and the years ended December 31, 2010, 2009 and 2008 were $3.1 million, $6.2 million, $5.9 million and $5.9 million, respectively.

Intellectual property

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

Seasonality

Colfax's fluid handling business is seasonal. As Colfax's customers seek to fully utilize capital spending budgets before the end of the year, historically Colfax's shipments have peaked during the fourth quarter. Also, Colfax's European operations typically experience a slowdown during the July and August holiday season.

Employees

The following table presents our worldwide employee base as of the periods indicated:

	Year ended December 31,		
	2010	**2009**	**2008**
North America	638	598	739
Europe	1,260	1,189	1,276
Asia and Middle East	262	254	299
Total	2,160	2,041	2,314

There are 39 associates in the United States covered by a collective bargaining agreement with the International Union of Electronic, Electrical, Salaried, Machine and Furniture Workers-Communications Workers of America (IUE-CWA). The contract with the union expires December 4, 2011 and provides for wage increases ranging from 3.5% to a maximum of 3.8% per year. In addition, approximately 49% of our associates are represented by foreign trade unions, by law, in Germany, Sweden and the Netherlands, which subjects us to arrangements very similar to collective bargaining agreements. We have not experienced any work stoppages or strikes that have had a material adverse impact on operations. We consider our relations with our associates to be good.

Properties

We manufacture and assemble our products at 14 locations in Europe, North America and Asia. This global manufacturing reach enables us to serve our customers wherever they choose to do business. Each of our manufacturing sites offers machining, fabrication and assembly capabilities that gives us the flexibility to source some of our products from multiple facilities. Our manufacturing facilities also benefit from the use of shared technology and collaboration across production lines, enabling us to increase operational efficiencies through the use of common suppliers and the duplication of production processes.

The following table lists our primary facilities at December 31, 2010 (excluding facilities acquired pursuant to the Company's acquisition of Rosscor on February 14, 2011), indicating the location, square footage, whether the facilities are owned or leased, and principal use.

Location	**Sq. Footage**	**Owned/Leased**	**Principal Use**
Fulton, Maryland	7,445	Leased	Corporate headquarters
Richmond, Virginia	12,050	Leased	Former corporate headquarters
Hamilton, New Jersey	2,200	Leased	Subsidiary headquarters
Columbia, Kentucky	75,000	Owned	Production
Warren, Massachusetts	147,000	Owned	Production
Monroe, North Carolina	187,000	Owned	Production
Houston, Texas	25,000	Leased	Production
Portland, Maine(1)	61,000	Leased	Production
Tours, France	33,000	Leased	Production
Bottrop, Germany	55,000	Owned	Production
Gottmadingen, Germany	38,000	Leased	Production
Radolfzell, Germany	350,000	Owned	Production
Utrecht, Netherlands	50,000	Owned	Production
Stockholm, Sweden	130,000	Owned	Production
Daman, India	32,000	Owned	Production
Wuxi, China	60,000	Leased	Production
Blyth, United Kingdom	52,807	Leased	Production

(1) Colfax announced on June 28, 2011 the closure of the Portland, ME facility. Operations are expected to move to the Warren, Massachusetts facility by December 2011.

PART 3: INFORMATION ON CHARTER

The following information should be read in conjunction with the information appearing elsewhere in this document, including the financial and other information incorporated into this document by reference in Part 9: Charter Financial Information. The financial information included in this Part 3: Information on Charter has been extracted without material adjustment from the financial and other information incorporated into this document by reference in Part 9: Charter Financial Information.

Introduction

Charter is the ultimate owner (through a number of intermediate holding companies) of two international engineering businesses, ESAB, which is focused on welding, cutting and automation, and Howden, which is focused on air and gas handling. Charter is listed on the Official List of the UKLA and admitted to trading on the London Stock Exchange.

Charter's global sales (£1,719.6 million in 2010) are split broadly equally between the developed economies of Western Europe and North America, and the higher growth economies of Central and Eastern Europe, Asia and South America. In 2010, Charter's sales represented by destination were as follows: Europe (34%), North America (20%), Asia (18%), South America (16%) and the rest of the world (12%).

The Charter group of companies can trace its history back to 1889, when The British South Africa Company was formed and takes its name from the Royal Charter granted by Queen Victoria to the company in that year. In 1965, Charter Consolidated was established by the merger of three mining, finance and investment companies, The British South Africa Company, The Central Mining & Investment Corporation Limited and The Consolidated Mines Selection Company Limited. Charter plc was created in 1993 following a reconstruction of Charter Consolidated. In 1994, Charter plc acquired ESAB, a world leader in welding and cutting, and subsequently, in 1997, Charter plc acquired Howden Group, an international applications engineer.

Key parts of Charter's strategy have been to build upon the strong market positions both ESAB and Howden have achieved, which are based on brand, technology and customer service. Geographical coverage has been expanded, particularly in high growth regions, including building upon Charter's presence in the BRIC economies (Brazil, Russia, India and China).

Charter's strategy has included making acquisitions, especially when they bring a presence in a region or technology that would take time and expense to build organically and provided they generate sufficient risk-weighted return. In the last three years, capital expenditure has been maintained at levels in excess of depreciation and Charter has invested in research and development and training its employees. Throughout this three-year period, a strong balance sheet has helped to ensure that the necessary financial resources have been available in pursuit of these goals.

In its most recent financial year, ended December 31, 2010, Charter achieved revenue of £1,719.6 million (2009: £1,659.2 million), adjusted profit before tax of £148.2 million (2009: £126.0 million) and adjusted earnings per share of 66.1 pence (2009: 55.0 pence). Total dividends were paid of 23.0 pence per share (2009: 21.5 pence).

For the six months ended June 30, 2011, Charter achieved revenue of £946.5 million (2010: £840.4 million), adjusted profit before tax of £75.6 million (2010: £73.3 million) and adjusted earnings per share of 33.6 pence (2010: 32.8 pence). An interim dividend for 2011 of 8.0 pence per share (2010: 7.5 pence) was paid on September 2, 2011.

ESAB

ESAB is a leading international welding and cutting business. It formulates, develops, manufactures and supplies consumable products and equipment for use in the cutting and joining of steels, aluminum and metal alloys. ESAB's comprehensive range of welding consumables includes electrodes, cored and solid wires, and fluxes. ESAB's welding equipment ranges from small retail uses to large equipment principally used in the energy and shipbuilding sectors.

ESAB's manufacturing facilities are located predominantly in low cost locations, in particular in Central and Eastern Europe, South America and Asia. ESAB has invested in capacity in China to meet the needs of domestic customers as well as supplying other parts of the world.

Howden

Howden is an international applications engineering business. Howden designs, manufactures, installs and maintains air and gas handling equipment for use in the power, oil and gas, petrochemical and other industries.

Howden's core products include centrifugal and axial fans, heat exchangers and compressors. Howden's fans and heaters are integral parts of the coal-fired boiler and emission control systems used by the power industry. Howden also makes significant sales to the oil, gas and petrochemical industry, to which, following its acquisition in March 2011 of Thomassen, it is now a leading supplier of hydrogen compression solutions. Howden also makes significant sales to customers in the mining, iron and steel and other process industries.

As Howden has increasingly concentrated on the higher value-added parts of its activities, the manufacture of non-performance critical components has increasingly been outsourced to sub-contractors in low cost locations. Howden's strategy targets increased sales to the power and oil and gas industries, where Howden has an established presence and to other industries where Howden's applications engineering expertise offers significant opportunities.

Markets

ESAB's products are used wherever steel and other metals are being cut and joined together. Its principal end-user segments are:

- Energy
- Vehicles
- Construction
- General industrial.

Howden's products are used to move air and gas through large scale industrial plant and, to a lesser extent, to provide ventilation. Its principal end-user segments are:

- Electricity generation (coal-fired)
- Oil, gas and petrochemical
- Mining
- Iron and steel
- Tunnel ventilation

Facilities

ESAB

ESAB's principal manufacturing sites are located in:

- *Asia*: China, India, Indonesia and Singapore
- *Europe*: Bulgaria, Czech Republic, Germany, Hungary, Italy, Poland, Russia and Sweden
- *North America*: Mexico and US
- *South America*: Argentina and Brazil

Additionally, ESAB currently has its global research and development center in Gothenburg, Sweden.

Howden

Howden's principal manufacturing and engineering sites are located in:

- *Asia*: China
- *Europe*: Denmark, France, Germany, The Netherlands, Northern Ireland, Scotland and Spain
- *North America*: Mexico and US
- *Other*: Australia, Brazil and South Africa

Current Trading and Prospects

Charter's Interim Results Announcement stated that, in the six months ended June 30, 2011, Charter had revenue of £946.5 million, adjusted profit before tax of £75.6 million and adjusted earnings per share of 33.6 pence, and that the Charter Board was confident in the full year performance of Charter.

PART 4: COLFAX DIRECTORS, SENIOR MANAGERS, EMPLOYEES AND CORPORATE GOVERNANCE

Board of Directors

Directors

Name	Age	Position	Date appointed to Colfax Board	Date of expiry of current office
Mitchell P. Rales	55	Chairman	February 1998	May 2012
Clay Kiefaber	56	President and Chief Executive Officer	January 2010	May 2012
Patrick W. Allender	64	Director	May 2008	May 2012
Joseph O. Bunting III	50	Director	May 2008	May 2012
Thomas S. Gayner	50	Director	May 2008	May 2012
Rhonda L. Jordan	54	Director	February 2009	May 2012
A. Clayton Perfall	52	Director	September 2010	May 2012
Steven E. Simms	55	Director	July 2011	May 2012
Rajiv Vinnakota	40	Director	May 2008	May 2012

Directors' profiles

The names, business experience and principal business activities outside the Colfax Group of the current Colfax Board are set out below.

Mitchell P. Rales (55) is a co-founder of Colfax and has served as a Director of Colfax since it was founded in 1995. He is the Chairman of the Colfax Board. Mr. Rales has served as a member of the board of directors of Danaher since 1983 and as chairman of Danaher's executive committee since 1984. Mr. Rales has been a principal in a number of private business entities with interests in manufacturing companies and publicly traded securities for over 25 years. Mr. Rales was instrumental in the founding of Colfax and has played a key leadership role on the Colfax Board since that time. Mr. Rales helped create the Danaher Business System, on which the Colfax Business System is modeled, and he has provided critical strategic guidance in Colfax's growth. In addition, as a result of his substantial ownership stake in Colfax, he is well-positioned to understand, articulate and advocate for the rights and interests of Colfax Shareholders.

Clay Kiefaber (56) has served as a Director of the Company since May 13, 2008. He is our President and Chief Executive Officer. Prior to joining Colfax as an executive in January 2010, he spent nearly 20 years in increasingly senior executive positions at Masco Corporation. Most recently, he was a Group President from 2006 to 2007, where he was responsible for a $2.8 billion group of building construction components. Prior to becoming a Group President at Masco, Mr. Kiefaber was Group Vice President of Masco Builder Cabinet Group. He previously spent 14 years in increasingly senior positions in Masco's Merillat Industries subsidiary. Mr. Kiefaber's background provides him with a deep understanding of manufacturing operations, strategy and lean business systems, and his day-to-day leadership of our business gives the Colfax Board an invaluable Company-focused perspective.

Patrick W. Allender (64) has served as a Director of Colfax since May 13, 2008. He is the former Executive Vice President and Chief Financial Officer of Danaher, where he served from 1987 until 2006. Prior to joining Danaher, Mr. Allender was an audit partner with a large national accounting firm. Mr. Allender is a director of the Brady Corporation, where he is a member of the audit and compensation committees and the chairman of their finance committee. Mr. Allender is a director of Diebold Incorporated, where he is a member of their compensation committee. Mr. Allender's prior experience as the Chief Financial Officer of a publicly traded company provides him with substantial expertise in financial reporting and risk management. In addition, his familiarity with the Danaher Business System provides targeted insight on the nature of Colfax's operations to the Colfax Board.

Joseph O. Bunting III (50) has served as a Director of Colfax since May 13, 2008. From 1997 until consummation of our initial public offering in 2008, Mr. Bunting served as Vice President of Colfax. Over the course of his career, Mr. Bunting has been an officer, member or director in a number of private business entities with interests in manufacturing companies and publicly traded securities and which are affiliated with Mitchell P. Rales and Steven M. Rales. Mr. Bunting's financial, operational, management, and acquisition experience, combined with his familiarity with Colfax and knowledge of its culture and operating history, is an asset to the Colfax Board.

Thomas S. Gayner (50) has served as a Director of Colfax since May 13, 2008. He is President and Chief Investment Officer of Markel Corporation. Since 1990, Mr. Gayner has served as President of Markel Gayner Asset Management, Inc. Mr. Gayner served as a director of Markel Corporation from 1998 to 2003. Mr. Gayner currently serves on the board of directors of The Washington Post Company and The Davis Funds. Through his experience and investment knowledge with Markel as well as his service on the boards and committees of other publicly traded companies, Mr. Gayner brings extensive leadership, financial acumen and public company expertise to the Colfax Board.

Rhonda L. Jordan (54) has served as a Director of Colfax since February 17, 2009. She is the President, Global Health & Wellness for Kraft Foods Inc. and leads the development of Kraft's health & wellness and sustainability strategies and plans for the company, including marketing, product development, technology, alliances and acquisitions. Prior to being named President, Health & Wellness in 2010, she was the President of the Cheese and Dairy business unit of Kraft Foods Inc. From 2006 to 2008 she served as the President of the Grocery business unit of Kraft and from 2004 to 2005 she was the Senior Vice President, Global Marketing of Kraft. Ms. Jordan's management and operations experience within a large, global corporation gives her an important strategic voice in Colfax Board deliberations, and her knowledge and decision making with respect to business unit development and sustainable top-line performance makes her a valued member of the Colfax Board.

A. Clayton Perfall (52) has served as a Director of Colfax since September 21, 2010. He is the Chief Executive Officer of Archway Marketing Services, Inc., a provider of marketing fulfillment and supply chain management services. From 2001 until 2008 Mr. Perfall served as the Chief Executive Officer and as a member of the board of directors of AHL Services, Inc. Mr. Perfall also served as the Chief Executive Officer of Union Street Acquisition Corp. from 2006 until 2008. He served as the Chief Financial Officer of Snyder Communications, Inc. from 1996 until 2000 and was previously a partner with a large national accounting firm. Mr. Perfall currently serves on the boards of directors of Archway Holdings and Comstock Homebuilding Companies, Inc., and previously served on the boards of directors of inVentiv Health, Inc. from 1999 to 2010, AHL Services, Inc. from 2001 to 2008 and Union Street Acquisition from 2006 to 2008. He is currently the audit committee chairman for Comstock Homebuilding Companies, Inc. and served as the chair of the audit committee during his time on the board of inVentiv. Mr. Perfall's significant financial expertise and experience as an audit committee chairman and public company Chief Financial Officer, combined with his substantial executive leadership background, is an asset both to the Colfax Board and to its Audit Committee.

Steven E. Simms (55) is chairman of the board of directors of Apex Tools and a former Executive Vice President of Danaher. Mr. Simms held a variety of leadership roles during his 11-year career at Danaher. He became Executive Vice President in 2000 and served in that role through his retirement in 2007, during which time he was instrumental in Danaher's international growth and success. He previously served as Vice President-Group Executive from 1998 to 2000 and as an executive in Danaher's tools and components business from 1996 to 1998. Prior to joining Danaher, Mr. Simms held roles of increasing authority at Black & Decker Corporation, most notably President-European Operations and President-Worldwide Accessories. Mr. Simms started his career at the Quaker Oats Company where he held a number of brand management roles. He currently serves as chairman of the board of Apex Tools, which was formed in 2010 as a joint venture between Danaher Tool Group and Cooper Tools, is a member of the board of trustees of The Boys' Latin School of Maryland and is actively involved in a number of other educational and charitable organizations in the Baltimore area.

Rajiv Vinnakota (40) has served as a Director of Colfax since May 13, 2008. He has been Managing Director and President of The SEED Foundation, a non-profit educational organization, since 1997 and served as the chairman of The SEED Foundation board from 1997 until 2006. Prior to co-founding SEED, Mr. Vinnakota was an associate at Mercer Management Consulting. He was also a trustee of Princeton University from 2004 until 2007 and served as the national chairman of Annual Giving at Princeton from 2007 until 2009. Mr. Vinnakota's management experience, combined with his experience in the non-profit sector, brings a valuable perspective to the Colfax Board.

The business address of the Colfax Directors is 8170 Maple Lawn Boulevard, Suite 180, Fulton, Maryland 20759, United States.

Chief Executive Officer and Senior Managers

Name	Age	Position
Clay Kiefaber	56	President and Chief Executive Officer
C. Scott Brannan	53	Senior Vice President, Finance & Chief Financial Officer
William E. Roller	49	Executive Vice President, Colfax Fluid Handling
Daniel A. Pryor	43	Senior Vice President, Strategy and Business Development
A. Lynne Puckett	49	Senior Vice President, General Counsel and Secretary
William F. Rothenbach	56	Senior Vice President, Human Resources
Steve Wittig	49	Senior Vice President, Colfax Business System and Supply Chain Strategy

Clay Kiefaber – *see above*.

C. Scott Brannan (53) became the Senior Vice President of Finance and Chief Financial Officer in October 2010. Mr. Brannan served on the Colfax Board and was Chairman of the Audit Committee from 2008 to 2010. Prior to joining Colfax in his current role, he was a partner at Aronson & Company, a public accounting firm, from 2003 to 2010. He was also previously employed at Danaher for 12 years in roles of increasing responsibility, including Chief Accounting Officer, Controller and Vice President of Administration. Prior to Danaher, he spent eight years with Arthur Andersen & Co. He holds bachelor's and master's degrees in accounting from Loyola University Maryland and is a certified public accountant.

William E. Roller (49) was promoted to Executive Vice President, Colfax Fluid Handling in November 2010 and is responsible for overseeing global fluid-handling operations. He most recently served as Executive Vice President, Colfax Americas and was responsible for Colfax's business in the Americas as well as the global oil and gas and defense solutions organizations. He joined Colfax in 1999 as General Manager, Imo Pump. In addition to Imo, he managed Zenith Pump, Lubrication Systems Company and Baric Group upon the acquisition of those businesses. He joined Colfax from Precision Auto Care, Inc. where he was Senior Vice President of Manufacturing and Distribution for two years. From 1991 until 1997, Mr. Roller worked for AMF Industries in several increasingly responsible manufacturing roles. Previous to AMF, he spent four years with FMC Corporation in various manufacturing roles. Mr. Roller is a graduate of the Virginia Polytechnic Institute and State University, with a BS in Chemical Engineering and an MBA from the University of Virginia Darden School.

Daniel A. Pryor (43) joined Colfax in 2011 as Senior Vice President, Strategy and Business Development. Prior to Colfax, he was a Partner and Managing Director with The Carlyle Group, where he focused on industrial leveraged buyouts and led numerous portfolio company and follow-on acquisitions. Prior to Carlyle, he spent 11 years at Danaher in roles of increasing responsibility, most recently as Vice President – Strategic Development. Mr. Pryor earned his MBA from Harvard Business School and his BA in Economics from Williams College.

A. Lynne Puckett (49) joined Colfax in 2010 as Senior Vice President, General Counsel and Secretary. Prior to Colfax, she was a Partner with the law firm of Hogan Lovells. Her experience includes a broad range of corporate and transactional matters, including mergers and acquisitions, venture capital financings, debt and equity offerings, and general corporate and securities law matters. Before entering the practice of law, Ms. Puckett worked for the US Central Intelligence Agency and a major US defense contractor. Ms. Puckett holds a JD from the University of Maryland School of Law and a BS degree from James Madison University.

William F. Rothenbach (56) joined Colfax in 2011 as Senior Vice President, Human Resources. Prior to Colfax, he worked as the Senior Vice President-Human Resources for Old Mutual Financial Network. He has over thirty years of broad-based domestic and international human resources executive experience with companies from a variety of industries, including Black & Decker, Bausch & Lomb, Procter & Gamble and Sara Lee. Mr. Rothenbach earned his MA in Industrial-Organizational Psychology from the University of Akron and his BA in Psychology from Edinboro University. He is an accredited Senior Professional in Human Resources (SPHR) and a member of the Associate Graduate Faculty at Towson University.

Steve Wittig (49) became Senior Vice President of the Colfax Business System and Supply Chain Strategy in August of 2011. Prior to Colfax, he was Vice President of Lean Manufacturing and Six Sigma for the Masco Cabinet Group. Prior to that he held a number of operations positions with Lear Corporation, Preferred Technical Group, Sumitomo Electric and United Technologies. Mr. Wittig received his Masters of Science degree in Engineering from the University of Michigan and his Bachelor of Science degree in Industrial Engineering from Kettering University (formerly General Motors Institute).

The business address of the Senior Managers is 8170 Maple Lawn Boulevard, Suite 180, Fulton, Maryland 20759 United States.

Compensation

For the year ended December 31, 2010, the aggregate total remuneration paid (including contingent or deferred compensation) and benefits in kind granted (under any description whatsoever) to each of the Colfax Directors and Senior Managers by members of the Colfax Group was $6,191,274. Remuneration was paid as follows:

Chief Executive Officer and Senior Managers

The following table sets forth historic information regarding compensation paid to the Chief Executive Officer and other Senior Managers in the year ended December 31, 2010:

Name and Principal Position	Year	Salary(1)	Stock Awards(2)	Option Awards(3)	Annual Incentive Plan Compensation(4)	All Other Compensation(5)	Total
Clay H. Kiefaber *President and Chief Executive Officer*	2010	$516,014	$951,234	$1,079,592	$771,750	$39,160	$3,357,750
C. Scott Brannan *Senior Vice President, Finance and Chief Financial Officer*	2010	110,202	134,997	409,631	87,500	2,019	744,349
William E. Roller *Executive Vice President – Americas*	2010	267,550	187,503	212,685	240,827	19,564	928,129
A. Lynne Puckett(6) *Senior Vice President and General Counsel*	2010	110,769	62,496	368,849	105,000	2,631	649,745

(1) For Messrs. Kiefaber and Brannan, amounts include $1,110 and $36,164, respectively, which reflect fees paid or earned in cash for their service on the Colfax Board in 2010 prior to their appointment as executive officers of Colfax.

(2) Amounts represent the aggregate grant date fair value of grants made to each named Senior Manager or Chief Executive Officer, as computed in accordance with FASB ASC Topic 718. Amounts include the probable grant date fair values on the date of grant for awards of PRSUs, which equaled the maximum grant date fair value for these awards.

For Mr. Brannan, the amount shown also includes $59,998 to reflect the grant date fair value of 4,823 DSUs he received in connection with the annual meeting of stockholders prior to his appointment as an executive officer of Colfax.

(3) Amounts represent the aggregate grant date fair value of grants made to each of the Senior Managers or the Chief Executive Officer, as computed in accordance with FASB ASC Topic 718.

(4) For 2010, amounts represent the payouts pursuant to Colfax's Annual Incentive Plan. For Ms. Puckett, the amount shown also includes a $30,000 discretionary bonus paid upon her hire.

To determine the actual bonus paid to each of the Senior Managers or the Chief Executive Officer, the actual financial performance was multiplied by each named each of the Senior Managers' or the Chief Executive Officer's 2010 target bonus and the corresponding weighting for the measure. For the year ended December 31, 2010, each of the Senior Managers' or the Chief Executive Officer's target bonus expressed as a percentage of base salary, was as follows:

- Mr. Kiefaber: 75%
- Mr. Brannan: 50%
- Mr. Roller: 45%
- Ms. Puckett: 50%

(5) Amounts set forth in this column for the year ended December 31, 2010 consist of the following:

Name	Supplemental Long-Term Disability Premiums	Company 401(k)/Deferred Compensation Plan Match and Contribution[(a)]	Relocation Expenses
Mr. Kiefaber	$2,403	$14,700	$22,057
Mr. Brannan	—	2,019	—
Mr. Roller	2,089	7,475	—
Ms. Puckett	—	2,631	—

(a) For each of the Senior Managers or the Chief Executive Officer, amounts represent the aggregate Colfax match and Colfax contribution made during 2010 to such Senior Manager's or Chief Executive Officer's 401(k) plan account and Excess Benefit Plan (nonqualified deferred compensation) account.

(6) Ms. Puckett was named Senior Vice President, General Counsel and Secretary effective September 27, 2010.

Non-Executive Directors

The following table sets forth information regarding compensation paid to our Non-Executive Directors in the year ended December 31, 2010:

Name[(1)]	Fees Earned or Paid in Cash	Stock Awards[(3)]	Total
Mitchell P. Rales	$ 1	$ —	$ 1
Patrick W. Allender	45,000[(2)]	59,998[(4)]	104,998
Joseph O. Bunting III	35,000	59,998[(4)]	94,998
Thomas S. Gayner	35,000[(2)]	59,998[(4)]	94,998
Rhonda L. Jordan	44,753[(2)]	59,998[(4)]	104,751
A. Clayton Perfall	13,733[(2)]	77,824[(5)]	91,557
Rajiv Vinnakota	35,000	59,998[(6)]	94,998

(1) See above for compensation disclosure related to Clay H. Kiefaber and C. Scott Brannan. On January 9, 2010, Mr. Kiefaber was appointed by the Board as our President and Chief Executive Officer. In connection with his appointment, Mr. Kiefaber was removed from the Compensation Committee of the Board effective January 9, 2010 but remained a Director.

(2) Messrs. Allender, Gayner and Perfall and Ms. Jordan have elected to receive DSUs in lieu of their annual cash retainers and committee chairperson retainers. DSUs convert to shares of our common stock after termination of service from the Board, based upon a schedule elected by the Director in advance. During 2010, the amount of DSUs received in lieu of annual cash retainers and committee chairperson retainers by these Directors was as follows: Mr. Allender- 3,405, Mr. Gayner- 2,647, Ms. Jordan- 3,384, Mr. Perfall- 762. DSUs received for these cash retainers are considered ''vested'' for the purposes of the table below.

(3) Amounts represent the aggregate grant date fair value for stock awards to each Director during 2010, as computed pursuant to FASB ASC Topic 718. The equity awards granted to each Non-Executive Director in the fiscal year 2010 had a grant date fair value equal to amount shown in the ''Stock Awards'' column above. The amounts shown in the ''Stock Awards'' column reflect, for all Directors other than Mr. Perfall, the grant date fair value of the annual grant of 4,823 restricted stock units made to Directors in connection with the 2010 annual meeting of stockholders. For Mr. Perfall, the amount shown reflects a grant date fair value of $77,824 relating to the 5,556 restricted stock units granted upon his appointment to the Board on September 21, 2010. See Note (6) below.

(4) 4,823 restricted stock units granted to these Directors, which were awarded in connection with the annual meeting of stockholders, were converted into DSUs at the election of each Director. These DSUs have vested and will vest in three equal installments from May 19, 2011. DSUs convert to shares of Colfax Common Stock after termination of service on the Board, based upon a schedule selected by each Director in advance.

(5) 5,556 restricted stock units granted to Mr. Perfall on September 21, 2011 in connection with his appointment to the Board were converted into DSUs at his election. These DSUs will vest in three equal installments beginning on September 21, 2011 and will convert to shares of our common stock after termination of service on the Board, based upon a schedule selected by him in advance. See Note (4) above.

(6) The grant of 4,823 restricted stock units awarded in connection with the 2010 annual meeting (as referred to in Note (3) above) have vested and will vest in three equal annual installments beginning on May 19, 2011 and will be delivered upon termination of service on the Board.

As of December 31, 2010, the aggregate number of unvested stock awards outstanding held by our Non-Executive Directors was as follows:

Name	Restricted Stock Units
Mitchell P. Rales	0
Patrick W. Allender	11,601
Joseph O. Bunting II	11,601
Thomas S. Gayner	11,601
Rhonda L. Jordan	13,453
A. Clayton Perfall	5,556
Rajiv Vinnakota	11,601

Corporate Governance

The Colfax Board and its committees meet regularly throughout the year, and may also hold special meetings and act by written consent from time to time. The Colfax Board held a total of nine meetings during the year ended December 31, 2010. During this time all Colfax Directors attended 100% of the aggregate number of meetings held by the Colfax Board and all committees of the Colfax Board on which such Colfax Director served (during the period which such Colfax Director was a member of the Colfax Board). Our Corporate Governance Guidelines request Colfax Directors to make every effort to attend our annual meeting of stockholders. All Colfax Directors attended our annual meeting of stockholders in 2010.

Colfax is subject to corporate governance requirements of the NYSE and the SEC and has established the policies, practices and committees described below in accordance with these requirements. Colfax complies with applicable US and NYSE corporate governance requirements.

The Colfax Board has a standing Audit Committee, Nominating and Corporate Governance Committee, and Compensation Committee. The Colfax Board committees review their respective charters on an annual basis. The Nominating and Corporate Governance Committee oversees an annual evaluation of the Colfax Board and each committee's operations and performance.

Audit Committee

The Colfax Board has established a separately designated standing audit committee in accordance with Section 3(a)(58)(A) of the Exchange Act. Our Audit Committee met 10 times during the year ended December 31, 2010. The Audit Committee is responsible, among its other duties and responsibilities, for overseeing our accounting and financial reporting processes, the audits of our financial statements, the qualifications of our independent registered public accounting firm, and the performance of our internal audit function and independent registered public accounting firm. The Audit Committee reviews and assesses the qualitative aspects of our financial reporting, our processes to manage business and financial risks, and our compliance with significant applicable legal, ethical and regulatory requirements. The Audit Committee is directly responsible for the appointment, compensation, retention and oversight of our independent registered public accounting firm. The members of our Audit Committee are Mr. Perfall, Chair, Mr. Allender and Mr. Gayner. Mr. Brannan was the Chairperson of the Audit Committee until September 21, 2010, when he resigned from the Colfax Board and all committees thereof due to his appointment as our Senior Vice President, Finance, Chief Financial Officer and Treasurer. Concurrently with Mr. Brannan's resignation from the Audit Committee on September 21, 2010, the Colfax Board appointed Mr. Perfall to the Colfax Board and as the Chairperson of the Audit Committee, after recommendation of the same by the Nominating and Corporate Governance Committee. The Colfax Board has determined that Mr. Perfall qualifies as an "audit committee financial expert", as that term is defined under the SEC rules. The Colfax Board has determined that each member of our Audit Committee is independent and financially literate under the NYSE's Listing Standards and that each member of our Audit Committee is independent under the requirements of SEC Rule 10A-3.

Nominating and Corporate Governance Committee

Our Nominating and Corporate Governance Committee met seven times during the year ended December 31, 2010. The Nominating and Corporate Governance Committee is responsible for recommending candidates for election to the Board. The committee is also responsible, among its other duties and responsibilities, for making recommendations to the Board or otherwise acting with respect to corporate governance policies and practices, including Board size and membership qualifications, new director orientation, committee structure and membership, succession planning for our Chief Executive Officer and Senior Managers, and communications with stockholders and other interested parties. The members of our Nominating and Corporate Governance Committee are Mr. Allender, Chair, Ms. Jordan and Mr. Vinnakota. Ms. Jordan was appointed to the Nominating and Corporate Governance Committee on September 21, 2010, concurrently with Mr. Brannan's resignation from the same in connection with his appointment as our Chief Financial Officer, as described above. The Board has determined that each member of our Nominating and Corporate Governance Committee is independent under the NYSE's Listing Standards.

Compensation Committee

Our Compensation Committee met six times during the year ended December 31, 2010. The Compensation Committee is responsible, among its other duties and responsibilities, for determining and approving the compensation and benefits of our Chief Executive Officer and Senior Managers, monitoring compensation arrangements applicable to our Chief Executive Officer and Senior Managers in light of their performance, effectiveness and other relevant considerations and adopting and administering our equity and incentive plans. The members of our Compensation Committee are Ms. Jordan, Chair, Mr. Simms and Mr. Vinnakota. Mr. Kiefaber was the Chair of the Compensation Committee until January 9, 2010, at which time the Board resolved to end his service on the Compensation Committee effective upon his appointment as our President and Chief Executive Officer. Concurrently with Mr. Kiefaber's appointment as our President and Chief Executive Officer and removal from the Compensation Committee on January 9, 2010, the Board (i) appointed Mr. Gayner to the Compensation Committee and (ii) appointed Ms. Jordan as the Chair of the Compensation Committee, after recommendation of the same by the Nominating and Corporate Governance Committee. Upon Mr. Simms' appointment to the Board, Mr. Simms was appointed as a member of the Compensation Committee, replacing Mr. Gayner, in order to balance committee assignments among our independent directors. The Board has determined that each member of our Compensation Committee is an ''outside director'' within the meaning of Section 162(m) of the Internal Revenue Code, a ''non-employee director'' within the meaning of SEC Rule 16b-3, and is independent under the NYSE's Listing Standards.

The Compensation Committee annually reviews and approves the corporate goals and objectives relevant to the compensation of our Chief Executive Officer, evaluates his performance in light of those goals and objectives, and determines his compensation level based on that analysis. The Compensation Committee also annually reviews and approves all elements of the compensation of our Senior Managers. Senior Managers are evaluated by our Chief Executive Officer and he makes compensation recommendations to the Compensation Committee based on these evaluations. The Compensation Committee also reviews and makes recommendations to the Board for all new agreements with our Chief Executive Officer and Senior Managers and for all elements of director compensation. All of the Company's incentive compensation and equity-based compensation plans are administered by the Compensation Committee, and the Compensation Committee considers whether to make recommendations to the Board for new incentive compensation plans and equity-based compensation plans or for any increase in the shares reserved for issuance under these plans on an annual basis.

Since April 2009 our Compensation Committee has engaged Frederic W. Cook & Co. to, among other things, formulate an appropriate peer group to be used by the Compensation Committee and to provide competitive comparison data and other compensation consulting services as requested by the Compensation Committee.

PART 5: COLFAX SELECTED FINANCIAL INFORMATION

The following is a summary of the Colfax financial information for the periods indicated. The data has been extracted without material adjustment from Colfax's consolidated audited financial statements and consolidated interim financial statements as set out in Part 8: Colfax Financial Information. The summary should be read in conjunction with that information and with Part 6: Colfax Operating and Financial Review. Charter Shareholders and potential investors are advised to read the whole of this document including the information incorporated by reference and not rely on the information summarized in this Part 5: Colfax Selected Financial Information.

Historical results are not indicative of the results to be expected in the future and results of interim periods are not necessarily indicative of results for the entire year.

Colfax's consolidated financial statements are prepared in accordance with US GAAP whereas Charter's consolidated financial statements are prepared in accordance with IFRS. IFRS differs from US GAAP in a number of significant respects. For a summary of the material differences between IFRS and US GAAP relevant to Colfax's consolidated financial statements, see Part 12: Summary of Significant Differences between IFRS and US GAAP.

(in thousands, except per share information)

	Six months ended		**Year ended December 31,**		
	July 1, 2011	**July 2, 2010**	**2010**	**2009**	**2008**
Statement of Operations Data					
Net sales	$ 345,307	$ 242,939	$ 541,987	$ 525,024	$ 604,854
Cost of sales	227,379	158,202	350,579	339,237	387,667
Gross profit	117,928	84,737	191,408	185,787	217,187
Selling, general and administrative expenses	75,948	57,902	119,426	112,503	124,105
Restructuring and other related charges	2,219	7,074	10,323	18,175	—
Initial public offering-related costs	—	—	—	—	57,017
Research and development expenses	3,101	3,148	6,205	5,930	5,856
Asbestos liability and defense costs (income)	3,253	1,977	7,876	(2,193)	(4,771)
Asbestos coverage litigation expenses	5,368	8,424	13,206	11,742	17,162
Operating income	28,039	6,212	34,372	39,630	17,818
Interest expense	3,289	3,531	6,684	7,212	11,822
Provision for income taxes	7,805	967	11,473	8,621	5,465
Income from continuing operations	16,945	1,714	16,215	23,797	531
Net income	16,945	1,714	16,215	23,797	531
Net income (loss) per share from continuing operations – basic	$ 0.39	$ 0.04	$ 0.37	$ 0.55	$ (0.08)
Net income (loss) per share from continuing operations – diluted	$ 0.38	$ 0.04	$ 0.37	$ 0.55	$ (0.08)

	July 1, 2011	December 31, 2010	2009	2008
Balance Sheet Data				
Cash and cash equivalents	$ 64,215	$ 60,542	$ 49,963	$ 28,762
Goodwill and intangibles, net	225,110	200,636	175,370	175,210
Asbestos insurance asset, including current portion	362,723	374,351	389,449	304,015
Total assets	1,063,585	1,022,077	1,006,301(1)	907,550
Asbestos liability, including current portion	418,899	429,651	443,769	357,258
Total debt, including current portion	80,500	82,500	91,485	97,121

(1) In the Consolidated Balance Sheet included in the audited consolidated financial statements of Colfax for the year ended December 31, 2009, ''Asbestos insurance asset'' is reduced by $6,900 thousand in respect of a payable due to an insurer relating to an overpayment made to the Colfax Group by such insurer. In the Consolidated Balance Sheet included in the audited consolidated financial statements of Colfax for the year ended December 31, 2010 ''Asbestos insurance asset'' is not reduced in respect of such payable which recognized as an asset. The corresponding liability is recognized in ''Liabilities in advance payments to customers'' in the amount of $5,896 thousand and ''Other accrued liabilities'' in the amount of $1,004 thousand.

PART 6: COLFAX OPERATING AND FINANCIAL REVIEW

The following information should be read in conjunction with the financial information on Colfax set out in Part 5: Colfax Selected Financial Information and the financial information on Colfax set out in Part 8: Colfax Financial Information. The financial information included in this Part 6: Colfax Operating and Financial Review has been extracted without material adjustment from the financial information included in Part 8: Colfax Financial Information or has been extracted without material adjustment from Colfax's accounting records, which formed the underlying basis of the financial information included in Part 8: Colfax Financial Information.

Some of the information contained in this Part 6: Colfax Operating and Financial Review, including information in respect of Colfax's plans and strategies for its business and expected sources of financing, contains forward-looking statements that involve risk and uncertainties. Charter Shareholders and potential investors should read Important Information – Forward-looking statements for a discussion of the risks and uncertainties related to those statements and should also read Risk Factors for a discussion of certain factors that may affect the business, results of operations or financial condition of the Colfax Group or the Combined Group.

Colfax's consolidated financial statements are prepared in accordance with US GAAP whereas Charter's consolidated financial statements are prepared in accordance with IFRS. IFRS differs from US GAAP in a number of significant respects. For a summary of the material differences between US GAAP and IFRS relevant to Colfax's consolidated financial statements, see Part 12: Summary of Significant Differences between IFRS and US GAAP.

Introduction

Colfax is a global supplier of a broad range of fluid handling products, including pumps, fluid handling systems and controls, and specialty valves. We believe that we are a leading manufacturer of rotary positive displacement pumps, which include screw pumps, gear pumps and progressive cavity pumps. We design and engineer our products to high quality and reliability standards for use in critical fluid handling applications where performance is paramount. We also offer customized fluid handling solutions to meet individual customer needs based on our in-depth technical knowledge of the applications in which our products are used.

Our products are marketed principally under the Allweiler, Baric, Fairmount Automation, Houttuin, Imo, LSC, Portland Valve, Tushaco, Warren and Zenith brand names. We believe that our brands are widely known and have a premium position in our industry. We believe Allweiler, Houttuin, Imo and Warren are among the oldest and most recognized brands in the markets in which we participate, with Allweiler dating back to 1860. We have a global manufacturing footprint, with production facilities in Europe, North America and Asia, as well as worldwide sales and distribution channels.

We employ a disciplined strategic planning and execution methodology referred to as the Colfax Business System, or CBS. CBS is designed to achieve excellence and world-class financial performance in all aspects of our business by focusing on the *Voice of the Customer* and continuously improving quality, delivery and cost. Modeled on the Danaher Business System, CBS focuses on conducting root-cause analysis, developing process improvements and implementing sustainable systems. Our approach addresses the entire business, not just manufacturing operations.

We currently serve markets that have a need for highly engineered, critical fluid handling solutions and are global in scope. Our strategic markets include:

Strategic Markets	Applications
Commercial Marine	Fuel oil transfer; lubrication; water and wastewater handling; cargo handling
Oil and Gas	Crude oil gathering; pipeline services; unloading and loading; rotating equipment lubrication; lube oil purification
Power Generation	Fuel unloading, transfer, burner and injection; rotating equipment lubrication
Global Defense	Fuel oil transfer; oil transport; water and wastewater handling; firefighting; fluid control
General Industrial	Machinery lubrication; hydraulic elevators; chemical processing; pulp and paper processing; food and beverage processing; distribution

We serve a global customer base across multiple markets through a combination of direct sales and marketing associates and third-party distribution channels. Our customer base is highly diversified and includes commercial, industrial and government customers such as Alfa Laval Group, General Dynamics Corporation, Siemens AG, the US Navy and various other sovereign navies around the world. Our business is not dependent on any single customer or a few customers. In 2010, no single customer represented more than 6% of sales.

Recent developments

As Colfax announced on September 12, 2011, Colfax has reached an agreement with Charter under which its wholly-owned subsidiary Bidco will acquire the entire issued share capital of Charter for cash and newly-issued shares of Colfax common stock. The Acquisition is intended to be implemented by way of a court-sanctioned scheme of arrangement under Article 125 of the Companies (Jersey) Law 1991 or, if Bidco elects, by way of an Offer.

Results of operations overview

Key performance measures

The discussion of our results of operations that follows focuses on some of the key financial measures that we use to evaluate our business. We evaluate our business using several measures, including net sales, orders and order backlog. Our net sales, orders and order backlog are affected by many factors, particularly the impact of acquisitions, the impact of fluctuating foreign exchange rates and change from our existing businesses, which may be driven by market conditions and other factors. To facilitate the comparison between reporting periods, we describe the impact of each of these three factors, to the extent they impact the periods presented, on our net sales, orders and order backlog in tabular format under the heading *Sales, Orders and Backlog*.

Orders and order backlog are highly indicative of our future revenue and thus are key measures of anticipated performance. Orders consist of contracts for products or services from our customers, net of cancellations. Order backlog consists of unfilled orders.

Items affecting comparability of reported results for all periods

Our financial performance and growth are driven by many factors, principally our ability to serve increasingly global markets, organic growth through strategic acquisitions, fluctuations in the relationship of foreign currencies to the US dollar, the general economic conditions within our five strategic markets, the global economy and capital spending levels, the availability of capital, our estimates concerning the availability of insurance proceeds to cover asbestos litigation expenses and liabilities, the amounts of asbestos liabilities and litigation expenses, the impact of restructuring initiatives, our ability to pass through cost increases through pricing, the impact of sales mix, and our ability to continue to grow through acquisitions. These key factors have impacted our results of operations in the past and are likely to affect them in the future.

Global operations

Our products and services are available worldwide. The manner in which our products and services are sold differs by region. Most of our sales in non-US markets are made by subsidiaries located outside the United States, though we also sell into non-US markets through various representatives and distributors and directly from the US. In countries with low sales volumes, we generally sell through representatives and distributors. For the year ended December 31, 2010, approximately 75% of our sales were shipped to locations outside of the US. Accordingly, we are affected by levels of industrial activity and economic and political factors in countries throughout the world. Our ability to grow and our financial performance will be affected by our ability to address a variety of challenges and opportunities that are a consequence of our global operations, including efficiently utilizing our global sales, manufacturing and distribution capabilities, the expansion of market opportunities in Asia, successfully completing global strategic acquisitions, and engineering innovative new product applications for end users in a variety of geographic markets. However, we believe that our geographic, end market and product diversification may limit the impact that any one country or economy could have on our consolidated results.

Strategic acquisitions

We complement our organic growth with strategic acquisitions. Acquisitions can significantly affect our reported results and can complicate period to period comparisons of results. As a consequence, we report the change in our net sales between periods both from existing and acquired businesses. We intend to continue to pursue acquisitions of complementary businesses that will broaden our product portfolio, expand our geographic footprint or enhance our position within our strategic markets.

On February 14, 2011, we completed the acquisition of Rosscor for $22.3 million, net of cash acquired and subject to final adjustments under the purchase agreement. Rosscor is a supplier of multiphase pumping technology and certain other highly engineered fluid-handling systems, with its primary operations based in Hengelo, The Netherlands.

On August 19, 2010, we completed the acquisition of Baric, a supplier of highly engineered fluid-handling systems primarily for lubrication applications, with its primary operations based in Blyth, United Kingdom.

On August 31, 2009, we completed the acquisition of PD-Technik, a provider of marine aftermarket related products and services located in Hamburg, Germany. The acquisition of PD-Technik supports our marine aftermarket growth initiatives, broadening our served market as well as service capabilities.

Foreign currency fluctuations

A significant portion of our net sales, approximately 66% for the year ended December 31, 2010, and approximately 81% and 80%, respectively, for the three and six months ended July 1, 2011, are derived from operations outside the US, with the majority of those sales denominated in currencies other than the US dollar, especially the Euro. Because much of our manufacturing and employee costs are outside the US, a significant portion of our costs are also denominated in currencies other than the US dollar. Changes in foreign exchange rates can impact our results of operations and are quantified when significant to our discussion.

Economic conditions in strategic markets

Our organic growth and profitability strategy focuses on five strategic markets: commercial marine, oil and gas, power generation, global defense and general industrial. Demand for our products depends on the level of new capital investment and planned maintenance by our customers. The level of capital expenditures depends, in turn, on the general economic conditions within that market as well as access to capital at reasonable cost. While demand within each of these strategic markets can be cyclical, the diversity of these markets may limit the impact of a downturn in any one of these markets on our consolidated results.

Pricing

We believe our customers place a premium on quality, reliability, availability, design and application engineering support. Our highly engineered fluid handling products typically have higher margins than products with commodity-like qualities. However, we are sensitive to price movements in our raw materials supply base. Our largest material purchases are for components and raw materials consisting of steel, iron, copper and aluminum. Historically, we have been generally successful in passing raw material price increases on to our customers. While we seek to take actions to manage this risk, including commodity hedging where appropriate, such increased costs may adversely impact earnings.

Sales and cost mix

Our profit margins vary in relation to the relative mix of many factors, including the type of product, the geographic location in which the product is manufactured, the end market for which the product is designed, and the percentage of total revenue represented by aftermarket sales and services. Aftermarket business, including spare parts and other value added services, is generally a higher margin business and is a significant component of our profitability.

Results of operations – six-months ended July 1, 2011 compared to six-months ended July 2, 2010

Items affecting comparability of results for six-months ended June 30, 2011 compared to six-months ended June 30, 2010

Restructuring and other related charges

We incurred pre-tax expense and made payments during the periods presented as follows:

(Millions)	**Six Months Ended July 1, 2011**	**Six Months Ended July 2, 2010**
Restructuring and other related charges	$ 2.2	$ 7.1
Cash payments	3.4	11.9

During the six months ended July 1, 2011, we completed the relocation of our Richmond, Virginia corporate headquarters to Fulton, Maryland in order to provide improved access to international travel and to our key advisors and eliminated an executive position in our German operations. In connection with the move, the Company has incurred $0.6 million of employee termination benefit costs, reflected in restructuring and other related charges, and $0.4 million of other relocation related costs in 2010, which are reflected in selling, general and administrative expenses.

Additionally, during the second quarter of 2011, we communicated initiatives to improve productivity and reduce structural costs by rationalizing and leveraging our existing assets and back office functions. These initiatives include the consolidation of the Company's commercial marine end market operations, reduction in the back office personnel at several distribution centers in Europe, the closure of a small facility that previously produced units sold to certain customers located in the Middle East that the Company ceased supplying to during the year ended December 31, 2010, and the closure of a Portland, Maine production facility and consolidation of the operations with a Warren, Massachusetts facility.

Asbestos liability and defense costs

Asbestos liability and defense costs is comprised of projected indemnity cost, changes in the projected asbestos liability, changes in the probable insurance recovery of the projected asbestos-related liability, changes in the probable recovery of asbestos liability and defense costs paid in prior periods, and actual defense costs expensed in the period.

The tables below presents asbestos liability and defense costs for the periods indicated:

(Millions)	**Six Months Ended July 1, 2011**	**Six Months Ended July 2, 2010**
Asbestos liability and defense costs (income)	$ 3.3	$ 2.0

Asbestos liability and defense costs increased by $1.3 million during the six months ended July 1, 2011 compared to the comparable 2010 period primarily due to lower levels of legal spending in 2010 and a higher level of projected insurance recovery driven by insurance policies triggered during the 2010 period.

Asbestos coverage litigation expense

Asbestos coverage litigation expenses include legal costs related to the actions against two of our subsidiaries, respective insurers and a former parent company of one of the subsidiaries.

The table below presents asbestos liability and defense costs for the periods indicated:

(Millions)	**Six Months Ended July 1, 2011**	**Six Months Ended July 2, 2010**
Asbestos coverage litigation expense	$ 5.4	$ 8.4

Legal costs related to our subsidiaries' actions against their asbestos insurers decreased by $3.0 million during the six months ended July 1, 2011 compared to the comparable 2010 period primarily due to more trial days being conducted in 2010 than 2011. The trial phase of litigation against insurers for both of our subsidiaries is expected to conclude during 2011.

Sales, orders and backlog

Our sales, orders and backlog are affected by many factors including but not limited to acquisitions, fluctuating foreign exchange rates, and growth (decline) in our existing businesses which may be driven by market conditions and other factors. To facilitate the comparison between reporting periods, we disclose the impact of each of these three factors to the extent they impact the periods presented. The impact of foreign currency translation is the difference between sales from existing businesses valued at current year foreign exchange rates and the same sales valued at prior year foreign exchange rates. Growth due to acquisitions includes incremental sales due to an acquisition during the period or incremental sales due to reporting a full year's sales for an acquisition that occurred in the prior year. Sales growth (decline) from existing businesses excludes both the impact of foreign exchange rate fluctuations and acquisitions, thus providing a measure of growth (decline) due to factors such as price, mix and volume.

Orders and order backlog are highly indicative of our future revenue and thus are key measures of anticipated performance. Orders consist of contracts for products or services from our customers, net of cancellations, during a period. Order backlog consists of unfilled orders at the end of a period. The components of order and backlog growth (decline) are presented on the same basis as sales growth (decline).

The following tables present the components of our sales, order and backlog growth (decline), as measured in dollars and by the percent change between the periods indicated, as well as net sales by fluid-handling product for the periods indicated:

(Millions)	**Net Sales**		**Orders[1]**		**Backlog at Period End**	
As of and for the six months ended July 2, 2010	$ 242.9		$ 275.1		$ 297.1	
Components of Change:						
Existing businesses[2]	38.8	16.0%	17.5	6.4%	(24.8)	(8.3)%
Acquisitions[3]	50.8	20.9%	49.1	17.8%	82.4	27.7%
Foreign currency translation[4]	12.8	5.3%	12.9	4.7%	28.5	9.6%
	102.4	42.2%	79.5	28.9%	86.1	29.0%
As of and for the six months ended July 1, 2011	345.3		354.6		383.2	

(1) Represents contracts for products or services, net of cancellations for the period.

(2) Excludes the impact of foreign exchange rate fluctuations and acquisitions, thus providing a measure of growth due to factors such as price, product mix and volume.

(3) Represents the incremental sales, orders and order backlog as a result of acquisitions.

(4) Represents the difference between sales from existing businesses valued at current year foreign exchange rates and sales from existing businesses at prior year foreign exchange rates.

(Millions)	**Six Months Ended**	
	July 1, 2011	**July 2, 2010**
Net Sales by Product:		
Pumps, including aftermarket parts and services	$ 259.2	$ 206.8
Systems, including installation services	75.4	27.3
Valves	7.5	6.9
Other	3.2	1.9
Net sales	345.3	242.9

As detailed above, net sales increased $102.4 million, or 42.2%, during the six months ended July 1, 2011 compared to the comparable 2010 period. The increase in net sales from existing businesses was attributable to an increase in demand in all end markets. Net sales were positively impacted by the changes in foreign exchange rates during 2011 in comparison to 2010.

Orders, net of cancellations, from existing businesses increased during the six months ended July 1, 2011 in comparison to the six months ended July 2, 2010 due to increased demand in the oil and gas, commercial marine and general industrial end markets. Additionally, we experienced a decline in commercial marine order cancellations from $6.2 million during the six months ended July 2, 2010 to $2.9 million in the six months ended July 1, 2011 primarily due to the impact of improved economic conditions. The $86.1 million increase in order backlog from July 2, 2010 to July 1, 2011 was primarily due to the Rosscor and Baric acquisitions, which resulted in $82.4 million of the increase.

Gross profit

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

	Six Months Ended	
	July 1, 2011	**July 2, 2010**
Gross profit	$ 117.9 million	$ 84.7 million
Gross profit margin	34.1%	34.9%

The $33.2 million increase in gross profit during the six months ended July 1, 2011 in comparison to the six months ended July 2, 2010 was attributable to increases of $17.8 million from existing businesses and $10.4 million due to the acquisitions of Rosscor and Baric. Additionally, changes in foreign exchange rates had a $5.0 million positive impact on gross profit for the six months ended July 1, 2011 in comparison to the six months ended July 2, 2010.

Gross profit margin for the six months ended July 1, 2011 decreased compared to the comparable 2010 period primarily due to the lower gross profit margin associated with the foremarket sales of Rosscor and Baric during the period.

Selling, general and administrative expenses

The following table present our selling, general and administrative (SG&A) expenses for the periods indicated:

	Six Months Ended	
	July 1, 2011	**July 2, 2010**
Selling, general and administrative expense	$ 75.9 million	$ 57.9 million
Selling, general and administrative expense as a percentage of net sales	22.0%	23.8%

Selling, general and administrative expense increased $18.0 million during the six months ended July 1, 2011 in comparison to the comparable 2010 period, of which $9.3 million resulted from the acquisitions of Rosscor and Baric. Selling, general and administrative expense from existing businesses increased $6.1 million in the six months ended July 1, 2011 primarily due to higher selling and commission costs, higher corporate overhead including the operation of two offices during the transition of our corporate headquarters to Maryland and increased pension costs due to the termination of one of our non-US plans during the second quarter of 2011. Additionally, changes in foreign exchange rates resulted in an increase to Selling, general and administrative expense of $2.6 million in the six months ended July 1, 2011 in comparison to the comparable 2010 period. The decrease in Selling, general and administrative expense as a percentage of net sales in comparison to the comparable prior year period resulted primarily from higher volume levels.

Operating income

The tables below present operating income data for the periods indicated:

	Six Months Ended	
	July 1, 2011	**July 2, 2010**
Operating income	$ 28.0 million	$ 6.2 million
Operating margin	8.1%	2.6%

Operating income increased by $21.8 million in the six months ended July 1, 2011 in comparison to the six months ended July 2, 2010. This increase was primarily attributable to the $33.2 million increase in gross profit, the $4.9 million decrease in restructuring and other related charges and the $3.0 million decrease in asbestos coverage litigation expense partially offset by the $18.0 million increase in Selling, general and administrative expense and the $1.3 million increase in asbestos liability and defense cost.

For the six months ended July 1, 2011, the components of operating income were negatively impacted by a total of $4.5 million in acquisition-related amortization expense as a result of our Baric and Rosscor acquisitions.

Provision for income taxes

The effective income tax rate for the six months ended July 1, 2011 was 31.5% as compared to an effective tax rate of 36.1% for the six months ended July 2, 2010. Our effective tax rate for the six months ended July 1, 2011 was lower than the US federal statutory rate primarily due to foreign earnings where international tax rates are lower than the US tax rate. During the six months ended July 2, 2010, a net increase in Colfax's unrecognized income tax liability was partially offset by the effect of international tax rates, which are lower than the US tax rate.

Results of operations – year ended December 31, 2010 compared to year ended December 31, 2009

Items affecting comparability of results for year ended December 31, 2010 compared to year ended December 31, 2009

Restructuring and other related charges

We initiated a series of restructuring actions beginning in 2009 in response to then current and expected future economic conditions. As a result, for the years ended December 31, 2010 and 2009, Colfax recorded pre-tax restructuring and other related costs of $10.3 million and $18.2 million, respectively. The costs incurred in the year ended December 31, 2010 include $2.2 million of termination benefits, including $0.6 million of non-cash stock-based compensation expense, related to the departure of Colfax's former President and Chief Executive Officer in January of 2010. Additionally, the costs incurred in the year ended December 31, 2010 include $1.3 million of termination benefits related to the October 2010 departures of Colfax's former Chief Financial Officer and General Counsel. The costs incurred in the year ended December 31, 2009 include a $0.6 million non-cash asset impairment charge related to closure of a repair facility.

As of December 31, 2010, excluding additions from businesses acquired in 2009 and 2010, we have reduced our company-wide workforce by 237 employees from December 31, 2008. Additionally, through the second quarter of 2010, we participated in a German government-sponsored furlough program in which the government paid the wage-related costs for participating associates. We realized savings of approximately $25 million in 2010 from the restructuring initiatives implemented in 2009 and 2010, primarily reflecting lower employee costs.

Asbestos liability and defense costs

Asbestos liability and defense costs is comprised of projected indemnity cost, changes in the projected asbestos liability, changes in the probable insurance recovery of the projected asbestos-related liability, changes in the probable recovery of asbestos liability and defense costs paid in prior periods, and actual defense costs expensed in the period.

The table below presents asbestos liability and defense costs for the periods indicated:

(Millions)	Year ended December 31, 2010	Year ended December 31, 2009
Asbestos liability and defense costs (income)	$ 7.9	$ (2.2)

Asbestos liability and defense costs were $7.9 million for the year ended December 31, 2010 compared to income of $2.2 million for the year ended December 31, 2009. The increase in asbestos liability and defense costs was primarily attributable to a net pre-tax gain of $7.8 million recorded in 2009, comprised of a $19.4 million gain to increase the insurance asset as a result of favorable court rulings in October and December of 2009 concerning allocation methodology, partially offset by an $11.6 million charge to increase asbestos-related liabilities by $111.3 million, offset by an increase to expected insurance recoveries of $99.7 million arising from a revision to our 15-year estimate of asbestos-related liabilities. Additionally, Colfax recorded charges totaling $4.0 million in the third and fourth quarters of 2010 as a result of developments in the litigation, which was partially offset by a $0.7 million gain resulting from a settlement received from an insolvent carrier.

Asbestos coverage litigation expense

Asbestos coverage litigation expenses include legal costs related to the actions against two of our subsidiaries, respective insurers and a former parent company of one of the subsidiaries.

The table below present asbestos coverage litigation expenses for the periods indicated:

(Millions)	Year ended December 31, 2010	Year ended December 31, 2009
Asbestos coverage litigation expenses	$ 13.2	$ 11.7

Legal costs related to the subsidiaries' action against their asbestos insurers were $13.2 million for the year ended December 31, 2010, $1.5 million higher than the year ended December 31, 2009, due to costs related to the trial by one of our subsidiaries against a number of its insurers and former parent that began in January 2010 and is expected to conclude in 2011.

Sales, orders and backlog

The following tables present the components of our sales, order and backlog growth (decline), as well as, net sales by fluid-handling product for the periods indicated:

(Millions)	Sales		Orders[(1)]		Backlog at Period End	
Year ended December 31, 2009	**$ 525.0**		**$ 462.4**		**$ 290.9**	
Components of Change:						
Existing Businesses	16.1	3.1%	71.1	15.4%	(6.6)	(2.3)%
Acquisitions	10.0	1.9%	6.1	1.3%	38.7	13.3%
Foreign Currency Translation	(9.1)	(1.7)%	(6.8)	(1.5)%	(9.5)	(3.3)%
Total	17.0	3.2%	70.4	15.2%	22.6	7.8%
Year ended December 31, 2010	**542.0**		**532.8**		**313.5**	

(Millions)	Year ended December 31,	
	2010	2009
Net Sales by Product:		
Pumps, including aftermarket parts and service	$ 444.9	$ 443.1
Systems, including installation service	78.6	69.3
Valves	14.6	10.1
Other	3.9	2.5
Total net sales	542.0	525.0

As detailed above, sales from existing businesses increased 3.1% for the year ended December 31, 2010 over the year ended December 31, 2009. This increase was primarily attributable to higher demand in all end markets except the oil and gas market. Foreign currency translation negatively impacted sales by 1.7%, primarily due to a stronger average US dollar against the Euro for year ended December 31, 2010 compared to the same period in 2009.

Orders, net of cancellations, from existing businesses increased 15.4% for the year ended December 31, 2010 over the year ended December 31, 2009, primarily due to increased demand in the general industrial, commercial marine and oil and gas end markets, partially offset by lower demand in the defense end market. We experienced commercial marine order cancellations of approximately $16.4 million during the year ended December 31, 2010, compared to $21.9 million during the year ended December 31, 2009. Backlog as of December 31, 2010, of $313.5 million decreased $6.6 million, or 2.3% from December 31, 2009, excluding the impact of foreign currency translation and acquisitions. The Baric acquisition added $38.7 million to backlog in 2010.

Gross profit

The following tables present our gross profit and gross profit margin figures for the periods indicated:

	Year ended December 31,	
	2010	2009
Gross profit	$ 191.4 million	$ 185.8 million
Gross profit margin	35.3%	35.4%

Gross profit increased $5.6 million for the year ended December 31, 2010 compared to the same period in 2009. Gross profit from existing businesses increased $6.5 million, with an additional increase of $1.8 million due to the acquisitions of Baric and PD-Technik. Foreign currency translation negatively impacted gross profit by $2.7 million. Gross profit margin for the year ended December 31, 2010 was flat compared to the year ended December 31, 2009, as margin declines driven by lower pricing and an unfavorable product mix shift were partially offset by restructuring program cost savings and higher productivity.

Selling, general and administrative expense

The following table presents our selling, general and administrative (SG&A) expenses for the periods indicated:

	Year ended December 31,	
	2010	2009
SG&A expenses	$ 119.4 million	$ 112.5 million
SG&A expenses as a percentage of sales	22.0%	21.4%

Selling, general and administrative expenses increased $6.9 million to $119.4 million for the year ended December 31, 2010. Excluding a $2.2 million net increase related to acquisitions and foreign exchange rates, SG&A increased $4.7 million from 2009, primarily due to higher selling and commission costs and higher incentive compensation. There was also a $2.9 million increase in pension costs due to Colfax's assumption of the pension obligation for a group of former employees of a divested subsidiary as a result of an agreement reached in the fourth quarter of 2010. However, this was substantially offset by the reversal of an accrual established in prior years for this matter.

Operating income

The tables below present operating income data for the periods indicated:

	Year ended December 31,	
	2010	2009
Operating income	$ 34.4 million	$ 39.6 million
Operating margin	6.3%	7.5%

Operating income for the year ended December 31, 2010 decreased $5.3 million from the year ended December 31, 2009. Excluding a $2.9 million net unfavorable impact of foreign currency exchange rates and acquisitions, operating income decreased by $2.3 million. Increased asbestos claims and litigation expenses and unfavorable pricing and product mix shift were partially offset by lower restructuring costs, higher sales volumes and manufacturing cost reductions, including restructuring program cost savings.

Interest expense

Interest expense of $6.7 million for the year ended December 31, 2010 declined $0.5 million from the prior year. A decrease in the notional value of our interest rate swap from $75 million to $50 million on June 30, 2010 caused our overall weighted-average effective interest rate to decline, from 5.6% in 2009 to 5.4% in 2010. For further information on our outstanding indebtedness, see *Part 6: Colfax Operating and Financial Review – Liquidity and Capital Resources*.

Provision for income taxes

The effective income tax rate for the year ended December 31, 2010 was 41.4% as compared to an effective tax rate of 26.6% for the year ended December 31, 2009. The effective tax rate for the year ended December 31, 2010 was higher than the US federal statutory rate primarily due to a net increase in our valuation allowance, offset in part by international tax rates which are lower than the US tax rate, and a net decrease to our unrecognized tax benefit liability. The 41.4% effective tax rate for the year ended December 31, 2010 was higher than the 26.6% effective tax rate for the year ended December 31, 2009 primarily due a $4.2 million increase in our valuation allowance in 2010.

Results of operations – year ended December 31, 2009 compared to year ended December 31, 2008

Items affecting comparability of results for year ended December 31, 2009 compared to year ended December 31, 2008

IPO-related costs

Results for the year ended December 31, 2008 include $57.0 million of nonrecurring costs associated with our IPO during the second quarter. This amount includes $10.0 million of share-based compensation and $27.8 million of special cash bonuses paid under previously adopted executive compensation plans as well as $2.8 million of employer payroll taxes and other related costs. It also includes $11.8 million to reimburse the selling stockholders for the underwriting discount on the shares sold by them as well as the write-off of $4.6 million of deferred loan costs associated with the early termination of a credit facility.

Legacy legal adjustment

Selling, general and administrative expenses for the year ended December 31, 2008 include a $4.1 million increase to legal reserves related to a non-asbestos legal matter that arose from the sale and subsequent repair of a product by a division of a subsidiary that was divested prior to our acquisition of the subsidiary. This legacy legal case was settled during the third quarter of 2008.

Asbestos liability and defense costs

Asbestos liability and defense costs is comprised of projected indemnity cost, changes in the projected asbestos liability, changes in the probable insurance recovery of the projected asbestos-related liability, changes in the probable recovery of asbestos liability and defense costs paid in prior periods, and actual defense costs expensed in the period.

The table below presents asbestos liability and defense costs for the periods indicated:

(Millions)	**Year ended December 31,**	
	2009	**2008**
Asbestos liability and defense costs (income)	$ (2.2)	$ (4.8)

Asbestos liability and defense income was $2.2 million for the year ended December 31, 2009 compared to $4.8 million for the year ended December 31, 2008. The decrease in asbestos liability and defense income relates primarily to the favorable effect of one-time items in 2008 exceeding the favorable net effect of one-time items in 2009. One-time items in 2008 included a $7.0 million gain resulting from resolution of a coverage dispute with a primary insurer concerning certain pre-1966 insurance policies, as well as a $2.3 million gain from a change in estimate of our future asset recovery percentage for one subsidiary. One-time adjustments in 2009 include a $19.4 million gain to increase the insurance asset as a result of favorable court rulings in October and December 2009 concerning allocation methodology offset by an $11.6 million charge to increase asbestos-related liabilities by $111.3 million, offset by an increase to expected insurance recoveries of $99.7 million, as a result of an analysis of claims data.

Asbestos coverage litigation expense

Asbestos coverage litigation expenses include legal costs related to the actions against two of our subsidiaries, respective insurers and a former parent company of one of the subsidiaries.

The table below present asbestos coverage litigation expenses for the periods indicated:

(Millions)	**Year ended December 31,**	
	2009	**2008**
Asbestos coverage litigation expenses	$ 11.7	$ 17.2

Legal costs for the year ended December 31, 2008 were higher than 2009 primarily due to trial preparation in the fourth quarter of 2008. The trial had been expected to commence in the first half of 2009, but did not begin until January 19, 2010.

Sales, orders and backlog

The following tables present the components of our sales, order and backlog growth (decline), as well as, net sales by fluid-handling product for the periods indicated:

(Millions)	**Sales**		**Orders**		**Backlog at Period End**	
Year ended December 31, 2008	**$ 604.9**		**$ 682.1**		**$ 349.0**	
Components of Change:						
Existing Businesses	(48.8)	(8.1)%	(198.0)	(29.0)%	(66.8)	(19.1)%
Acquisitions	1.0	0.2%	1.4	0.2%	0.7	0.2%
Foreign Currency Translation	(32.1)	(5.3)%	(23.1)	(3.4)%	8.0	2.3%
Total	(79.9)	(13.2)%	(219.7)	(32.2)%	(58.1)	(16.6)%
Year ended December 31, 2009	**525.0**		**462.4**		**290.9**	

(Millions)	Year ended December 31,	
	2009	2008
Net Sales by Product:		
Pumps, including aftermarket parts and service	$ 443.1	$ 529.3
Systems, including installation service	69.3	58.2
Valves	10.1	10.1
Other	2.5	7.3
Total net sales	525.0	604.9

Sales from existing businesses declined 8.1% for the year ended December 31, 2009 over the year ended December 31, 2008. This decrease was primarily due to a significant decline in sales volume in the general industrial end market resulting from the global economic downturn, partially offset by a sales volume increase in the global defense end market. Foreign currency translation negatively impacted sales and orders for the year ended December 31, 2009, primarily due to a stronger average US dollar against the Euro for 2009 compared to 2008.

Orders, net of cancellations, from existing businesses for the year ended December 31, 2009 were down 29.0% from the prior year, primarily due to a significant decline in demand in the commercial marine, oil and gas, general industrial and power generation end markets. We experienced commercial marine order cancellations of approximately $21.9 million during the year ended December 31, 2009, as a result of the economic downturn. Backlog as of December 31, 2009, of $290.9 million decreased $58.1 million, or 16.6%, reflecting the decline in orders during the year.

Gross profit

The following tables present our gross profit and gross profit margin figures for the periods indicated:

	Year ended December 31,	
	2009	2008
Gross profit	$185.8 million	$217.2 million
Gross profit margin	35.4%	35.9%

Gross profit decreased $31.4 million for the year ended December 31, 2009 compared to the same period in 2008. Gross profit from existing businesses decreased $19.8 million, with an additional $11.7 million negative impact of foreign exchange rates. Gross profit margin declined a modest 50 basis points in 2009 despite a substantial decrease in production volume which caused lower absorption of fixed manufacturing costs. Significant restructuring program cost savings as well as favorable pricing and product mix in the commercial marine and general industrial end markets for the most part successfully mitigated the negative effect of volume on our gross margin.

Selling, general and administrative expense

Selling, general and administrative expenses decreased $11.6 million to $112.5 million for the year ended December 31, 2009. Excluding the $6.1 million favorable impact of foreign exchange rates, SG&A declined $5.5 million from 2008, primarily due to reductions in selling and commission expenses of $2.2 million and restructuring savings of $2.5 million. An additional $2.0 million of professional fees and other costs associated with becoming a public company and $2.6 million of pension and other postretirement benefit costs were incurred in 2009, but were offset by lower legacy legal expenses and favorable changes in the fair value of commodity and foreign currency derivatives.

Operating income

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

	Year ended December 31,	
	2009	2008
Operating income	$ 39.6 million	$ 17.8 million
Operating margin	7.5%	2.9%

Operating income for the year ended December 31, 2009 increased $21.8 million from the prior year. The increase was primarily due to the absence of $57.0 million of IPO-related costs incurred in 2008, partially offset by $18.2 million of restructuring costs incurred in 2009 as well as a $5.5 million negative impact of foreign exchange rates. Excluding these impacts, operating income was $11.5 million lower than the prior year, primarily due to lower sales volume from existing businesses, partially offset by lower asbestos-related expenses and selling, general and administrative expenses.

Interest expense

Interest expense of $7.2 million for the year ended December 31, 2009 declined $4.6 million from the prior year, primarily due to lower debt levels during 2009 compared to 2008 as a result of debt repayments of $105.4 million from a portion of the IPO proceeds in the second quarter of 2008. A decrease in the weighted-average effective interest rate on our variable rate borrowings that are not hedged, from 6.3% in 2008 to 5.6% in 2009 contributed approximately $0.7 million to the reduction in interest expense.

Provision for income taxes

The effective income tax rate for the year ended December 31, 2009 was 26.6% as compared to an effective tax rate of 91.1% for the year ended December 31, 2008. Our effective tax rate for the year ended December 31, 2009 was lower than the US federal statutory rate primarily due to international tax rates which are lower than the US tax rate, including the impact of the reduction in 2009 of the Swedish tax rate from 28% to 26.3% offset in part by a net increase to our valuation allowance and unrecognized tax benefit liability. The 26.6% effective tax rate for the year ended December 31, 2009 was lower than the 91.1% effective tax rate for the year ended December 31, 2008 primarily due to an $11.8 million payment to reimburse certain selling shareholders for underwriters discounts that are not deductible for tax purposes and a $3.4 million increase in valuation allowance in 2008.

Liquidity and capital resources

Overview

Historically, we have financed our capital and working capital requirements through a combination of cash flows from operating activities and borrowings under our credit agreement. We expect that our primary ongoing requirements for cash will be for working capital, capital expenditures, asbestos-related cash outflows and funding of our pension plans. If additional funds are needed for strategic acquisitions or other corporate purposes, we believe we could raise additional funds in the form of debt or equity.

Borrowing arrangements

On May 13, 2008, coinciding with the closing of the IPO, we terminated our existing credit facility. There were no material early termination penalties incurred as a result of the termination. Deferred loan costs of $4.6 million were written off in connection with this termination. On the same day, we entered into a new credit agreement (the ''BOA Credit Agreement''). The BOA Credit Agreement, led by Banc of America Securities LLC and administered by Bank of America, is a senior secured structure with a $150.0 million revolving credit facility and a $100.0 million term credit facility. During the first quarter of 2011, the BOA Credit Agreement was amended to, among other items, eliminate the $6.0 million commitment of a defaulted lender, which resulted in a reduction of the revolving credit facilities total capacity from $150.0 million to $144.0 million.

The term credit facility bears interest at LIBOR plus a margin ranging from 2.25% to 2.75% determined by the total leverage ratio calculated at quarter end. As of July 1, 2011 and December 31, 2010, the term credit facility bore interest of 2.44% and 2.76%, respectively, which included a margin of 2.25% and 2.50%, respectively. There was $77.5 million and $82.5 million outstanding under the term credit facility as of July 1, 2011 and December 31, 2010, respectively. The term credit facility, as entered into on May 13, 2008, has $2.5 million due on a quarterly basis on the last day of each March, June, September and December beginning June 30, 2010 and ending March 31, 2013, and one installment of $60.0 million payable on May 13, 2013. As at September 30, 2011, outstanding borrowings under the term credit facility were $75 million.

The $150.0 million revolver contains a $50.0 million letter of credit sub-facility, a $25.0 million swing line loan sub-facility and a €100.0 million sub-facility. At December 31, 2010, the annual commitment fee on the revolver was 0.5%. There was $3.0 million outstanding on the revolving credit facility as of July 1, 2011, whereas there was no amount outstanding as of December 31, 2010. As of July 1, 2011 and December 31, 2010, there was $20.4 million and $14.1 million, respectively, outstanding on the letter of credit sub-facility, resulting in available capacity of $120.6 million and $129.9 million, respectively. We are also party to additional letter of credit facilities with total capacity of $48.8 million and $2.5 million outstanding as of July 1, 2011. As at September 30, 2011, outstanding borrowings under the revolver were approximately $23 million which related to the letter of credit sub-facility.

Under the terms of the Deutsche Bank Credit Agreement entered into in connection with the Acquisition, part of the funds available under the Deutsche Bank Credit Agreement must be used to repay all the amounts due under the BOA Credit Agreement which will then be terminated. For further information on the Deutsche Bank Credit Agreement, see *Part 14: Additional Information — 12. Material Contracts*.

On June 24, 2008, we entered into an interest rate swap with an aggregate notional value of $75.0 million whereby we exchanged our LIBOR-based variable rate interest for a fixed rate of 4.1375%. The notional value decreased to $50.0 million on June 30, 2010 and will decrease to $25.0 million on June 30, 2011, and expires on June 29, 2012. The fair value of the swap agreement, based on third-party quotes, was a liability of $1.8 million at December 31, 2010. The swap agreement has been designated as a cash flow hedge, and therefore changes in its fair value are recorded as an adjustment to other comprehensive income.

Substantially all assets and stock of our domestic subsidiaries and 65% of the shares of certain European subsidiaries are pledged as collateral against borrowings under the BOA Credit Agreement. Certain European assets are pledged against borrowings directly made to our European subsidiary. The BOA Credit Agreement contains customary covenants limiting our ability to, among other things, pay cash dividends, incur debt or liens, redeem or repurchase Company stock, enter into transactions with affiliates, make investments, merge or consolidate with others or dispose of assets. In addition, the BOA Credit Agreement contains financial covenants requiring us to maintain a total leverage ratio of not more than 3.25 to 1.0 and a fixed charge coverage ratio of not less than 1.50 to 1.0, measured at the end of each quarter. If we do not comply with the various covenants under the BOA Credit Agreement and related agreements, the lenders may, subject to various customary cure rights, require the immediate payment of all amounts outstanding under the term credit facility and revolving credit facility. We were in compliance with all such covenants as of December 31, 2010 and as of July 1, 2011, respectively, and expect to be in compliance for the next 12 months.

As of December 31, 2010, we had approximately $129.9 million available on our $150 million revolving credit line. Present drawings under the credit line are letters of credit securing various obligations related to our business. The revolving credit line is provided by a consortium of financial institutions with varying commitment levels as shown below:

(Millions)	**Amount**
Bank of America	$ 32.4
RBS Citizens	14.4
TD BankNorth	14.4
Wells Fargo	14.4
SunTrust Bank	14.4
Landesbank Baden-Wuerttemberg	10.5
DnB Nor Bank	10.5
HSBC	10.5
KeyBank	10.5
Carolina First Corp	6.0
UBS	6.0
Lehman Brothers[(1)]	6.0
Total	150.0

(1) The bankruptcy of Lehman Brothers resulted in their default under the terms of the revolver and we will not be able to draw on Lehman Brothers' commitment of $6.0 million. The BOA Credit Agreement was amended on February 14, 2011 to eliminate Lehman Brothers' commitment, thereby reducing the total amount of the revolving credit line to $144.0 million.

Financing of the Acquisition

The Acquisition will be funded from a combination of proceeds of the Equity Capital Raising, new debt facilities and Colfax's existing cash resources.

Debt financing

The debt financing available to Bidco under certain loan facilities has been arranged by Deutsche Bank AG, New York Branch and HSBC Bank USA, N.A. Approximately $2 billion will be available under the Deutsche Bank Credit Agreement in order to fund part of the Acquisition.

For further information see *Part 14: Additional Information – 12. Material Contracts*.

Equity Capital Raising

Colfax expects to raise $805 million by way of equity capital financing in order to fund part of the Acquisition. BDT CF Acquisition Vehicle, LLC, an entity controlled by BDT Capital Partners Fund I, L.P. has agreed to subscribe for up to 13,877,552 shares of Series A Preferred Stock, which is convertible into Colfax Common Stock, and up to 14,756,944 shares of Colfax Common Stock for $680 million in the aggregate. In addition, Messrs. Rales and Markel (an entity in which one of the Colfax Directors is an officer) have agreed to subscribe for Colfax Common Stock for $125 million in the aggregate. All these subscriptions for Colfax Common Stock are being made at $23.04 which is the closing price of Colfax Common Stock on September 9, 2011, being the last business day before the 2.5 Announcement. The Exchange Ratio has also been determined on this basis and so the 0.1241 New Colfax Common Shares which Charter Shareholders will receive for each Charter Share held are valued at 180 pence accordingly. All such issuances of Colfax Common Stock and Series A Preferred Stock will settle six business days following the Effective Date.

For further information see *Part 14: Additional Information – 3. Share Capital*.

Cash flows

As of July 1, 2011, we had $64.2 million of Cash and cash equivalents, an increase of $3.7 million from $60.5 million as of December 31, 2010. The following tables summarize the change in Cash and cash equivalents during the periods indicated:

(Millions)	Year ended December 31,		
	2010	2009	2008
Net cash provided by (used in) operating activities	**$ 62.0**	**$ 38.7**	**$ (33.0)**
Purchases of fixed assets	(12.5)	(11.0)	(18.6)
Net cash paid for acquisitions	(28.0)	(1.7)	(0.4)
Other sources, net	0.1	0.2	(0.1)
Net cash used in investing activities	**(40.4)**	**(12.5)**	**(19.1)**
Proceeds and repayments of borrowings, net	(8.8)	(5.0)	(110.3)
Net proceeds from the issuance of common stock	—	—	193.0
Dividends paid to preferred shareholders	—	—	(38.5)
Repurchases of common stock	—	—	(5.7)
Payments made for loan costs	—	—	(3.3)
Other sources (uses), net	0.8	(0.4)	(0.4)
Net cash (used in) provided by financing activities	**(8.0)**	**(5.4)**	**34.8**

Cash flows from operating activities can fluctuate significantly from period to period as working capital needs, the timing of payments for items such as asbestos-related cash flows, pension funding decisions and other items may impact cash flows differently.

Net cash provided by (used in) operating activities was $62.0 million, $38.7 million and $(33.0) million for the years ended December 31, 2010, 2009 and 2008, respectively. The two most significant items causing the variability in these reported amounts were asbestos-related cash flows (including the disposition of claims, defense costs, insurer reimbursements and settlements and legal expenses related to litigation against our insurers) and IPO-related costs in 2008. For the years ended December 31, 2010, 2009 and 2008, net cash paid for asbestos liabilities, net of insurance settlements received, including the disposition of claims, defense costs and legal expenses related to litigation against our insurers, was $11.4 million, $19.7 million and $21.8 million, respectively. During the six months ended July 1, 2011, we had net cash outflows of $1.6 million for asbestos-related costs paid, net of insurance settlements received compared to net cash inflows of $2.0 million during the six months ended July 2, 2010. For the year ended December 31, 2008, cash paid for IPO-related costs were $42.4 million. Additionally, in the year ended December 31, 2008, cash paid for legacy legal settlements were $11.7 million. Excluding the effect of asbestos-related cash flows, IPO-related costs, and legacy legal settlements, net cash provided by operating activities would have been $73.4 million, $58.4 million and $42.9 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Other changes in significant operating cash flow items are discussed below.

- Funding requirements of our defined benefit plans, including both pensions and other post-employment benefits, can vary significantly among periods due to changes in the fair value of plan assets and actuarial assumptions. For the years ended December 31, 2010, 2009 and 2008, cash contributions for defined benefit plans were $12.1 million, $8.3 million, and $6.4 million, respectively. For the six months ended July 1, 2011 and July 2, 2010, cash contributions for defined benefit plans were $4.6 million and $9.4 million, respectively.
- For the years ended December 31, 2010 and 2009, cash payments of $16.3 million and $7.9 million, respectively, were made related to Colfax's restructuring initiatives.
- Changes in working capital also affected the operating cash flows for the years presented. We define working capital as trade receivables plus inventories less accounts payable. Working capital, excluding the effects of acquisitions and foreign currency translation, decreased $18.7 million from December 31, 2009 to December 31, 2010 and decreased $10.3 million from December 31, 2008 to December 31, 2009. During the six months ended

July 1, 2011, net working capital increased, primarily due to an increase in inventory levels, which reduced our cash flows from operating activities. A decrease in net working capital as a result of a decrease in inventory and receivable levels positively impacted cash flows from operating activities during the six months ended July 2, 2010. These changes were primarily due to decreases in inventory levels as a result of inventory reduction programs.

Cash flows from investing activities consist primarily of cash flows related to acquisitions and the purchase of fixed assets. On August 19, 2010, we completed the acquisition of Baric, a supplier of highly engineered fluid handling systems primarily for lubrication applications, with its primary operations based in Blyth, United Kingdom, for $27.2 million, net of cash acquired in the transaction. We paid $0.7 million in 2010 and $0.4 million in both 2009 and 2008 for contingent purchase price adjustments related to our 2007 acquisition of Fairmount Automation, Inc. On August 31, 2009, we completed the acquisition of PD-Technik, a provider of marine aftermarket related products and services located in Hamburg, Germany, for $1.3 million, net of cash acquired in the transaction. During the six months ended July 1, 2011, we used $23.2 million more cash in our investing activities in comparison to the six months ended July 2, 2010. The fluctuation in cash flows from our investing activities was primarily due to our acquisition of Rosscor during the first quarter of 2011, which resulted in net cash outflows of $22.3 million. There were no acquisitions during the six months ended July 2, 2010. In all periods presented, capital expenditures were invested in new and replacement machinery, equipment and information technology. We generally target capital expenditures at approximately 2.0% to 2.5% of annual revenues.

Cash flows from financing activities generally consist of the borrowing and repayment of our long-term indebtedness, payments of dividends to shareholders and redemptions of stock. During 2010, we repaid $8.8 million of long-term borrowings. In the fourth quarter of 2008, we purchased 795,000 shares of our common stock for approximately $5.7 million. We did not purchase any shares in 2009 or 2010. Our IPO proceeds in May 2008 were $193.0 million after deducting estimated accounting, legal and other expenses of $5.9 million. We used these proceeds to: (i) repay approximately $105.4 million of indebtedness outstanding under our credit facility, (ii) pay dividends to existing preferred stockholders of record immediately prior to the consummation of the IPO in the amount of $38.5 million, (iii) pay $11.8 million to the selling stockholders in the IPO as reimbursement for the underwriting discount incurred on the shares sold by them, and (iv) pay special bonuses of approximately $27.8 million to certain of our executives under previously adopted executive compensation plans. The remainder of the net proceeds was applied to working capital. We paid approximately $3.3 million in deferred loan costs related to our new credit facility entered into May 13, 2008. During the six months ended July 1, 2011, we had net repayments of $2.0 million in comparison to $3.8 million during the six months ended July 2, 2010. For further information regarding our outstanding indebtedness as of July 1, 2011 see *Part 6: Colfax Operating and Financial Review – Borrowing Arrangements*.

Contractual obligations

We are party to numerous contracts and arrangements that obligate us to make cash payments in future years. These contracts include financing arrangements such as debt agreements and leases, as well as contracts for the purchase of goods and services.

The following table is a summary of our contractual obligations as of December 31, 2010:

(Millions)	Total	Less than One Year	1-3 Years	3-5 Years	More than 5 Years
Debts & Leases					
Term Loan A	$ 82.5	$ 10.0	$ 72.5	$ —	$ —
Interest Payments on Long-Term Debt(1)	6.6	3.7	2.9	—	—
Operating Leases	12.7	3.8	5.1	3.1	0.7
Purchase Obligations(2)	50.9	47.7	3.2	—	—
Total	152.7	65.2	83.7	3.1	0.7

(1) Includes estimated interest rate swap payments. Variable interest payments are estimated using a static rate of 3.2%.

(2) Amounts exclude open purchase orders for goods or services that are provided on demand, the timing of which is not certain.

We have cash funding requirements associated with our pension and other post-retirement benefit plans, which are estimated to be approximately $6.7 million for the year ending December 31, 2011. Other long-term liabilities, such as those for asbestos and other legal claims, employee benefit plan obligations, and deferred income taxes, are excluded from the above table since they are not contractually fixed as to timing and amount.

Off-balance sheet arrangements

We do not have any off-balance sheet arrangements that provide liquidity, capital resources, market or credit risk support that expose us to any liability that is not reflected in our consolidated financial statements other than outstanding letters of credit of $14.1 million and $16.4 million of bank guarantees at December 31, 2010 and future operating lease payments of $12.7 million.

For additional information regarding the outstanding letters of credit, see Note 15 and Note 18 to our 2010 audited consolidated financial statements. For additional information regarding the bank guarantees and operating lease payments, please see Note 18 to our 2010 audited consolidated financial statements.

Colfax and its subsidiaries have in the past divested certain of its businesses and assets. In connection with these divestitures, certain representations, warranties and indemnities were made to purchasers to cover various risks or unknown liabilities. We cannot estimate the potential liability, if any, that may result from such representations, warranties and indemnities because they relate to unknown and unexpected contingencies; however, the Company does not believe that any such liabilities will have a material adverse effect on our financial condition, results of operations or liquidity.

Capitalization and indebtedness

The following table shows the capitalization and indebtedness of Colfax at July 1, 2011. The financial information has been extracted from our unaudited consolidated financial statements for the six months ended July 1, 2011.

Capitalization and indebtedness

(Thousands)[1]	
Total Current debt	$ 10,000
– Guaranteed	—
– Secured	10,000
– Unguaranteed / Unsecured	—
Total Non-Current debt (excluding portion of long-term debt)	$ 70,500
– Guaranteed	—
– Secured	70,500
– Unguaranteed / Unsecured	—
Shareholder's equity:	
a Share capital	44
b Legal Reserve	411,686[2]
c Other Reserves	—
Total	$ 411,730

(1) These amounts do not include the equity and debt to be issued upon completion of the Acquisition.
(2) Accumulated profit and loss accounts not included within.

There has been no material change in the capitalization and indebtedness of Colfax since July 1, 2011.

The following table shows the net indebtedness of Colfax at August 31, 2011.

Net Indebtedness

(Thousands)[1]

Cash	$ 48,432
Cash equivalent	8,922
Trading securities	—
Liquidity	$ 57,354
Current financial receivable	—
Current bank debt	—
Current portion of non current debt	10,000
Other current financial debt	—
Current financial debt	$ 10,000
Net current financial indebtedness	(47,354)
Non current bank loans	70,500
Bonds issued	—
Other non current loans	—
Non current financial indebtedness	$ 70,500
Net financial indebtedness	$ 23,146[2]

(1) These amounts do not include cash to be received and debt to be issued upon completion of the Acquisition.

(2) Colfax has indirect and contingent indebtedness of $22.9 million related to letters of credit, performance bonds and bank guarantees not included above.

Critical accounting policies

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

We believe the following accounting policies are the most critical in that they are important to the financial statements and they require the most difficult, subjective or complex judgments in the preparation of the financial statements. For a detailed discussion on the application of these and other accounting policies, see: Note 2 to the 2010 audited consolidated financial statements contained in *Part B* of *Part 8: Colfax Financial Information*.

Asbestos liabilities and insurance assets

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

The subsidiaries settle asbestos claims for amounts management considers reasonable given the facts and circumstances of each claim. The annual average settlement payment per asbestos claimant has fluctuated during the past several years. Management expects such fluctuations to continue in the future based upon, among other things, the number and type of claims settled in a particular period and the jurisdictions in which such claims arise. To date, the majority of settled claims have been dismissed for no payment.

Claims activity related to asbestos is as follows[1]:

	Year ended December 31,		
	2010	2009	2008
Claims unresolved at the beginning of the period	25,295	35,357	37,554
Claims filed [2]	3,692	3,323	4,729
Claims resolved [3]	(4,223)	(13,385)	(6,926)
Claims unresolved at the end of the period	24,764	25,295	35,357
Average cost of resolved claims[4]	12,037	11,106	5,378

(1) Excludes claims filed by one legal firm that have been ''administratively dismissed''.

(2) Claims filed include all asbestos claims for which notification has been received or a file has been opened.

(3) Claims resolved include asbestos claims that have been settled or dismissed or that are in the process of being settled or dismissed based upon agreements or understandings in place with counsel for the claimants.

(4) Average cost of settlement to resolve claims in whole dollars. These amounts exclude claims settled in Mississippi for which the majority of claims have historically been resolved for no payment. These amounts exclude insurance recoveries. The increase in average cost of resolved claims from 2008 to 2009 is driven primarily by a shift in the mix of settled claims from dismissals with no dollar value to mesothelioma settlements.

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

Projecting future asbestos-related liability costs is subject to numerous variables that are difficult to predict, including, among others, the number of claims that might be received, the type and severity of the disease alleged by each claimant, the latency period associated with asbestos exposure, dismissal rates, costs of medical treatment, the financial resources of other companies that are co-defendants in the claims, funds available in post-bankruptcy trusts, uncertainties surrounding the litigation process from jurisdiction to jurisdiction and from case to case, including fluctuations in the timing of court actions and rulings, and the impact of potential changes in legislative or judicial standards, including potential tort reform. Furthermore, any projections with respect to these variables are subject to even greater uncertainty as the projection period lengthens. These trend factors have both positive and negative effects on the dynamics of asbestos litigation in the tort system and the related best estimate of our asbestos liability, and these effects do not move in linear fashion but rather change over multiple year periods. Accordingly, we monitor these trend factors over time and periodically assesses whether an alternative forecast period is appropriate. Taking these factors into account and the inherent uncertainties, we believe that we can reasonably estimate the asbestos-related liability for pending and future claims that will be resolved in the next 15 years and have recorded that liability as our best estimate. While it is reasonably possible that the subsidiaries will incur costs after this period, we do not believe the reasonably possible loss or range of reasonably possible loss is estimable at the current time. Accordingly, no accrual has been recorded for any costs which may be paid after the next 15 years. Defense costs associated with asbestos-related liabilities as well as costs incurred related to litigation against the subsidiaries' insurers are expensed as incurred.

We assessed the subsidiaries' existing insurance arrangements and agreements, estimated the applicability of insurance coverage for existing and expected future claims, analyzed publicly available information bearing on the current creditworthiness and solvency of the various insurers, and employed such insurance allocation methodologies as we believed appropriate to ascertain the probable insurance recoveries for asbestos liabilities. The analysis took into account self-insurance retentions, policy exclusions, pending litigation, liability caps and gaps in coverage, existing and potential insolvencies of insurers as well as how legal and defense costs will be covered under the insurance policies.

During the third quarter of 2009, an analysis of claims data including filing and dismissal rates, alleged disease mix, filing jurisdiction, as well as settlement values resulted in the determination that Colfax should revise its rolling 15-year estimate of asbestos-related liability for pending and future claims. The analysis reflected that a statistically significant increase in mesothelioma filings had occurred and was expected to continue for both subsidiaries. As a result, Colfax recorded an $11.6 million pretax charge in the third quarter of 2009, which was comprised of an increase to its asbestos-related liabilities of $111.3 million offset by expected insurance recoveries of $99.7 million.

Each subsidiary has separate insurance coverage acquired prior to Colfax's ownership of each independent entity. In its evaluation of the insurance asset, Colfax used differing insurance allocation methodologies for each subsidiary based upon the applicable law pertaining to the affected subsidiary.

In November 2008, one of the subsidiaries entered into a settlement agreement with the primary and umbrella carrier governing all aspects of the carrier's past and future handling of the asbestos related bodily injury claims against the subsidiary. As a result of this agreement, during the third quarter of 2008, Colfax increased its insurance asset by $7.0 million attributable to resolution of a dispute concerning certain pre-1966 insurance policies and recorded a corresponding pretax gain. Colfax reimbursed the primary insurer for $7.6 million in deductibles and retrospective premiums in the fourth quarter of 2008 and has no further liability to the insurer under these provisions of the primary policies.

For this subsidiary, the Delaware Court of Chancery ruled on October 14, 2009, that asbestos-related costs should be allocated among excess insurers using an "all sums" allocation (which allows an insured to collect all sums paid in connection with a claim from any insurer whose policy is triggered, up to the policy's applicable limits) and that the subsidiary has rights to excess insurance policies purchased by a former owner of the business. Based upon this ruling mandating an "all sums" allocation, as well as the language of the underlying insurance policies and the assertion and belief that defense costs are outside policy limits, Colfax, as of October 2, 2009, increased its future expected recovery percentage from 67% to 90% of asbestos-related costs following the exhaustion of its primary and umbrella layers of insurance and recorded a pretax gain of $17.3 million. The subsidiary expects to be responsible for approximately 10% of its future asbestos-related costs.

During the third quarter of 2010, an insolvent carrier that had written approximately $1.4 million in limits for which this subsidiary had assumed no recovery made a cash settlement offer of approximately $0.7 million. As such, the subsidiary recorded a gain for this amount and a receivable from the insurer.

The subsidiary was notified during the third quarter of 2010 by the primary and umbrella carrier who had been fully defending and indemnifying the subsidiary for twenty years that the limits of liability of its primary and umbrella layer policies had been exhausted. Since then, the subsidiary has sought coverage from certain excess layer insurers whose terms and conditions follow form to the umbrella carrier. Certain first-layer excess insurers have defended and/or indemnified the subsidiary and/or agreed to defend and/or indemnify the subsidiary, subject to their reservations of rights and their applicable policy limits. Litigation between this subsidiary and its excess insurers is continuing and it is anticipated that the trial phase will be completed in 2011. The subsidiary continues to work with its excess insurers to obtain defense and indemnity payments while the litigation is proceeding. Given the uncertainties of litigation, there are a variety of possible outcomes, including but not limited to the subsidiary being required to fund all or a portion of the subsidiary's defense and indemnity payments until such time a final ruling orders payment by the insurers. While not impacting the results of operations, the funding requirement could range up to $10 million per quarter until final resolution.

In 2003, the other subsidiary filed a lawsuit against a large number of its insurers and its former parent to resolve a variety of disputes concerning insurance for asbestos-related bodily injury claims asserted against it. Although none of these insurance companies contested coverage, they disputed the timing, reasonableness and allocation of payments.

For this subsidiary it was determined by court ruling in the fourth quarter of 2007, that the allocation methodology mandated by the New Jersey courts will apply. Further court rulings in December of 2009, clarified the allocation calculation related to amounts currently due from insurers as well as amounts Colfax expects to be reimbursed for asbestos-related costs incurred in future periods. As a result, in the fourth quarter of 2009, Colfax increased its receivable for past costs by $11.9 million and decreased its insurance asset for future costs by $9.8 million and recorded a pretax gain of $2.1 million.

In connection with this litigation, the court engaged a special master to review the appropriate information and recommend an allocation formula in accordance with applicable law and the facts of the case. During the fourth quarter of 2010, the court-appointed special allocation master made its recommendation which has been modified and accepted by the court. Based upon the recommendation, Colfax reduced the current asbestos receivable by $2.3 million, increased the long-term asbestos asset by $0.4 million and recorded a net charge to asbestos liability and defense costs of $1.9 million in the third quarter of 2010. As a result of the current status of this litigation, we decreased the amount currently due from insurers by $0.5 million and decreased the insurance asset for future periods by $1.6 million and recorded a pretax loss of $2.1 million in the fourth quarter of 2010. We currently anticipate that the trial phase in this litigation will be complete in 2011. We cannot predict the outcome of this litigation with certainty, or whether the outcome will be more or less favorable than our best estimate included in the consolidated financial statements. Given the uncertainty inherent in litigation, we would estimate the range of possible results from positive $30 million to negative $30 million relative to our reported insurance assets on our consolidated balance sheets. The timing of any cash inflows or outflows related to these matters cannot be estimated. The subsidiary expects to be responsible for approximately 15% of all future asbestos-related costs.

Colfax has established reserves of $429.7 million and $443.8 million as of December 31, 2010 and December 31, 2009, respectively, for the probable and reasonably estimable asbestos-related liability cost it believes the subsidiaries will pay through the next 15 years. It has also established recoverables of $374.4 million and $389.4 million as of December 31, 2010 and December 31, 2009, respectively, for the insurance recoveries that are deemed probable during the same time period. Net of these recoverables, the expected cash outlay on a non-discounted basis for asbestos-related bodily injury claims over the next 15 years was $55.3 million and $54.3 million as of December 31, 2010 and December 31, 2009, respectively. In addition, Colfax has recorded a receivable for liability and defense costs previously paid in the amount of $51.8 million and $52.8 million as of December 31, 2010 and December 31, 2009, respectively, for which insurance recovery is deemed probable. Colfax has recorded the reserves for the asbestos liabilities as ''Accrued asbestos liability'' and ''Long-term asbestos liability'' and the related insurance recoveries as ''Asbestos insurance asset'' and ''Long-term asbestos insurance asset''. The receivable for previously paid liability and defense costs is recorded in ''Asbestos insurance receivable'' and ''Long-term asbestos insurance receivable''. The Company also has reflected in other accrued liabilities $23.3 million and $15.8 million as of December 31, 2010 and December 31, 2009, respectively, for overpayments by certain insurers and unpaid legal costs related to defending itself against asbestos-related liability claims and legal action against the Company's insurers.

The expense (income) related to these liabilities and legal defense was $7.9 million, net of estimated insurance recoveries, for the year ended December 31, 2010 compared to ($2.2) million and ($4.8) million for the years ended December 31, 2009 and 2008, respectively. Legal costs related to the subsidiaries' action against their asbestos insurers were $13.2 million for the year ended December 31, 2010 compared to $11.7 million and $17.2 million for the years ended December 31, 2009 and 2008, respectively.

Management's analyses are based on currently known facts and a number of assumptions. However, projecting future events, such as new claims to be filed each year, the average cost of resolving each claim, coverage issues among layers of insurers, the method in which losses will be allocated to the various insurance policies, interpretation of the effect on coverage of various policy terms and limits and their interrelationships, the continuing solvency of various insurance companies, the amount of remaining insurance available, as well as the numerous uncertainties inherent in asbestos litigation could cause the actual liabilities and insurance recoveries to be higher or lower than those projected or recorded which could materially affect our financial condition, results of operations or cash flow.

Retirement benefits

Pension obligations and other post-retirement benefits are actuarially determined and are affected by several assumptions, including the discount rate, assumed annual rates of return on plan assets, and per capita cost of covered health care benefits. Changes in discount rate and differences from actual results for each assumption will affect the amounts of pension expense and other post-retirement expense recognized in future periods. These assumptions may also have an effect on the amount and timing of future cash contributions. For further information see Note 11 to our 2010 audited consolidated financial statements contained in *Part B* of *Part 8*: *Colfax Financial Information*.

Impairment of goodwill and indefinite-lived intangible assets

Goodwill represents the costs in excess of the fair value of net assets acquired associated with our acquisitions.

We evaluate the recoverability of goodwill and indefinite-lived intangible assets annually or more frequently if an event occurs or circumstances change in the interim that would more likely than not reduce the fair value of the asset below its carrying amount. Goodwill is considered to be impaired when the net book value of a reporting unit exceeds its estimated fair value.

During the year ended December 31, 2010, Colfax changed the date of its annual goodwill and indefinite-lived intangible assets impairment testing from the last day of the fourth quarter to the first day of the fourth quarter. Colfax adopted this change in timing in order to provide additional time to quantify the fair value of our reporting units and, if necessary, to determine the implied fair value of goodwill. This change in timing will also reduce the likelihood that the annual impairment analysis would not be completed by the required filing date of Colfax's annual financial statements. The revised date also better aligns with our strategic planning and budgeting process, which is an integral component of the impairment testing. In accordance with US GAAP, Colfax will also perform interim impairment testing should circumstances requiring it arise. We believe this accounting change is preferable and does not result in the delay, acceleration, or avoidance of an impairment charge.

In the evaluation of goodwill for impairment, we first compare the fair value of the reporting unit to its carrying value. If the carrying value of a reporting unit exceeds its fair value, the goodwill of that reporting unit is potentially impaired and step two of the impairment analysis is performed. In step two of the analysis, an impairment loss is recorded equal to the excess of the carrying value of the reporting unit's goodwill over its implied fair value should such a circumstance arise.

We measure fair value of reporting units based on a present value of future discounted cash flows or a market valuation approach. The discounted cash flows model indicates the fair value of the reporting units based on the present value of the cash flows that the reporting units are expected to generate in the future. Significant estimates in the discounted cash flows model include: the weighted average cost of capital; long-term rate of growth and profitability of our business; and working capital effects. The market valuation approach indicates the fair value of the business based on a comparison of the Company against certain market information. Significant estimates in the market approach model include identifying appropriate market multiples and assessing earnings before interest, income taxes, depreciation and amortization (EBITDA) in estimating the fair value of the reporting units.

The analysis performed as of October 2, 2010 and December 31, 2009 and 2008 indicated no impairment to be present. However, actual results could differ from our estimates and projections, which would affect the assessment of impairment. As of December 31, 2010, we have goodwill of $172.3 million that is subject to at least annual review of impairment. For further information see Note 10 to our 2010 audited consolidated financial statements contained in *Part B* of *Part 8*: *Colfax Financial Information*.

Income taxes

We account for income taxes under the asset and liability method, which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that some portion of the deferred tax asset will not be realized. In evaluating the need for a valuation allowance, we take into account various factors, including the expected level of future taxable income and available tax planning strategies. If actual results differ from the assumptions made in the evaluation of our valuation allowance, we record a change in valuation allowance through income tax expense in the period such determination is made.

During the year ending December 31, 2010, the valuation allowance increased from $45.1 million to $52.9 million with $4.2 million and $3.6 million of the increase recognized in income tax expense and in other comprehensive income, respectively. The $7.8 million net increase in 2010 was primarily attributable to US deferred tax assets we believe may not be realized. Consideration was given to US tax planning strategies and future US taxable income as to how much of the total US deferred tax asset could be realized on a more likely than not basis.

The determination of our provision for income tax requires significant judgment, the use of estimates, and the interpretation and application of complex tax laws. Significant judgment is required in assessing the timing and amounts of deductible and taxable items. We establish reserves when, despite the belief that the tax return positions are fully supportable, we believe that certain positions may be successfully challenged. When facts and circumstances change, the reserves are adjusted through the provision for income taxes. Tax benefits are not recognized until minimum recognition thresholds are met as prescribed by applicable accounting standards.

Revenue recognition

We recognize revenues and costs from product sales when all of the following criteria are met: persuasive evidence of an arrangement exists, the price is fixed or determinable, product delivery has occurred or services have been rendered, there are no further obligations to customers, and collectibility is probable. Product delivery occurs when title and risk of loss transfer to the customer. Our shipping terms vary based on the contract. If any significant obligations to the customer with respect to such sale remain to be fulfilled following shipment, typically involving obligations relating to installation and acceptance by the buyer, revenue recognition is deferred until such obligations have been fulfilled. Any customer allowances and discounts are recorded as a reduction in reported revenues at the time of sale because these allowances reflect a reduction in the purchase price for the products purchased. These allowances and discounts are estimated based on historical experience and known trends. Revenue related to service agreements is recognized as revenue over the term of the agreement.

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. These allowances are based on recent trends of certain customers estimated to be a greater credit risk as well as general trends of the entire pool of customers. The allowance for doubtful accounts was $2.6 million and $2.8 million as of December 31, 2010 and 2009, respectively. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

The foregoing criteria are used for all classes of customers including original equipment manufacturers, distributors, government contractors and other end users.

Stock-based compensation

Pursuant to our 2008 omnibus incentive plan, our Board may make awards in the form of shares of restricted stock, stock options and restricted stock units and other stock-based awards. We measure and recognize the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award, with limited exceptions. That cost is recognized over the period during which an employee is required to provide service in exchange for the award – the requisite service period or vesting period. No compensation cost is recognized for equity instruments for which employees do not render the requisite service. We have equity incentive plans to encourage employees and non-employee directors to remain with us and to more closely align their interests with those of our shareholders.

For purposes of calculating stock-based compensation, the fair value of restricted stock or restricted stock units granted is equal to the market value of a share of common stock on the date of the grant. For grants that were awarded on May 7, 2008 in conjunction with our initial public offering, we used the initial public offering price as the fair value of the restricted stock and restricted stock units granted. For stock options, we estimate the fair value on the date of grant using the Black-Scholes option-pricing model. The determination of fair value using the Black-Scholes model requires a number of complex and subjective variables. One key input into the model is the fair value of our common stock on the date of grant, the initial public offering price in the case of stock options issued on May 7, 2008. Other key variables in the Black-Scholes option-pricing model include the expected volatility of our common stock price, the expected term of the award and the risk-free interest rate. In addition, we are required to estimate forfeitures of unvested awards when recognizing compensation expense. Significant assumptions used to calculate stock-based compensation during the years ended December 31, 2010 and 2009 were a stock price volatility of 52.2% and 32.5%, respectively, an expected option life of 4.5 years, a risk-free interest rate based on the 5-year treasury note yield on the date of grant ranging from 1.1% to 2.6% in 2010 and 1.9% to 2.5% in 2009 and a 0% expected dividend yield.

Stock-based compensation expense recognized for the years ended December 31, 2010, 2009 and 2008 was $3.1 million, $2.6 million and $11.3 million, respectively. We cannot predict with certainty the impact of stock-compensation expense to be recognized in the future because the actual amount of stock-based compensation expense we record in any fiscal period will be dependent on a number of factors, including the number of shares subject to the stock awards issued, the fair value of our common stock at the time of issuance and the expected volatility of our stock price over time. However, based on awards we currently expect to make in 2011, stock-based compensation for the year ended December 31, 2011 is projected to be approximately $3.5 million.

Quantitative and qualitative disclosures about market risk

We are exposed to market risk from changes in short-term interest rates, foreign currency exchange rates and commodity prices that could impact our results of operations and financial condition. We address our exposure to these risks through our normal operating and financing activities.

Interest rate risk

We are subject to exposure from changes in short-term interest rates related to interest payments on our borrowing arrangements. Under our credit facility, all of our borrowings as of July 1, 2011 are variable rate facilities based on LIBOR or EURIBOR. In order to mitigate our interest rate risk, we periodically enter into interest rate swap or collar agreements. A hypothetical increase in the interest rate of 1.00% during the six months ended July 1, 2011 would have increased Interest expense on the unhedged portion of our borrowings by approximately $0.4 million.

Exchange rate risk

We have manufacturing sites throughout the world and sell our products globally. As a result, we are exposed to movements in the exchange rates of various currencies against the US dollar and against the currencies of other countries in which we manufacture and sell products and services. During the six months ended July 1, 2011, approximately 80% of our sales were derived from operations outside the US, with approximately 40% generated from our European operations. In particular, we have more sales in European currencies than we have expenses in those currencies. Therefore, when European currencies strengthen or weaken against the US dollar, operating profits are increased or decreased, respectively. To assist with the matching of revenues and expenses and assets and liabilities in foreign currencies, we may periodically enter into derivative instruments such as cross currency swaps or forward contracts. To illustrate the potential impact of changes in foreign currency exchange rates, assuming a 10% increase in average foreign exchange rates compared to the US dollar, Income before income taxes would have increased by $2.8 million during the six months ended July 1, 2011.

Commodity price risk

We are exposed to changes in the prices of raw materials used in our production processes. Commodity futures contracts are periodically used to manage such exposure. As of July 1, 2011, we had no open commodity futures contracts.

PART 7: CHARTER OPERATING AND FINANCIAL REVIEW

The following information should be read in conjunction with the financial information on Charter set out in Part 9: Charter Financial Information. The financial information included in this Part 7: Charter Operating and Financial Review has been extracted without material adjustment from the financial information referred to in Part 9: Charter Financial Information or has been extracted without material adjustment from Charter's accounting records, which formed the underlying basis of the financial information referred to in Part 9: Charter Financial Information.

Some of the information contained in this Part 7: Charter Operating and Financial Review, including information in respect of Charter's plans and strategies for its business and expected sources of financing, contains forward-looking statements that involve risk and uncertainties. Charter Shareholders and potential investors should read Forward-looking statements set out under the section headed Important Information for a discussion of the risks and uncertainties related to those statements and should also read the section headed Risk Factors for a discussion of certain factors that may affect the business, results of operations or financial condition of Charter or the Combined Group.

Charter's consolidated financial statements are prepared in accordance with IFRS whereas Colfax's consolidated financial statements are prepared in accordance with US GAAP. IFRS differs from US GAAP in a number of significant respects. For a summary of the material differences between US GAAP and IFRS relevant to Colfax's consolidated financial statements, see Part 12: Summary of Significant Differences between IFRS and US GAAP.

Overview of Charter

Charter is the ultimate owner (through a number of intermediate holding companies) of two international engineering businesses, ESAB, which is focused on welding, cutting and automation, and Howden, which is focused on air and gas handling. Charter is listed on the Official List of the UKLA and admitted to trading on the London Stock Exchange.

Charter's global sales (£1,719.6 million in 2010) are split broadly equally between the developed economies of Western Europe and North America, and the higher growth economies of Central and Eastern Europe, Asia and South America. In 2010, Charter's sales represented by destination were as follows: Europe (34%), North America (20%), Asia (18%), South America (16%) and the rest of the world (12%).

The Charter group of companies can trace its history back to 1889, when The British South Africa Company was formed and takes its name from the Royal Charter granted by Queen Victoria to the company in that year. In 1965, Charter Consolidated was established by the merger of three mining, finance and investment companies, The British South Africa Company, The Central Mining & Investment Corporation Limited and The Consolidated Mines Selection Company Limited. Charter plc was created in 1993 following a reconstruction of Charter Consolidated. In 1994, Charter plc acquired ESAB, a world leader in welding and cutting, and subsequently, in 1997, Charter plc acquired Howden Group, an international applications engineer.

Key parts of Charter's strategy have been to build upon the strong market positions both ESAB and Howden have achieved, which are based on brand, technology and customer service. Geographical coverage has been expanded, particularly in high growth regions, including building upon Charter's presence in the BRIC economies.

Charter's strategy has included making acquisitions, especially when they bring a presence in a region or technology that would take time and expense to build organically and provided they generate sufficient risk-weighted return. In the period under review, capital expenditure has been maintained at levels in excess of depreciation and Charter has invested in research and development and training its employees. Throughout the period under review, a strong balance sheet has helped to ensure that the necessary financial resources have been available in pursuit of these goals.

In its most recent financial year, ended December 31, 2010, Charter achieved revenue of £1,719.6 million (2009: £1,659.2 million), adjusted profit before tax of £148.2 million (2009: £126.0 million) and adjusted earnings per share of 66.1 pence (2009: 55.0 pence). Total dividends were paid of 23.0 pence per share (2009: 21.5 pence).

For the six months ended June 30, 2011, Charter achieved revenue of £946.5 million (2010: £840.4 million), adjusted profit before tax of £75.6 million (2010: £73.3 million) and adjusted earnings per share of 33.6 pence (2010: 32.8 pence). An interim dividend for 2011 of 8.0 pence per share (2010: 7.5 pence) was paid on September 2, 2011.

ESAB

ESAB is a leading international welding and cutting business. It formulates, develops, manufactures and supplies consumable products and equipment for use in the cutting and joining of steels, aluminum and metal alloys. ESAB's comprehensive range of welding consumables includes electrodes, cored and solid wires, and fluxes. ESAB's welding equipment ranges from small retail uses to large equipment principally used in the energy and shipbuilding sectors.

ESAB's manufacturing facilities are located predominantly in low cost locations, in particular in Central and Eastern Europe, South America and Asia. ESAB has invested in capacity in China to meet the needs of domestic customers as well as supplying other parts of the world.

Howden

Howden is an international applications engineering business. Howden designs, manufactures, installs and maintains air and gas handling equipment for use in the power, oil and gas, petrochemical and other industries.

Howden's core products include centrifugal and axial fans, heat exchangers and compressors. Howden's fans and heaters are integral parts of the coal-fired boiler and emission control systems used by the power industry. Howden also makes significant sales to the oil, gas and petrochemical industry, to which, following its acquisition in March 2011 of Thomassen, it is now a leading supplier of hydrogen compression solutions. Howden also makes significant sales to customers in the mining, iron and steel and other process industries.

As Howden has increasingly concentrated on the higher value-added parts of its activities, the manufacture of non-performance critical components has increasingly been outsourced to sub-contractors in low cost locations. Howden's strategy targets increased sales to the power and oil and gas industries, where Howden has an established presence and to other industries where Howden's applications engineering expertise offers significant opportunities.

Recent developments

On July 1, 2011, ESAB acquired a 60% shareholding in Condor, a leading Brazilian gas apparatus manufacturer, for a cash consideration of R$25.2 million (approximately £9.9 million). Approximately R$7.5 million (approximately £3.0 million) was paid on completion with the remaining balance of approximately R$17.7 million (approximately £6.9 million) being payable in January 2012. As part of the joint venture arrangements, ESAB has assumed full managerial control of Condor.

Results of operations

Non US GAAP measures

Adjusted operating profit, as defined below, excludes items which do not impact the day-to-day operations and which management in some cases does not directly control or influence. The Charter Board uses adjusted operating profit to measure performance of revenue net of increases in the cost of employees, goods and other services, excluding the impact of items which are unusual or do not regularly occur. Adjusted operating profit is defined as operating profit before acquisition costs, amortization and impairment of acquired intangibles and goodwill, and exceptional items. The Charter Board also analyzes adjusted operating margin, which is calculated as adjusted operating profit divided by revenue. Adjusted operating profit and adjusted operating margin are not defined terms under IFRS and therefore do not purport to be substitutes for profit, operating profit or operating profit margin as a measure of operating performance or for cash flows from operating activities as a measure of liquidity. Adjusted operating profit and adjusted operating margin may not be comparable to similarly titled measures used by other companies. Users of the financial statements should not consider these performance measures, in isolation from, or as substitute analyses for, Charter's results of operations, operating performance or liquidity. Reconciliations of adjusted operating profit to operating profit are shown in the tables below for the periods presented.

Items affecting comparability

Charter has made business acquisitions during the periods presented that impact the comparability of the audited consolidated financial statements and unaudited consolidated interim financial statements. In the six months ended June 30, 2011, Charter made two business acquisitions:

- On March 3, 2011, ESAB acquired 100% of the issued share capital of Sychevsky, a leading Russian electrode manufacturer based in the Smolensk region for a cash consideration of $19.2 million (approximately £11.8 million). The revenue and profit after tax of Sychevsky for the six months ended June 30, 2011 was £5.5 million and £0.9 million, respectively, of which £1.6 million and £0.2 million, respectively, was for the period prior to acquisition.
- On March 28, 2011, Howden acquired 100% of the issued share capital of Thomassen, a leading supplier of high-power engineered compressors to the oil and gas and petrochemical industries, for a cash consideration of €100 million (approximately £88.1 million). Acquisition costs of £0.8 million have been expensed. The revenue and profit after tax of Thomassen for the six months ended June 30, 2011 was £53.5 million and £8.2 million, respectively, of which £28.3 million and £5.3 million, respectively, was for the period prior to acquisition.

Since the results of these acquisitions were included in Charter's consolidated financial information subsequent to closing, the results of the consolidated group for these periods are less comparable to prior periods.

Six months ended June 30, 2011 and June 30, 2010

The table below presents the results of Charter for the periods indicated.

(Millions)	Six Months Ended	
	June 30, 2011	June 30, 2010
	(unaudited)	
Revenue	£ 946.5	£ 840.4
Cost of sales	(671.5)	(580.5)
Gross profit	**275.0**	**259.9**
Selling and distribution costs	(117.1)	(101.2)
Administrative expenses	(117.1)	(89.4)
Operating profit	**40.8**	**69.3**
Analyzed as:		
Adjusted operating profit	75.2	72.7
Acquisition costs	(1.6)	(0.1)
Amortization and impairment of acquired intangibles and goodwill	(21.8)	(3.9)
Exceptional items		
– restructuring	(17.2)	(7.9)
– post retirement benefits	6.2	8.5
	40.8	69.3
Net financing charge – retirement benefit obligations	(0.8)	(2.1)
Other financing charge before exchange losses on retranslation of intercompany loan balances	(3.8)	(2.9)
Other financing income before exchange gains on retranslation of intercompany loan balances	1.9	1.7
Net exchange gains on retranslation of intercompany loan balances	7.1	1.9
Net financing credit/(charge)	4.4	(1.4)
Share of post tax profits of associates	2.3	1.8
Profit before tax	**47.5**	**69.7**
Taxation charge	(9.7)	(13.7)
Analyzed as:		
Taxation charge on profits	(12.8)	(13.2)
Taxation on exceptional items and acquisition costs	2.6	(1.8)
Taxation on amortization and impairment of acquired intangibles and goodwill	0.6	0.8
Taxation on finance charge – retirement benefit obligations	0.2	0.5
Taxation on net on retranslation of intercompany loan balances	(0.3)	—
	(9.7)	**(13.7)**
Profit for the period	**37.8**	**56.0**
Attributable to:		
Equity shareholders	32.3	50.8
Non-controlling interests	5.5	5.2
	37.8	**56.0**
Earnings per share		
Basic	19.3p	30.4p
Adjusted	33.6p	32.8p
Dividend per share	**8.0p**	**7.5p**

Results of operations – six months ended June 30, 2011 compared to six months ended June 30, 2010

Charter's revenue for the first half of 2011 increased by 12.6% to £946.5 million (2010: £840.4 million). The increase was primarily due to higher revenue in ESAB.

ESAB saw improved revenue, as volumes of both welding consumables and standard equipment increased. ESAB's adjusted operating profit was slightly ahead of the profit achieved in the second half of 2010. For Howden, revenue, operating profit and operating margin were all ahead of the same period in 2010.

Charter's gross profit for the first half of 2011 increased by 5.8% to £275.0 million (2010: £259.9 million). The increase was due to higher gross profit in both ESAB and Howden.

The operating profit for the first half of 2011 was £40.8 million, a decrease of 41.1% over the first half of 2010 (2010: £69.3 million), due to higher amortization and impairment of acquired intangibles and goodwill, and restructuring costs, mainly attributable to ESAB.

Adjusted operating profit was £75.2 million, an increase of 3.4% compared with the first half of 2010 (2010: £72.7 million). The increase was due to an increased operating profit at Howden, as operating profit at ESAB was below the same period last year.

The share of post tax profits of associates was slightly ahead at £2.3 million (2010: £1.8 million) due to higher profits in ESAB SeAH.

Profit before tax was £47.5 million, a decrease of 31.9% (2010: £69.7 million). The decrease was due to lower operating profits in ESAB, higher amortization and impairment of acquired intangibles and goodwill, and restructuring costs, partly offset by higher operating profit in Howden and a net financing credit (against a net financing charge in 2010).

The tax on profits was £12.8 million (2010: £13.2 million). The effective tax rate for the period was 20.4%, compared with a rate of 19.7% for the first six months of 2010. The effective tax rate continues to reflect that a significant part of total profit is generated in low tax areas.

The profit attributable to equity shareholders was £32.3 million (2010: £50.8 million), a decrease of 36.4%. The decrease was due to a fall in profit before tax, which was due to lower operating profits in ESAB, higher amortization and impairment of acquired intangibles and goodwill, and restructuring costs, partly offset by higher operating profit in Howden and a net financing credit (against a net financing charge in 2010).

Three years ended December 31, 2010, 2009 and 2008

The table below presents the results of Charter for the periods indicated.

(Millions)	**Year Ended December 31,**		
	2010	**2009**	**2008**
Revenue	£ 1,719.6	£ 1,659.2	£ 1,887.0
Cost of Sales	(1,188.5)	(1,206.5)	(1,353.2)
Gross Profit	**531.1**	**452.7**	**533.8**
Selling and distribution costs	(206.3)	(191.6)	(182.7)
Administrative expenses	(186.4)	(165.1)	(150.1)
Operating profit	**138.4**	**96.0**	**201.0**
Analyzed as:			
Adjusted operating profit	145.9	125.6	211.2
Acquisition costs	(0.2)	(0.3)	—
Amortization and impairment of acquired intangibles and goodwill	(5.8)	(2.5)	(1.9)
Exceptional items – restructuring	(9.9)	(26.3)	(6.2)
– loss on disposal of business	—	(0.5)	—
– post retirement benefits curtailment	8.4	—	—
– change in holding company	—	—	(2.1)
	138.4	**96.0**	**201.0**
Net financing charge – retirement benefit obligations	(4.1)	(7.7)	(0.7)
Other financing charge before losses on retranslation of intercompany loan balances	(5.0)	(7.6)	(6.8)
Other financing charge before gains on retranslation of intercompany loan balances	3.5	4.5	5.6
Net gains/(losses) on retranslation of intercompany loan balances	7.5	4.0	(4.6)
Net financing credit/(charge)	1.9	(6.8)	(6.5)
Share of post tax profits of associates and joint ventures	3.8	3.5	3.2
Profit before tax	**144.1**	**92.7**	**197.7**
Taxation charge	(25.2)	(17.9)	(39.0)
Analyzed as:			
Taxation charge on profits	(25.3)	(22.7)	(38.5)
Taxation on exceptional items and acquisition costs	(1.5)	4.2	1.5
Taxation on amortization and impairment of acquired intangibles and goodwill	1.2	0.7	0.4
Taxation on net financing charge – retirement benefit obligations	0.9	1.1	—
Taxation on retranslation of intercompany loan balances	(0.5)	(1.2)	(2.4)
	(25.2)	**(17.9)**	**(39.0)**
Profit for the year	**118.9**	**74.8**	**158.7**
Attributable to:			
Equity shareholders	106.6	63.5	150.2
Non-controlling interests	12.3	11.3	8.5
	118.9	**74.8**	**158.7**
Earnings per share			
Basic	63.9p	38.1p	90.1p
Adjusted	66.1p	55.0p	99.2p
Dividend per share	**23.0p**	**21.5p**	**21.0p**

Results of operations – year ended December 31, 2010 compared to year ended December 31, 2009

Charter's results for 2010 were an improvement over 2009, with revenue, adjusted operating profit and adjusted earnings per share all increasing. These results were achieved against an economic backdrop that was better than experienced in 2009, but which remained varied with some regions and end-user segments continuing to be weak.

In 2010 Charter generated sales of £1,719.6 million (2009: £1,659.2 million), an increase of 3.6%. The increase was due to higher revenue in ESAB, partly offset by lower revenue in Howden from sales of new equipment.

Charter's gross profit for 2010 increased by 17.3% to £531.1 million (2009: £452.7 million). The increase was primarily due to higher gross profit in ESAB.

The operating profit was £138.4 million, an increase of 44.2% over 2009 (2009: £96.0 million). Adjusted operating profit was £145.9 million (2009: £125.6 million), an increase of 16.2%. Operating profit and adjusted operating profit increased, as ESAB recovered from the generally difficult trading conditions which it encountered in 2009, whilst Howden's operating profit fell slightly. Charter's operating profit was also impacted by restructuring costs in ESAB.

The net financing credit of £1.9 million (2009: net charge of £6.8 million) reflected net foreign exchange gains on the retranslation of intercompany loan balances, partly offset by other net financing charges.

The share of post tax profits of associates was £3.8 million (2009: £3.5 million). The increase was due to higher profit in ESAB SeAH.

Profit before tax was £144.1 million, an increase of 55.4% (2009: £92.7 million). The increase was due to ESAB recovering from the generally difficult trading conditions which it encountered in 2009, whilst Howden's profit fell slightly. Charter's operating profit was also impacted by restructuring costs in ESAB reflecting the items discussed above.

The tax on profits was £25.3 million (2009: £22.7 million). The effective tax rate for the period was 17.5%, compared with a rate of 19.3% for 2009. The effective tax rate reflected that a significant part of total profit was generated in low tax areas.

The profit attributable to equity shareholders was £106.6 million (2009: £63.5 million), an increase of 67.9%. The increase was due to higher profit before tax.

Results of operations – year ended December 31, 2009 compared to year ended December 31, 2008

In 2009, revenue was £1,659.2 million (2008: £1,887.0 million) and gross profit was £452.7 million (2008: £533.8 million), a decrease of 12.1% and 15.2%, respectively.

The operating profit was £96.0 million, a decrease of 52.2% from 2008 (2008: £201.0 million).

In 2009, as the engineering and manufacturing sectors contracted at unprecedented rates in Western Europe and North America in particular, ESAB's revenue and operating profit decreased compared with 2008. In an uncertain economic climate, forward visibility was clouded but the overall result for the year was in line with the revised forecasts that were prepared by ESAB during the second quarter of the year.

During the year, Howden successfully executed the strong order book with which it started the year, booked new orders and continued to grow its aftermarket business. As a result, it achieved an operating profit which was broadly in line with the budget set by the Charter Board at the start of the year.

The net financing charge of £6.8 million (2008: net charge of £6.5 million) reflected increased financing charges due to retirement benefit obligations and other items, partly offset by net gains on retranslation of intercompany loan balances.

The share of post tax profits of associates increased slightly to £3.5 million (2008: £3.2 million) due to higher profits in ESAB SeAH. Profit before tax was £92.7 million, a decrease of 53.1% (2008: £197.7 million). The decrease was due to lower operating profit in ESAB and restructuring costs which primarily were within ESAB.

The tax on profits was £22.7 million (2008: £38.5 million). The decrease was due to lower profit before tax.

The profit attributable to equity shareholders was £63.5 million (2008: £150.2 million), a decrease of 57.7%. The decrease was due to lower profit before tax.

ESAB

Six months ended June 30, 2011 and June 30, 2010

The table below presents a summary of ESAB's performance for the periods indicated.

(Millions)	**Six Months Ended**	
	June 30, 2011	**June 30, 2010**
Welding	£ 580.6	£ 494.5
Cutting and automation	78.1	64.3
Revenue	**658.7**	**558.8**
Welding	43.0	52.4
Cutting and automation	(2.2)	(2.3)
Adjusted operating profit	**40.8**	**50.1**
Operating profit	**3.0**	**47.4**
Share of profits of associates (post tax)	**2.3**	**1.8**
Operating margin	0.5%	8.5%
Adjusted operating margin:		
Welding	7.4%	10.6%
Cutting and automation	(2.8%)	(3.6%)
Overall	6.2%	9.0%
ESAB: revenue by destination		
Europe	270.5	214.6
North America	124.9	109.7
South America	122.7	114.9
Asia	102.5	86.8
Rest of world	38.1	32.8
Total	**658.7**	**558.8**

Results of operations – six months ended June 30, 2011 compared to six months ended June 30, 2010

ESAB saw improved revenue, as volumes of both welding consumables and standard equipment increased. ESAB's adjusted operating profit was slightly ahead of the profit achieved in the second half of 2010.

ESAB generated revenues of £658.7 million during the first six months ended June 30, 2011 (2010: £558.8 million), an increase of 17.9%. This increase was a result of higher volumes and prices of welding consumables.

Adjusted operating profit decreased by 18.6% to £40.8 million (2010: £50.1 million). This decrease was primarily a result of lower profit in European welding consumables and higher overheads. Adjusted operating margin of 6.2% was below the margin of 9.0% achieved in the first half of 2010. The margin was impacted by higher growth in lower margin welding wire products compared with higher margin electrodes.

Within the cutting and automation division, poor adjusted operating margin in the cutting business was due to investment in a new range of machines and continuing price competition.

The translation impact of changing exchange rates was not material.

Years ended December 31, 2010, 2009 and 2008

The table below presents a summary of ESAB's performance for the periods indicated.

(Millions)	**Year Ended December 31,**		
	2010	**2009**	**2008**
Welding	£ 1,015.4	£ 846.7	£ 1,042.2
Cutting and automation	142.2	184.7	217.6
Revenue	**1,157.6**	**1,031.4**	**1,259.8**
Welding	89.7	55.6	123.4
Cutting and automation	(0.4)	10.4	26.6
Adjusted operating profit	**89.3**	**66.0**	**150.0**
Operating profit	**84.8**	**39.7**	**142.4**
Share of profits of associates (post tax)	**4.0**	**3.5**	**3.1**
Operating margin	7.3%	3.8%	11.3%
Adjusted operating margin	7.7%	6.4%	11.9%
Capital expenditure	44.4	45.3	54.0
Depreciation	22.3	20.1	16.2
Research and development expenditure	18.8	15.5	12.1
Average number of employees	8,479	8,581	9,372
ESAB: revenue by destination			
Europe	444.6	424.6	594.7
North America	222.3	218.6	238.6
South America	242.3	171.9	198.0
Rest of world	248.4	216.3	228.5
Total	**1,157.6**	**1,031.4**	**1,259.8**

Results of operations – year ended December 31, 2010 compared to year ended December 31, 2009

Overview of performance

In 2010, ESAB saw much improved revenue, adjusted operating profit and adjusted operating margin, although its overall performance was held back as the welding segment recorded lower margins in the second half of the year and, as anticipated, the cutting and automation segment made an operating loss for the year as a whole and only returned to profit in the second half.

In 2010, ESAB recorded sales of £1,157.6 million (2009: £1,031.4 million), an increase of 12.2%, and adjusted operating profit of £89.3 million (2009: £66.0 million), an increase of 35.3%. The operating margin improved to 7.3% (2009: 3.8%). ESAB's results were up on 2009, as the business benefited from an improved trading environment and the recent restructuring.

ESAB's adjusted operating margin for the year increased to 7.7% (2009: 6.4%), which reflected higher volumes. The improvement in adjusted operating margin in the first half of the year was not maintained in the second half, due to usual seasonal factors, adverse changes in mix and, in certain instances mainly in Europe, increases in steel prices not being fully recovered through higher selling prices.

The total volumes of welding consumables sold during the year were 465k-tonnes (2009: 405k-tonnes), an increase of 15%. Within this, volumes of solid welding wire increased by 30% as ESAB increased its market share in the recovering vehicle segment.

By comparison, the volume of electrodes, which are a higher margin product, only grew by 7%. This was as a consequence of certain important users of electrodes, such as the general industrial and construction sectors, being less strong. In most European markets, electrode volumes were static or showed only modest growth. Those regions in which electrodes did show higher growth were generally emerging markets where selling prices and, in some cases margins, are lower.

ESAB was able to deliver higher volumes of welding wire in 2010 by re-commissioning certain equipment capacity that had been taken out of service during the recession, and by making selective additions to capacity where necessary to alleviate potential shortages. ESAB also out-sourced the production of certain types of welding wire in 2010.

Revenue from sales of standard equipment increased by 28% in 2010 as volumes benefited from higher levels of steel consumption, and also from a new range of equipment introduced during the year. There was a particularly strong performance in South America, with other regions, including Europe and North America, starting to show improvement as the year progressed.

ESAB's overall profitability was also constrained by the cutting and automation segment, which suffered from low new equipment sales during the year, as traditional customers, such as shipbuilding, remained depressed and as the wind energy industry, which had been an important customer of the automation business in 2009, faced increased uncertainty. Having recorded a loss in the first half of the year the segment's financial performance improved during the second half, as the restructuring measures completed during the year delivered cost savings and as aftermarket revenues increased and as anticipated, by the year-end the segment had returned to profitability.

Regional markets

Europe

In 2010, ESAB's revenue in Europe was £444.6 million (2009: £424.6 million), an increase of 4.7% (an increase of 5.3% at constant foreign exchange).

Europe saw an improvement in consumables volumes, although this was weighted towards lower margin welding wires, with volumes of electrodes in most European markets being static or showing only modest growth. Volumes of standard equipment started to show improvement as 2010 progressed. ESAB achieved further growth in Russia, where revenue increased to £72 million.

North America

In 2010, ESAB's revenue in North America was £222.3 million (2009: £218.6 million), an increase of 1.7% (a decrease of 1.5% at constant foreign exchange).

ESAB saw volume growth in consumables weighted towards welding wires and a pick-up in standard equipment volumes later in the year.

South America

In 2010, ESAB's revenue in South America was £242.3 million (2009: £171.9 million), an increase of 40.9% (an increase of 30.3% at constant foreign exchange).

ESAB saw a strong performance in South America, driven by Brazil. Growth was strong across welding consumables, and also standard equipment, reflecting general strength in the Brazilian economy. The region's result also benefited from currency translation.

Rest of world

In 2010, ESAB's revenue in the rest of the world was £248.4 million (2009: £216.3 million), an increase of 14.8% (an increase of 10.8% at constant foreign exchange).

ESAB India saw a strong performance, with revenue up by 26% ESAB made progress in the Middle East, where sales to the energy and construction industries are important. In China, ESAB continued to develop its presence through locally-manufactured and imported product.

Associated undertaking

ESAB owns 50% of ESAB SeAH Corporation, situated in South Korea. ESAB's share of the post-tax profits of that company increased to £4.0 million (2009: £3.5 million).

Results of operations – year ended December 31, 2009 compared to year ended December 31, 2008

Overview of performance

In 2009, ESAB generated revenue of £1,031.4 million (2008: £1,259.8 million), a reduction of 18.1%. Of this reduction, 22.9% came from the welding business (consumables and standard equipment) and 4.8% from the cutting and automation businesses, whilst currency movements, in particular the weakening of sterling against the euro and the US dollar, added 9.6%.

Operating profit was £39.7 million (2008: £142.4 million), a reduction of 72.1%. Adjusted operating profit was £66.0 million (2008: £150.0 million), a reduction of 56%. The operating margin and adjusted operating margin for the year were 3.8% and 6.4%, respectively (2008: 11.3% and 11.9%). The decreases were a result of the unprecedented declines in industrial production in the global economy which led to reductions in volumes sold of welding consumables and equipment, although the impact was offset by a series of measures undertaken to reduce costs.

Restructuring measures, which were progressively implemented from October 2008 onwards, reduced headcount by some 1,600 employees (equivalent to 17% of ESAB's workforce at October 2008) and saved in excess of £50 million and led to a restructuring charge for the year of £24 million.

Volumes of welding consumables for the year as a whole were down by around one-quarter compared with 2008. After a sharp reversal in the fourth quarter of 2008, volumes were generally stable in the first quarter of 2009. There were further general declines in volume during the second quarter, but thereafter volumes generally stabilized.

Whilst average net selling prices of consumables trended downwards during the year, generally reflecting the pass through of lower steel costs, ESAB's pro-active product and brand management enabled it to maintain premium pricing for its products in many markets in which it operates and on average for the year as a whole prices remained slightly ahead of 2008.

The strength of demand from different end-user segments varied with energy remaining reasonably strong throughout the year, automotive being very weak in the first half of the year but showing some signs of recovery in the second half, and shipbuilding, especially in Europe, declining markedly in the second half of the year. Volumes of standard equipment were generally weak throughout 2009, with revenues down by about 40% compared with 2008, in response to which manned capacity was cut by around one-half.

The cutting business had increased revenue in the first half of the year, albeit with lower margins, as a consequence of the order book with which it started the year. However, a significant deterioration in the market for cutting equipment led to sharply lower order intake and to a fall in revenue in the second half of 2009 which severely impacted profitability.

ESAB's overall margin performance slipped during the second quarter of 2009 as consumables volumes, especially in Europe, fell and there was some short-term weakness in pricing. In the second half of the year, margins recovered, led by the consumables business, but offset by the deterioration in the cutting business and, to a lesser extent, the extended Christmas shutdowns amongst customers in Europe and North America.

By the end of 2009, most regions in which ESAB operates appeared to have been through the bottom of the cycle, although the economies of some regions, such as Western and Southern Europe and the United States, continued to suffer varying degrees of weakness. Signs of recovery were patchy, with South America, India and Russia amongst the more positive regions.

Despite the economic conditions, ESAB continued to invest in its business in 2009. Capital expenditure amounted to £45.3 million in 2009, slightly below the level seen in 2008 but still well ahead of depreciation; significant expenditure during the year took place in relation to selective re-equipping and additions to various factories, a new warehouse in the Middle East, land purchase and upgrades to IT systems. Research and development expenditure increased to £15.5 million (2008: £12.1 million), representing 1.5% of revenue.

Regional Markets

Revenue fell in all regions due to the impact of the global recession, although the full impact of these falls on ESAB's financial results was partly offset by exchange movements.

Europe

In 2009, ESAB's revenue in Europe was £424.6 million (2008: £594.7 million), a decrease of 28.6% (a decrease of 35.4% at constant foreign exchange).

Following sharp reductions in volumes in the fourth quarter of 2008, the first quarter of 2009 saw generally stable trading conditions albeit at levels appreciably below those of 2008. The second quarter saw further slippages in both the consumables and equipment businesses as industrial production in Europe continued to deteriorate, whilst ESAB's margins in 2009 were also impacted by short-term price discounting.

During the second half of 2009, overall trading conditions generally stabilized. Summer shutdowns were less severe than had been feared, and there were some tentative signs of recovery, for example in the automotive industry and in Russia, although generally these were patchy and the benefit of these was offset by certain industries, particularly shipbuilding, declining markedly. Year-end shutdowns amongst end-users were generally longer than usual.

Margins in the second half of 2009 showed some recovery, despite further deteriorations in the cutting business.

North America

In 2009, ESAB's revenue in North America was £218.6 million (2008: £238.6 million), a decrease of 8.4% (a decrease of 22.9% at constant foreign exchange).

The North American welding market moved into recession during 2008, ahead of Western Europe, and the further reductions in volumes of consumables and equipment seen during 2009 were less pronounced than in other regions. During this time, ESAB stayed profitable throughout the year, albeit at lower margins than in 2008. ESAB's performance benefited from its strong market positions in the energy and naval shipbuilding sectors, and the measures which it took to reduce headcount and other costs.

South America

In 2009, ESAB's revenue in South America was £171.9 million (2008: £198.0 million), a decrease of 13.2% (a decrease of 19.4% at constant foreign exchange).

After a relatively quiet start to 2009, trading performance improved in the second half of the year, reflecting a recovery in the export sectors of the Brazilian economy in particular. Whilst volumes fell during the worldwide recession in 2009, overall percentage reductions were smaller than seen in Europe and North America.

Rest of world

In 2009, ESAB's revenue in the rest of the world was £216.3 million (2008: £228.5 million), a decrease of 5.3% (a decrease of 19.6% at constant foreign exchange).

During 2009, ESAB made progress towards its objective of increasing sales of welding consumables to domestic Chinese customers. Production was increased at the consumables factory in Weihai with the energy and shipbuilding industries being targeted. Falling levels of demand in Europe and North America during the early part of the year meant that the amount of product exported by ESAB factories in China reduced considerably, although there were marked improvements later in the year.

During 2009, ESAB experienced mixed trading conditions in the Asia Pacific region, with a stronger performance in Indonesia, but less strong in Singapore, Malaysia and the Philippines.

ESAB India saw reduced revenues in 2009 as lower selling prices for its welding consumables more than offset modestly higher sales volumes. Margins were generally maintained.

There were mixed trading conditions in the Middle East during the year, reflecting continued investment in the energy industry but lower levels of activity in construction. ESAB's sales in Africa increased markedly, albeit from a low level.

Associated undertaking

ESAB owns 50% of ESAB SeAH Corporation, situated in South Korea. ESAB's share of the post-tax profits of that company increased to £3.5 million (2008: £3.1 million).

Howden

Six months ended June 30, 2011 and June 30, 2010

The table below presents a summary of Howden's performance for the periods indicated.

Howden records revenue from two markets, being sales of new equipment and sales of aftermarket goods and services. Howden's order book represents confirmed orders which have yet to be fulfilled.

(Millions)	**Six Months Ended**	
	June 30, 2011	**June 30, 2010**
New equipment	£ 171.3	£ 186.5
Aftermarket	116.5	95.1
Revenue	**287.8**	**281.6**
Order book	**591.9**	**438.9**
Operating profit	**41.5**	**28.1**
Adjusted operating profit	**38.9**	**28.8**
Share of post tax profits of associates	—	—
Operating Margin	14.4%	10.0%
Adjusted operating Margin	13.5%	10.2%
Howden: revenue by destination		
Europe	69.1	71.0
Asia	76.3	58.5
North America	54.8	69.1
South America	19.1	18.4
Rest of world	68.5	64.6
Total	**287.8**	**281.6**

Results of operations – six months ended June 30, 2011 compared to six months ended June 30, 2010

Revenue, operating profit and operating margin in the first half of 2011 were all ahead of the same period in 2010. The results in the first half of 2011 included Thomassen Compression Systems which contributed operating profit of £2.9 million following its acquisition in March 2011 which was ahead of expectations.

For the six months ended June 30, 2011, revenue was £287.8 million (2010: £281.6 million), an increase of 2.2%. Of this, new equipment revenue was lower at £171.3 million (2010: £186.5 million) reflecting the order book at the start of 2011, whilst aftermarket revenue increased to £116.5 million (2010: £95.1 million).

Adjusted operating profit was £38.9 million (2010: £28.8 million), an increase of 35.1%. Howden's adjusted operating margin for the period was 13.5% compared to 10.2% for the same period in 2010, which principally reflected the higher share of aftermarket revenue, as a proportion of total revenue, and the benefits of continued strong contract execution. The impact of foreign exchange translation was not material.

As at June 30, 2011, Howden's order book amounted to £591.9 million, compared with £438.9 million at June 30, 2010 and £423.8 million at December 31, 2010. This represents an increase of £153.0 million over the period (of which an immaterial amount was due to exchange movements).

Years ended December 31, 2010, 2009 and 2008

The table below presents a summary of Howden's performance for the periods indicated.

(Millions)	**Year Ended December 31,**		
	2010	**2009**	**2008**
New equipment	£ 358.0	£ 438.6	£ 465.0
Aftermarket	204.0	189.2	162.2
Revenue	**562.0**	**627.8**	**627.2**
Order Book	**423.8**	**441.1**	**499.3**
Operating profit	**64.8**	**68.5**	**73.1**
Adjusted operating profit	**67.8**	**71.5**	**73.6**
Share of profits of associates (post tax)	**(0.2)**	**—**	**0.1**
Operating margin	11.5%	10.9%	11.7%
Adjusted operating margin	12.1%	11.4%	11.7%
Capital expenditure	18.0	18.7	14.2
Depreciation	6.6	5.9	4.6
Research and development expenditure	1.7	1.6	1.1
Average number of employees	3,783	3,819	3,856
Howden: revenue by destination			
Europe	130.4	171.1	165.3
North America	125.1	149.0	181.5
South America	39.3	31.7	30.3
Rest of world	267.2	276.0	250.1
Total	**562.0**	**627.8**	**627.2**

Results of operations – year ended December 31, 2010 compared to year ended December 31, 2009

Overview of performance

Howden achieved revenue and adjusted operating profit of £562.0 million and £67.8 million (2009: £627.8 million and £71.5 million), representing decreases of 10.5% and 5.2% respectively.

The adjusted operating margin was 12.1% (2009: 11.4%), an increase of 0.7 percentage points. During 2010, the decline in Howden's revenue was due to lower sales of new equipment, which fell by 18% to £358 million, reflecting the lower order book at the start of the year. Aftermarket revenues increased by 8% to £204 million, and as such represented 36% of Howden's total revenue. There was a small impact on revenue from currency factors.

Order book

As at December 31, 2010, the order book stood at £423.8 million (2009: £441.1 million), a decrease of 3.9% (6.4% at constant exchange rates). As at December 31, 2010, customers in developed and emerging economies accounted for 40% and 60% respectively of the order book. The order book at December 31, 2010 included some £331 million for delivery in 2011 and £93 million for delivery in 2012 or beyond.

Net orders booked in the year were £533.6 million (2009: £502.6 million), an increase of 6.2%.

Regional markets

Europe

In 2010, Howden's revenue in Europe was £130.4 million (2009: £171.1 million), a decrease of 23.8% (a decrease of 21.5% at constant foreign exchange).

Revenue in Europe decreased as a consequence of lower sales of new equipment across most end-user segments. Aftermarket sales reflected the decision by certain electricity utilities to make less use of coal-fired power plants.

North America

In 2010, Howden's revenue in North America was £125.1 million (2009: £149.0 million), a decrease of 16.0% (a decrease of 16.2% at constant foreign exchange).

Sales of new equipment reflected continued uncertainty over government policy in the United States regarding the control of emissions from coal-fired electricity generation and other heavy industrial equipment and a generally weak industrial sector.

South America

In 2010, Howden's revenue in South America was £39.3 million (2009: £31.7 million), an increase of 24.0% (an increase of 14.6% at constant foreign exchange). The increase reflected Howden successfully building its presence in the region in terms of sales of fans and compressors.

Rest of world

In 2010, Howden's revenue in the rest of the world was £267.2 million (2009: £276.0 million), a decrease of 3.2% (a decrease of 9.5% at constant foreign exchange).

China remained one of Howden's most important markets. New equipment sales reflected the relatively subdued order book at the start of the year but order intake improved as the year progressed. Aftermarket revenues continued to show strong growth.

Howden enhanced its presence in India through a joint venture with Larsen & Toubro, which was established principally in order to supply fans for electricity generation.

In South Africa, where Howden Africa is a supplier to Eskom, the state-owned power utility, revenue showed further growth, assisted by sales to the mining industry.

Results of operations – year ended December 31, 2009 compared to year ended December 31, 2008

Overview of performance

Howden's revenue in 2009 was £627.8 million (2008: £627.2 million), representing a decrease of 12.9% at constant exchange rates. Operating profit was £68.5 million (2008: £73.1 million), a decrease of 6.3%. The operating margin was 10.9% (2008: 11.7%). The outstanding feature of the results was the growth in the aftermarket business, where revenues increased by 17% to £189.2 million, representing 30% of Howden's total revenues for the year. Revenue from new equipment sales fell by 6%, with continued strength in the sales of Howden compressors partly offsetting weaker sales of fans to customers in the power, steel and cement industries.

Order book

The strength of Howden's order book at the start of the year meant that Howden's trading results in 2009 were comparatively unaffected by the difficult economic and financial conditions prevailing during the year. Total order cancellations during the year were £11 million, out of an order book of £499 million on January 1, 2009.

As at December 31, 2009, the order book stood at £441.1 million (2008: £499.3 million), a decrease of 11.7% (22.0% at constant exchange rates), spread broadly equally between Europe, China, North America and other emerging economies. The order book at December 31, 2009 included approximately £340 million for delivery in 2010 and £101 million for delivery in 2011 or beyond.

Orders booked in the year 2009 were £513.6 million (2008: £659.0 million), a reduction of 23%. There was a marked weakening in the ordering of power generation and emission control equipment by customers in China and the United States due to economic and financial conditions and, specifically in the United States, uncertainty over energy policy and emission control legislation. Orders from customers in the metals and cement industries continued to be weak, reflecting the impact of the global recession on the steel and construction sectors. Orders for compressors from customers in the oil and gas industry remained strong.

Regional markets

Europe

In 2009, Howden's revenue in Europe was £171.1 million (2008: £165.3 million), an increase of 3.5% (a decrease of 4.2% at constant foreign exchange).

The increase in revenue in Europe reflected robust sales of Howden new equipment to customers in the power, oil and gas and other industrial sectors and also growth in revenues from aftermarket services. Howden continued to build a presence in the important Russian market with further orders being booked despite the difficult financial conditions in the Russian economy for much of the year.

North America

In 2009, Howden's revenue in North America was £149.0 million (2008: £181.5 million), a decrease of 17.9% (a decrease of 34.0% at constant foreign exchange). This reflected the strong order book with which Howden started the year, primarily for emission control equipment, but orders placed for shipment during the year were relatively weak. The aftermarket business made further progress.

South America

In 2009, Howden's revenue in South America was £31.7 million (2008: £30.3 million), an increase of 4.6% (a decrease of 1.0% at constant foreign exchange).

Following the acquisition in 2008 of Aeolus Industrìa e Comercio Ltda, one of the region's designers and manufacturers of industrial fans, Howden took further steps to increase its presence in the South American market, including the construction of a new and much enhanced facility, completed in mid-2010, to enable an increased range of Howden products to be manufactured locally.

Revenue in 2009 also reflected the supply of new equipment to a major customer in the oil industry in Brazil.

Rest of world

In 2009, Howden's revenue in the rest of the world was £276.0 million (2008: £250.1 million), an increase of 10.4% (a decrease of 4.7% at constant foreign exchange).

Lower sales to customers in China primarily reflected reduced demand from the power industry as electricity usage contracted sharply towards the end of 2008 and in the early part of 2009. Howden's aftermarket revenues in China showed considerable growth, albeit from relatively modest levels, and the business remains on track to achieve its longer-term objectives.

Howden Africa achieved increased revenue driven by new equipment sales to the power and the mining sectors in South Africa. Aftermarket revenues also increased as Eskom accelerated programmes ahead of the 2010 FIFA World Cup.

Howden's sales of compressors in the Middle East benefited from continued high levels of investment in the oil and gas and petrochemical sectors. In recognition of its long-term potential of the region, Howden opened a sales office in Dubai.

Howden's presence in India continued to strengthen with a focus on the petrochemical and power industries.

In Australia, Howden performed well with the industries served generally avoiding the global economic downturn.

Liquidity and capital resources

Overview

Charter is predominantly financed by equity. Charter had net cash as at December 31, 2010 of £1.8 million and net debt at June 30, 2011 of £155.3 million. Net cash/(debt) represents cash at bank and in hand (including cash on deposit) less gross borrowings. The capital structure is kept under review to ensure that it is consistent with current and anticipated future funding needs.

Cash and borrowings

The table below sets out the cash and cash equivalents and borrowing of Charter at June 30, 2011 and December 31, 2010, 2009 and 2008.

(Millions)	**June 30,**	**December 31,**		
	2011	**2010**	**2009**	**2008**
Cash and cash equivalents				
Cash at bank and on hand	£ 81.7	£ 65.1	£ 65.5	£ 76.1
Short-term bank deposits	0.9	10.3	0.6	13.8
Bank deposits with original maturity of more than three months and balances held as cash collateral	7.2	7.9	9.5	5.8
Cash and cash equivalents in the balance sheet	89.8	83.3	75.6	95.7

(Millions)	**June 30,**	**December 31,**		
	2011	**2010**	**2009**	**2008**
Borrowings				
Non-current				
Bank loans – secured	£ 3.2	£ 3.4	£ 4.2	£ 3.8
Bank loans – unsecured	208.7	29.0	—	2.3
Other loans – unsecured	0.1	0.2	0.4	0.4
Finance lease obligations	0.4	0.3	0.3	0.2
	212.4	32.9	4.9	6.7
Current				
Other bank loans – secured	—	—	0.9	—
Other bank loans – unsecured	6.7	33.4	5.0	8.2
Bank overdrafts – secured	—	0.2	0.2	1.0
Bank overdrafts – unsecured	25.4	14.4	12.8	27.5
Finance lease obligations	0.6	0.6	0.9	0.5
	32.7	48.6	19.8	37.2
Total borrowings	245.1	81.5	24.7	43.9

As at September 30, 2011, Charter had net debt of £137.6 million, representing gross borrowings of £233.9 million and cash at bank and in hand (including cash on deposit) of £96.3 million.

The table below sets out the utilization by Charter of its principal committed credit facilities as at September 30, 2011:

Facility	Date	Lender	Maturity Date	Drawings as at September 30, 2011 (£ millions)
£35,000,000 Multicurrency Revolving Facility	September 3, 2008	Bank of China Limited London Branch	February 10, 2015	11
£25,000,000 Multicurrency Revolving Facility	September 3, 2008	Skandinaviska Enskilda Banken AB (publ)	January 10, 2014	22
£100,000,000 Multicurrency Revolving Facility	September 3, 2008	HSBC Bank plc	September 3, 2013	100
£25,000,000 Multicurrency Revolving Facility(1)	November 7, 2008	Barclays Bank PLC	November 7, 2011	0
£50,000,000 Multicurrency Revolving Facility	October 29, 2009	Lloyds TSB Bank plc	March 24, 2015	35
£25,000,000 Multicurrency Revolving Facility	April 11, 2011	Abbey National Treasury Services plc	April 11, 2015	12
£25,000,000 Multicurrency Revolving Facility(2)	April 20, 2011	The Royal Bank of Scotland plc	October 20, 2014	25
Total				205

Notes:

(1) On October 5, 2011, the £25,000,000 Multicurrency Revolving Facility with Barclays Bank PLC was voluntarily cancelled by Charter.

(2) On October 3, 2011, the commitment under the £25,000,000 Multicurrency Revolving Facility with The Royal Bank of Scotland plc was increased to £50,000,000 for a period of one year.

Charter has not entered into any discussions with its committed lenders as to the operation of covenants defined in its committed credit facilities, as they are listed in the above table. No breach of a covenant has occurred.

Cash flows

The cash flow generated by Charter in the six month periods ended June 30, 2011 and June 30, 2010 and for the years ended December 31, 2010, 2009 and 2008 are as follows:

(In millions)	**Six Months Ended June 30,**		**Year Ended December 31,**		
	2011	**2010**	**2010**	**2009**	**2008**
Cash flow					
Net cash flow from operating activities	£ (7.2)	£ 20.4	£ 48.1	£ 125.0	£ 107.8
Net cash flow from investing activities	(128.3)	(32.7)	(58.6)	(63.7)	(107.0)
Net cash flow from financing activities	130.6	10.5	14.3	(63.9)	(32.2)
Currency variations on cash, cash equivalents and bank overdrafts	1.3	0.3	3.9	(5.7)	3.0
Net movements in cash, cash equivalents and bank overdrafts	(3.6)	(1.5)	7.7	(8.3)	(28.4)
Cash flow from debt and lease financing	(152.8)	(34.5)	(53.9)	4.4	(4.8)
(Decrease)/Increase in cash on deposits	(0.6)	(0.3)	(2.3)	4.0	(0.8)
New finance leases	(0.2)	(0.1)	—	(1.3)	(0.4)
Movement in interest accrual	(0.2)	(0.1)	—	—	(0.1)
Currency variations on borrowings and cash deposits	0.3	(0.1)	(0.2)	0.3	(1.9)
Movement in net cash in the period	(157.1)	(36.6)	(49.1)	(0.9)	(36.4)

Net cash flow from operating activities

In the six months ended June 30, 2011, Charter recorded a net cash outflow from operating activities of £7.2 million, compared to a net cash inflow of £20.4 million in the six months ended June 30, 2010. This difference reflects the decrease in operating profit and increased cash being absorbed into working capital.

In the year ended December 31, 2010, Charter recorded a net cash inflow from operating activities of £48.1 million, compared to a net cash inflow of £125.0 million in the year ended December 31, 2009. This increase reflects the increased cash being absorption into working capital, partly offset by increased operating profit.

In the year ended December 31, 2009, Charter recorded a net cash inflow from operating activities of £125.0 million, compared to a net cash inflow of £107.8 million in the year ended December 31, 2008. This was due to a net working capital cash inflow in 2009 compared to an outflow in 2008, partly offset by a decrease in operating profit.

Net cash flow from investing activities

In the six months ended June 30, 2011, Charter recorded a net cash outflow from investing activities of £128.3 million, compared to a net cash outflow of £32.7 million in the six months ended June 30, 2010. The increase was mainly due to the acquisitions of Thomassen and Sychevsky (there were no material acquisitions in 2010).

In the year ended December 31, 2010, Charter recorded a net cash outflow from investing activities of £58.6 million, compared to a net cash outflow of £63.7 million in the year ended December 31, 2009. The decrease principally reflects lower capital expenditure.

In the year ended December 31, 2009, Charter recorded a net cash outflow from investing activities of £63.7 million, compared to a net cash outflow of £107.0 million in the year ended December 31, 2008. The decrease principally reflects lower cash outflows in respect of acquisitions.

Net cash flow from financing activities

In the six months ended June 30, 2011, Charter recorded a net cash inflow from financing activities of £130.6 million, compared to a net cash inflow of £10.5 million in the six months ended June 30, 2010. The increase primarily relates to the increase in long-term borrowings to fund the acquisitions of Thomassen and Sychevsky.

In the year ended December 31, 2010, Charter recorded a net cash inflow from financing activities of £14.3 million, compared to a net cash outflow of £63.9 million in the year ended December 31, 2009. This principally reflects the drawdown of additional cash under Charter's borrowing facilities.

In the year ended December 31, 2009, Charter recorded a net cash outflow from financing activities of £63.9 million, compared to a net cash outflow of £32.2 million in the year ended December 31, 2008. The decrease principally reflects the drawdown of additional cash under Charter's borrowing facilities in 2008 and the settlement of net investment hedges in 2009.

Movements in net cash

In the six months ended June 30, 2011, Charter recorded a net cash outflow of £157.1 million compared to a net cash outflow of £36.6 million in the six months ended June 30, 2010. This principally reflects the cash outflow of £92.7 million in respect of the acquisitions of Thomassen and Sychevsky (there were no material acquisitions in 2010), and increased cash being absorbed into working capital of £57.4 million (2010: £32.7 million).

In the year ended December 31, 2010, Charter recorded a net cash outflow of £49.1 million compared to a net cash outflow of £0.9 million in the year ended December 31, 2009. This primarily reflects a reduction in cash generated from operating activities as the recovery in ESAB's business led to absorption of cash into working capital.

In the year ended December 31, 2009, Charter recorded a net cash outflow of £0.9 million compared to a net cash outflow of £36.4 million in the year ended December 31, 2008. Cash generated from operations increased to £171.5 million (2008: £159.5 million) mainly due to a net working capital cash inflow of £50.7 million compared to an outflow of £55.7 million on 2008. Cash outflow in respect to acquisitions in 2009 was £2.6 million compared £39.4 million in 2008.

Contractual obligations

Charter is party to various contracts and arrangements that obligate it to make cash payments in future years. These contracts include financing arrangements such as debt agreements and leases, as well as contracts for the purchase of goods and services.

The following table is a summary of Charter's contractual obligations as of December 31, 2010 (in £millions):

	Total	**Less than One Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Long-Term Debt Obligations(1)	84.2	49.2	33.1	1.9	—
Capital (Finance) Lease Obligations	0.9	0.6	0.3	—	—
Operating Lease Obligations	46.3	14.3	15.7	6.0	10.3
Purchase Obligations(2)	24.8	12.3	12.5	—	—
Deferred Income Tax Liabilities(3)	38.4	7.4	—	—	31.0
Provisions for Other Liabilities and Charges(4)	60.6	41.4	—	—	19.2
Other Liabilities(5)	404.5	398.7	—	—	5.8
Total(6)	659.7	523.9	61.6	7.9	66.3

(1) The figures related to Long-Term Debt Obligations include future interest payments assuming both fixed and variable interest rates effective as of December 31, 2010 and no prepayments such that the related debt obligation is held until the final maturity date.

(2) Purchase Obligations primarily relate to commitments to purchase property, plant and equipment. Amounts exclude open purchase orders for goods or services that are provided on demand, the timing of which is not certain.

(3) The timings of settlements of non-current Deferred Income Tax Liabilities are uncertain and have been assumed as being settled in more than five years unless the amounts can be reasonably estimated.

(4) Provisions for Other Liabilities and Charges primarily include expected losses on disposals, restructuring, warranty and product liabilities. Due to the nature of these provisions, it is not possible to predict precisely when these provisions will be utilized, though most are expected to be utilized over the short to medium term. These provisions are before taking into account insurance recoveries.

(5) Other Liabilities include amounts recognized on the balance sheet and primarily relate to trade and other payables derivative instruments and amounts due under construction contracts, governments grants and other payables and accruals.

(6) This table excludes post retirement benefit obligations of £170.1 million, as the timing of associated payments is uncertain.

Off-balance sheet arrangements

As is common in industries in which Charter participates, Charter has entered into certain off-balance sheet arrangements in the ordinary course of business that result in risks not directly reflected in Charter's balance sheets.

It is not expected that the potential liability, if any, that may result from such arrangements will have a material adverse effect on Charter's financial condition, results of operations or liquidity. Charter has not engaged in any off-balance sheet financing arrangements through special purpose entities.

Quantitative and Qualitative Disclosures About Market Risk

In addition to the risks inherent in Charter's operations, Charter is exposed to a variety of financial risks, such as market risk (comprising foreign currency exchange and interest rates), credit risk and liquidity risk. Further information can be found in Note 21 to Charter's audited consolidated financial statements. The following analysis provides a summary of Charter's exposure to the financial risks described above.

Market risk

Foreign currency exchange risk:

Given Charter's global operations lead to the recognition of revenue, costs, profit, assets and liabilities in a number of different currencies, particularly in Europe and America, results are impacted when these currencies fluctuate in relative value among themselves and against the British Pound, which is Charter's reporting currency. Subject to board approval, balance sheet translation exposures may be mitigated through the use of currency borrowings, forward foreign exchange contracts or other derivatives. Foreign currency transaction exposures result from sales or purchases by subsidiaries in a currency other than their functional currency. Forward foreign exchange contracts may be used to hedge the net cash flows resulting from these transactions to the extent these are certain or highly probable.

Interest rate risk:

It is Charter's objective to minimize the cost of borrowings and maximize the value from cash resources, whilst retaining the flexibility of funding opportunities. If considered appropriate, Charter would use interest rate swaps, interest rate caps and collars and forward rate agreements to generate the desired interest profile and to manage Charter's exposure to interest rate fluctuations.

Credit risk

The principal credit risks relate to the non-recoverability of trade and other receivables and the failure fo the financial institutions with whom surplus funds are deposited in the short term. Charter's central treasury department monitors regularly the credit status of such counterparties and financial institutions, as well as the location of surplus cash worldwide with credit limits being set and subject to regular review. Charter's maximum exposure to credit risk in relation to financial assets is represented by the amount of cash and cash equivalents, trade and other receivables and derivative financial instruments. Details of the credit risk relating to financial assets are given in Note 14 and Note 15 of Charter's audited consolidated financial statements in relation to trade and other receivables and cash and cash equivalents respectively.

Liquidity risk

Charter's objective is to maintain committed facilities to ensure that, together with cash flows generated from operations, there are sufficient funds for current operations and their future requirements. At December 31, 2010, Charter's centrally held committed facilities totaled £170 million with maturity dates between 2011 and 2013.

Between January 1, 2011 and June 30, 2011, certain facilities with existing banks were increased, and two new facilities were executed such that the total of committed facilities increased to £285 million. One facility for £25 million is still due to expire in 2011 whilst the remaining £260 million of facilities have maturity dates that range between 2013 and 2015. These facilities are unsecured.

Whilst these facilities have certain financial and other covenants, the financial strength of Charter means that the covenants attached to these facilities have not been breached and are not expected to prevent the full utilization of the facilities if required in the future. Charter's central treasury department is responsible for monitoring current and future requirements. It reviews annual strategy plans, budgets and forecasts, as well as weekly cash balances held worldwide to ensure that optimal use is made of liquid funds within the Group and to avoid unnecessary borrowing.

Capital management

Charter aims to manage its capital structure in order to safeguard its ability to continue as a going concern and to provide returns for shareholders and benefits for other stakeholders. Charter may maintain or adjust its capital structure by adjusting the amount of dividends paid to shareholders, returning capital to shareholders, issuing new shares or selling assets.

Capital is monitored primarily by reference to the ratio of net debt to underlying EBITDA, which also assists in ensuring Charter maintains the current strength of its consolidated balance sheet as represented by the level of net debt to equity shareholders' funds.

Critical Accounting Policies

The financial statements have been prepared in accordance with IFRS and the accounting policies set out in the notes to Charter's consolidated financial statements. Charter's principal accounting policies, including Charter's critical accounting estimates and judgments, are set out in note 1 to Charter's audited consolidated financial statements which appear elsewhere in this proxy statement. New standards and interpretations not yet adopted are also disclosed in Note 1 to Chuirchill's audited consolidated financial statements.

Applying accounting policies requires the use of certain judgments, assumptions and estimates that may affect the reported amounts of assets, liabilities, revenue and expenses and the disclosure of contingent assets and liabilities in the financial statements. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates, judgments and assumptions that have been identified as being the most significant and where there is most risk of material adjustment to the carrying value of Charter's assets and liabilities within the next financial year are summarized below:

Construction contracts

Revenue and profit on construction contracts are usually recognized according to the stage of completion of the contract calculated by reference to estimates of contract revenue and expected costs including provisions for warranty and product liability. At December 31, 2010, amounts receivable/payable under construction contracts were £42.5 million (2009: £41.9 million) and £57.7 million (2009: £45.5 million), respectively. Contract retentions held by customers at December 31, 2010 in respect of construction contracts amounted to £28.1 million (2009: £32.4 million). Warranty and product liability provisions at December 31, 2010 of £28.5 million (2009: £30.5 million) mainly relate to construction contracts.

Employee benefits

Provisions for defined benefit post-employment obligations are calculated by independent actuaries. The principal actuarial assumptions and estimates used are based on independent actuarial advice and include the discount rate and estimates of life expectancy. Other key assumptions for defined benefit post-employment obligations are based in part on market conditions at the balance sheet date. Further information is disclosed in Note 20 to Charter's audited consolidated financial statements. At December 31, 2010, the net retirement benefit obligation was £138.7 million (2009: £162.2 million).

Goodwill impairment testing

Capitalized goodwill is tested annually for impairment. Should the carrying value of the goodwill exceed its recoverable amount an impairment loss is recognized. The recoverable amounts are calculated based on the estimated value in use of cash-generating units. These calculations require estimates of cash flows, growth rates and discount rates based on Charter's weighted average cost of capital, adjusted for specific risks associated with particular cash-generating units. Further information regarding these assumptions is set out in Note 10 to Charter's audited consolidated financial statements. At December 31, 2010, the carrying amount of capitalised goodwill was £99.6 million (2009: £92.7 million).

Provisions

Provision is made for liabilities that are uncertain in timing or amount of settlement. These include provisions for legal and environmental claims. Calculations of these provisions are based on cash flows relating to these costs estimated by management supported by the use of external consultants, discounted at an appropriate rate where the impact of discounting is material. At December 31, 2010, these provisions amounted to £21.9 million (2009: £30.6 million).

Tax estimates

Charter's tax charge is based on the profit for the year and tax rates in effect. The determination of appropriate provisions for current and deferred income taxation requires Charter to take into account anticipated decisions of tax authorities and estimate Charter's ability to utilize tax benefits through future earnings, based on approved budgets and forecasts, and tax planning. These estimates and assumptions may differ from future events. At December 31, 2010, net income tax liabilities provided were £15.6 million (2009: £23.4 million) and net deferred income tax assets recognized amounted to £57.8 million (2009: £58.8 million).

PART 8: COLFAX FINANCIAL INFORMATION

Basis of financial information

The following pages set out (a) the unaudited condensed consolidated financial information of Colfax as of and for the six months ended July 1, 2011 and (b) the audited consolidated financial information of Colfax as of and for the years ended December 31, 2010, December 31, 2009 and December 31, 2008, all prepared in accordance with US GAAP.

Colfax's Quarterly Report on Form 10-Q filed with the SEC on July 29, 2011 contains Colfax's unaudited condensed consolidated financial statements for the six months ended July 1, 2011 (prepared in accordance with US GAAP).

Colfax's Annual Report on Form 10-K filed with the SEC on February 25, 2011 contains Colfax's audited consolidated financial statements for the years ended December 31, 2010, December 31, 2009 and December 31, 2008 and at December 31, 2010 and December 31, 2009 (prepared in accordance with US GAAP), together with the audit report in respect of such financial statements.

Colfax's Annual Report on Form 10-K/A filed with the SEC on December 13, 2010 contains Colfax's audited consolidated financial statements for the years ended December 31, 2009, December 31, 2008 and December 31, 2007 and at December 31, 2009 and December 31, 2008 (prepared in accordance with US GAAP), together with the audit report in respect of such financial statements.

PART A: COLFAX UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED JULY 1, 2011 (UNDER US GAAP)

COLFAX CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Dollars in thousands, except per share amounts

(Unaudited)

	Three Months Ended		Six Months Ended	
	July 1, 2011	July 2, 2010	July 1, 2011	July 2, 2010
Net sales	$ 186,749	$ 122,968	$ 345,307	$ 242,939
Cost of sales	122,075	79,987	227,379	158,202
Gross profit	64,674	42,981	117,928	84,737
Selling, general and administrative expense	41,010	28,413	75,948	57,902
Research and development expense	1,493	1,520	3,101	3,148
Restructuring and other related charges	242	3,035	2,219	7,074
Asbestos liability and defense cost	1,920	542	3,253	1,977
Asbestos coverage litigation expense	3,302	4,543	5,368	8,424
Operating income	16,707	4,928	28,039	6,212
Interest expense	1,462	1,718	3,289	3,531
Income before income taxes	15,245	3,210	24,750	2,681
Provision for income taxes	4,855	1,122	7,805	967
Net income	$ 10,390	$ 2,088	$ 16,945	$ 1,714
Net income per share-basic	$ 0.24	$ 0.05	$ 0.39	$ 0.04
Net income per share-diluted	$ 0.23	$ 0.05	$ 0.38	$ 0.04

See Notes to Condensed Consolidated Financial Statements.

COLFAX CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

Dollars in thousands, except share amounts

(Unaudited)

	July 1, 2011	December 31, 2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 64,215	$ 60,542
Trade receivables, less allowance for doubtful accounts of $2,865 and $2,562	103,314	98,070
Inventories, net	78,556	57,941
Deferred income taxes, net	6,565	6,108
Asbestos insurance asset	33,269	34,117
Asbestos insurance receivable	37,477	46,108
Prepaid expenses	9,799	11,851
Other current assets	9,274	6,319
Total current assets	342,469	321,056
Deferred income taxes, net	52,121	52,385
Property, plant and equipment, net	94,423	89,246
Goodwill	189,046	172,338
Intangible assets, net	36,064	28,298
Long-term asbestos insurance asset	329,454	340,234
Long-term asbestos insurance receivable	7,063	5,736
Other assets	12,945	12,784
Total assets	$ 1,063,585	$ 1,022,077
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 10,000	$ 10,000
Accounts payable	57,334	50,896
Accrued asbestos liability	37,098	37,875
Accrued payroll	19,987	21,211
Advance payment from customers	22,189	17,250
Accrued taxes	7,462	6,173
Accrued termination benefits	1,137	2,180
Other accrued liabilities	50,026	45,925
Total current liabilities	205,233	191,510
Long-term debt, less current portion	70,500	72,500
Long-term asbestos liability	381,801	391,776
Pension and accrued post-retirement benefits	112,552	112,257
Deferred income tax liability	16,706	13,529
Other liabilities	22,497	24,134
Total liabilities	809,289	805,706
Shareholders' equity:		
Common stock, $0.001 par value; 200,000,000 shares authorized; 43,570,561 and 43,413,553 issued and outstanding	44	43
Additional paid-in capital	411,686	406,901
Accumulated deficit	(43,113)	(60,058)
Accumulated other comprehensive loss	(114,321)	(130,515)
Total shareholders' equity	254,296	216,371
Total liabilities and shareholders' equity	$ 1,063,585	$ 1,022,077

See Notes to Condensed Consolidated Financial Statements.

COLFAX CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Dollars in thousands

(Unaudited)

	Six Months Ended	
	July 1, 2011	**July 2, 2010**
Cash flows from operating activities:		
Net income	$ 16,945	$ 1,714
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and fixed asset impairment charges	12,199	7,310
Stock-based compensation expense	2,827	1,721
Amortization of deferred loan costs	361	338
Deferred income tax benefit	(1,294)	(3,904)
Changes in operating assets and liabilities, net of acquisitions:		
Trade receivables, net	3,212	9,076
Inventories, net	(10,629)	9,245
Accounts payable and accrued expenses, excluding asbestos-related accrued expenses	(2,421)	(2,692)
Other current assets	(1,310)	(1,084)
Asbestos liability and asbestos-related accrued expenses, net of asbestos insurance asset and receivable	7,030	12,391
Changes in other operating assets and liabilities	1,500	(6,680)
Net cash provided by operating activities	28,420	27,435
Cash flows from investing activities:		
Purchases of fixed assets, net	(6,377)	(5,426)
Acquisitions, net of cash received	(22,299)	—
Net cash used in investing activities	(28,676)	(5,426)
Cash flows from financing activities:		
Payments under term credit facility	(5,000)	(3,750)
Proceeds from borrowings on revolving credit facilities	46,496)	—
Repayments of borrowings on revolving credit facilities	(43,496)	—
Payments on capital leases	—	(205)
Proceeds from stock-based awards	1,771	932
Repurchases of common stock	—	(191)
Net cash used in financing activities	(229)	(3,214)
Effect of foreign exchange rates on cash and cash equivalents	4,158	(5,784)
Increase in cash and cash equivalents	3,673	13,011
Cash and cash equivalents, beginning of period	60,542	49,963
Cash and cash equivalents, end of period	$ 64,215	$ 62,974

See Notes to Condensed Consolidated Financial Statements.

COLFAX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Organization and Nature of Operations

Colfax Corporation (the "Company" or "Colfax") is a global supplier of a broad range of fluid-handling products, including pumps, fluid-handling systems and controls, and specialty valves. The Company has a global manufacturing footprint, with production facilities in Europe, North America and Asia, as well as worldwide sales and distribution channels. The Company's products serve a variety of applications in five strategic end markets: commercial marine, oil and gas, power generation, defense and general industrial. Colfax designs and engineers its products to high quality and reliability standards for use in critical fluid-handling applications where performance is paramount, and it offers customized fluid-handling solutions to meet individual customer needs based on its in-depth technical knowledge of the applications in which its products are used. The Company's products are marketed principally under the Allweiler, Baric, Fairmount Automation, Houttuin, Imo, LSC, Portland Valve, Tushaco, Warren, and Zenith brand names.

2. General

The Condensed Consolidated Financial Statements included in this quarterly report have been prepared by the Company in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC") and accounting principles generally accepted in the United States of America ("GAAP") for interim financial statements.

The Condensed Consolidated Balance Sheet as of December 31, 2010 is derived from the Company's audited financial statements. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted in accordance with the SEC's rules and regulations for interim financial statements. The Condensed Consolidated Financial Statements included herein should be read in conjunction with the audited financial statements and related footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, filed with the SEC on February 25, 2011.

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

The Company makes certain estimates and assumptions in preparing its Condensed Consolidated Financial Statements in accordance with GAAP. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the Condensed Consolidated Financial Statements and the reported amounts of revenues and expenses for the periods presented. Actual results may differ from those estimates.

The results of operations for the three and six months ended July 1, 2011 are not necessarily indicative of the results of operations that may be achieved for the full year. Quarterly results are affected by seasonal variations in the Company's fluid-handling business. As the Company's customers seek to fully utilize capital spending budgets before the end of the year, historically shipments have peaked during the fourth quarter. Also, Colfax's European operations typically experience a slowdown during the July and August holiday season. General economic conditions as well as backlog levels may, however, impact future seasonal variations.

3. Recently Issued Accounting Pronouncement

In October 2009, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") No. 2009-13, "Multiple-Deliverable Revenue Arrangements – a consensus of the FASB Emerging Issues Task Force" ("ASU No. 2009-13"). ASU No. 2009-13 addresses the unit of accounting for arrangements involving multiple deliverables and how arrangement consideration should be allocated to the separate units of accounting. The Company adopted the provisions of ASU No. 2009-13 prospectively beginning January 1, 2011. The adoption of ASU No. 2009-13 did not have a material impact on the Company's Condensed Consolidated Financial Statements.

4. Acquisition

On February 14, 2011, the Company completed the acquisition of Rosscor Holding, B.V. ("Rosscor") for $22.3 million, net of cash acquired and subject to final adjustments under the purchase agreement. Rosscor is a supplier of multiphase pumping technology and certain other highly engineered fluid-handling systems, with its primary operations based in Hengelo, The Netherlands. As a result of this acquisition, the Company has expanded its product offerings in the oil and gas end market to include multiphase pump systems that many of its customers already purchase. The Company accounted for the acquisition using the acquisition method of accounting; accordingly, the Condensed Consolidated Financial Statements include the financial position and results of operations from the date of acquisition. None of the Goodwill recognized is expected to be deductible for income tax purposes.

The following table summarizes the aggregate estimated fair value of the assets acquired and liabilities assumed at the date of acquisition:

(In thousands)	**February 14, 2011**
Trade receivables	$ 8,475
Inventories	11,439
Property, plant and equipment	1,121
Goodwill(1)	10,212
Intangible assets	10,726
Accounts payable	(8,851)
Customer advance payments	(7,466)
Other assets and liabilities, net	(3,357)
Net cash consideration	$ 22,299

(1) Goodwill included in the Condensed Consolidated Balance Sheet increased by $16.7 million from $172.3 million as of December 31, 2010 to $189.0 million as of July 1, 2011, of which $10.2 million relates to the acquisition of Rosscor detailed above and the remaining $6.5 million increase represents the effect of foreign currency translation.

The following table summarizes the Intangible assets acquired, excluding Goodwill:

(In thousands)	**Intangible Asset**	**Weighted-Average Amortization**
Backlog	$ 1,828	0.98
Acquired technology	8,898	20.00
Intangible assets	$ 10,726	16.76

5. Net Income Per Share

Net income per share was computed as follows:

	Three Months Ended		Six Months Ended	
	July 1, 2011	July 2, 2010	July 1, 2011	July 2, 2010
	(In thousands, except share data)			
Net income	$ 10,390	$ 2,088	$ 16,945	$ 1,714
Weighted-average shares of Common stock outstanding – basic	43,615,735	43,351,608	43,556,689	43,296,884
Net effect of potentially dilutive securities(1)	661,499	213,204	647,251	200,064
Weighted-average shares of Common stock outstanding – diluted	44,277,234	43,564,812	44,203,940	43,496,948
Net income per share – basic	$ 0.24	$ 0.05	$0.39	$ 0.04
Net income per share – diluted	$ 0.23	$ 0.05	$ 0.38	$ 0.04

(1) Potentially dilutive securities consist of stock options and restricted stock units.

The weighted-average computation of the dilutive effect of potentially issuable shares of Common stock under the treasury stock method for the three months ended July 1, 2011 and July 2, 2010 excludes approximately 0.5 million and 1.3 million outstanding stock-based compensation awards, respectively, as their inclusion would be anti-dilutive. The weighted-average computation of the dilutive effect of potentially issuable shares of Common stock under the treasury stock method for the six months ended July 1, 2011 and July 2, 2010 excludes approximately 0.5 million and 0.9 million outstanding stock-based compensation awards, respectively, as their inclusion would be anti-dilutive.

6. Income Taxes

For all periods presented, the respective effective tax rate represents the estimated annual tax rate for the year applied to the respective period Income before income tax plus the tax effect of any significant unusual items, discrete items or changes in tax law.

During the three and six months ended July 1, 2011, Income before income taxes was approximately $15.2 million and $24.8 million, respectively, and the Provision for income taxes was $4.9 million and $7.8 million, respectively. The effective tax rates of 31.8% and 31.5% for the three and six months ended July 1, 2011, respectively, differ from the United States (“U.S.”) federal statutory tax rate primarily due to international tax rates which are lower than the U.S. tax rate.

During the three and six months ended July 2, 2010, Income before income taxes was approximately $3.2 million and $2.7 million, respectively, and the Provision for income taxes was $1.1 million and $1.0 million, respectively. The effective tax rate of 35.0% for the three months ended July 2, 2010 is equal to the U.S. federal statutory tax rate as the effect of international tax rates which are lower than the U.S. tax rate was offset by a net increase in the Company’s unrecognized tax liability. The effective tax rate of 36.1% for the six months ended July 2, 2010 differs from the U.S. federal statutory rate due to a net increase in the Company’s unrecognized income tax liability that was partially offset by the effect of international tax rates which are lower than the U.S. tax rate.

The Company is subject to income tax in the U.S. (including state jurisdictions) and international locations. The Company’s significant operations outside the U.S. are located in Germany and Sweden. In Sweden, tax years 2005 to 2010 and in Germany, tax years 2006 to 2010 remain subject to examination. In the U.S., tax years 2005 and beyond generally remain open for examination by U.S. federal and state tax authorities as well as tax years ending in 1997, 1998, 2000 and 2003 that have U.S. tax attributes available that have been carried forward to open tax years or are available to be carried forward to future tax years.

Due to the difficulty in predicting with reasonable certainty when tax audits will be fully resolved and closed, the range of reasonably possible significant increases or decreases in the liability for unrecognized tax benefits that may occur within the next 12 months is difficult to ascertain. Currently, the Company estimates that it is reasonably possible that the expiration of various statutes of limitations and resolution of tax audits may reduce its tax expense in the next 12 months ranging from zero to $5.7 million.

7. Comprehensive Income (Loss)

(In thousands)	Three Months Ended		Six Months Ended	
	July 1, 2011	July 2, 2010	July 1, 2011	July 2, 2010
Net income	$ 10,390	$ 2,088	$ 16,945	$ 1,714
Other comprehensive income (loss):				
Foreign currency translation, net of tax	2,178	(13,239)	12,746	(20,209)
Unrealized loss on hedging activities	(33)	(396)	(133)	(859)
Amounts reclassified to Net income:				
Realized loss on hedging activities	495	728	980	1,461
Net pension and other postretirement benefit cost, net of tax	1,539	780	2,601	1,560
Other comprehensive income (loss)	4,179	(12,127)	16,194	(18,047)
Comprehensive income (loss)	$ 14,569	$ (10,039)	$ 33,139	$ (16,333)

8. Inventories, Net

Inventories, net consisted of the following:

(In thousands)	July 1, 2011	December 31, 2011
Raw materials	$ 28,972	$ 23,758
Work in process	42,658	32,224
Finished goods	26,959	20,121
	98,589	76,103
Less: customer progress billings	(11,183)	(10,385)
Less: allowance for excess, slow-moving and obsolete inventory	(8,850)	(7,777)
Inventories, net	$ 78,556	$ 57,941

Certain prior period amounts in the table above have been reclassified to conform to current year presentation.

9. Debt

Long-term debt consisted of the following:

(In thousands)	July 1, 2011	December 31, 2010
Term credit facility	$ 77,500	$ 82,500
Revolving credit facility	3,000	—
Total Debt	80,500	82,500
Less: current portion of the term credit facility	(10,000)	(10,000)
Long-term debt	$ 70,500	$ 72,500

The Company is party to a credit agreement (the "Credit Agreement"), led and administered by Bank of America, which is a senior secured structure with a revolving credit facility and term credit facility. During the three months ended April 1, 2011, the Credit Agreement was amended to, among other items, eliminate the $6.0 million commitment of a defaulted lender, which resulted in a reduction of the revolving credit facility's total capacity from $150.0 million to $144.0 million. The maturity date of the Credit Agreement is May 13, 2013.

The term credit facility bears interest at the London Interbank Offered Rate plus a margin ranging from 2.25% to 2.75% determined by the total leverage ratio calculated at the end of each quarter. As of July 1, 2011 and December 31, 2010, the interest rate was 2.44% and 2.76%, respectively, inclusive of a margin of 2.25% and 2.50%, respectively.

The revolving credit facility contains a $50.0 million letter of credit sub-facility, a $25.0 million swing line loan sub-facility and permits borrowings in dollars, euros and sterling, subject to certain limits. The annual commitment fee on the revolver ranges from 0.4% to 0.5% determined by the Company's total leverage ratio calculated at the end of each quarter. As of July 1, 2011 and December 31, 2010, the commitment fee was 0.4% and 0.5%, respectively, and there was $20.4 million and $14.1 million outstanding on the letter of credit sub-facility, respectively. As of July 1, 2011, the Company's availability under the revolving credit facility was $120.6 million.

The Company is also party to additional letter of credit facilities with total capacity of $48.8 million and $2.5 million outstanding as of July 1, 2011.

Substantially all assets and stock of the Company's domestic subsidiaries and 65% of the shares of certain European subsidiaries are pledged as collateral against borrowings under the Credit Agreement. Certain European assets are pledged against borrowings directly made to the Company's European subsidiaries. The Credit Agreement contains customary covenants limiting the Company's ability to, among other things, pay cash dividends, incur debt or liens, redeem or repurchase Company stock, enter into transactions with affiliates, make investments, merge or consolidate with others or dispose of assets. In addition, the Credit Agreement contains financial covenants requiring the Company to maintain a total leverage ratio of not more than 3.25 to 1.0 and a fixed charge coverage ratio of not less than 1.50 to 1.0, measured at the end of each quarter. If the Company does not comply with the various covenants under the Credit Agreement and related agreements, the lenders may, subject to various customary cure rights, require the immediate payment of all amounts outstanding under the term credit facility and revolving credit facility and foreclose on the collateral. The Company is in compliance with all such covenants as of July 1, 2011.

10. Share-Based Payments

The Company measures and recognizes compensation expense related to share-based payments based on the fair value of the instruments issued. Stock-based compensation expense is generally recognized as a component of Selling, general and administrative expenses in the Condensed Consolidated Statements of Operations, as payroll costs of the employees receiving the awards are recorded in the same line item.

The Company's Condensed Consolidated Statements of Operations reflect the following amounts related to stock-based compensation:

(In thousands)	Three Months Ended		Six Months Ended	
	July 1, 2011	July 2, 2010	July 1, 2011(1)	July 2, 2010(1)
Stock-based compensation expense	$ 1,111	$ 653	$ 2,827	$ 1,721
Deferred tax benefits	391	234	989	614

(1) Includes approximately $0.2 million of stock-based compensation expense included in Restructuring and other related charges in the Company's Condensed Consolidated Statement of Operations related to the accelerated vesting of certain awards as part of the termination benefits of one employee.

(2) Includes approximately $0.6 million of stock-based compensation expense included in Restructuring and other related charges in the Company's Condensed Consolidated Statement of Operations related to the accelerated vesting of certain awards due to the departure of the Company's former Chief Executive Officer.

As of July 1, 2011, the Company had $9.5 million of unrecognized compensation expense related to stock-based awards that will be recognized over a weighted-average period of approximately 2.3 years.

Stock Options

Stock-based compensation expense for stock option awards is based upon the grant-date fair value using the Black-Scholes option pricing model. The Company recognizes compensation expense for stock option awards on a ratable basis over the requisite service period of the entire award. The following table shows the weighted-average assumptions used to calculate the fair value of stock option awards using the Black-Scholes option pricing model, as well as the weighted-average fair value of options granted during the six months ended July 1, 2011.

	Six Months Ended July 1, 2011
Expected period that options will be outstanding (in years)	4.50
Interest rate (based on U.S. Treasury yields at the time of grant)	2.17%
Volatility	52.50%
Dividend yield	—
Weighted-average fair value of options granted	$ 9.61

Expected volatility is estimated based on the historical volatility of comparable public companies. The Company considers historical data to estimate employee termination within the valuation model. Separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. Since the Company has limited option exercise history, it has elected to estimate the expected life of an award based upon the SEC-approved "simplified method" noted under the provisions of Staff Accounting Bulletin No. 107 with the continued use of this method extended under the provisions of Staff Accounting Bulletin No. 110.

Stock option activity for the six months ended July 1, 2011 is as follows:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value(1) (in thousands)
Outstanding at December 31, 2010	1,540,656	$12.34		
Granted	363,254	21.33		
Exercised	(153,872)	7.21		
Forfeited	(104,505)	11.44		
Expired	(4,307)	21.29		
Outstanding at July 1, 2011	1,641,226	$14.44	5.37	$ 17,793
Vested or expected to vest at July 1, 2011	1,435,319	$15.10	5.38	$ 14,610
Exercisable at July 1, 2011	724,417	$13.11	4.57	$ 8,814

(1) The aggregate intrinsic value is based upon the difference between the Company's closing stock price at the date of the Condensed Consolidated Balance Sheet and the exercise price of the stock option for in-the-money stock options. The intrinsic value of outstanding stock options fluctuates based upon the trading value of the Company's common stock.

Restricted Stock Units

The fair value of each grant of restricted stock units is equal to the market value of the Company's common stock on the date of grant and the compensation expense is recognized ratably over the requisite service period when it is expected that any the performance criterion will be achieved.

The activity in the Company's performance-based restricted stock units ("PRSUs") and restricted stock units ("RSUs") during the six months ended July 1, 2011 is as follows:

	PRSUs		**RSUs**	
	Number of Units	**Weighted-Average Grant Date Fair Value**	**Number of Units**	**Weighted-Average Grant Date Fair Value**
Nonvested at December 31, 2010	283,495	$13.33	83,793	$11.35
Granted	115,922	21.78	20,291	22.05
Vested	—	—	(43,525)	2.97
Forfeited	(38,403)	14.00	—	—
Nonvested at July 1, 2011	361,014	$ 15.76	60,559	$ 13.78

11. Warranty Costs

Estimated expenses related to product warranties are accrued at the time products are sold to customers and included in Cost of sales in the Condensed Consolidated Statements of Operations. Estimates are established using historical information as to the nature, frequency, and average costs of warranty claims.

The activity in the Company's warranty liability, which is included in Other accrued liabilities in the Company's Condensed Consolidated Financial Statements, for the six months ended July 1, 2011 and July 2, 2010 consisted of the following:

(In thousands)	**Six Months Ended**	
	July 1, 2011	**July 2, 2010**
Warranty liability, beginning of period	$ 2,963	$ 2,852
Accrued warranty expense	1,680	477
Changes in estimates related to pre-existing warranties	582	(408)
Cost of warranty service work performed	(1,151)	(429)
Acquisitions	447	—
Foreign exchange translation effect	240	(274)
Warranty liability, end of period	$ 4,761	$ 2,218

12. Restructuring and Other Related Charges

The Company initiated a series of restructuring actions beginning in 2009 in response to then current and expected future economic conditions. During the six months ended July 1, 2011, the Company relocated its Richmond, VA corporate headquarters to Fulton, Maryland in order to provide improved access to international travel and to its key advisors and eliminated an executive position in its German operations. During the three and six months ended July 1, 2011, the Company recorded Restructuring and other related charges of $0.2 million and $2.2 million and made payments of $0.9 million and $3.4 million, respectively, for termination benefits. Restructuring and other related charges for the six months ended July 1, 2011 includes $0.2 million of non-cash stock-based compensation expense. During the three and six months ended July 2, 2010, the Company incurred $3.0 million and $7.1 million, respectively of Restructuring and other related charges. Restructuring and other related charges for the six months ended July 2, 2010 included $2.2 million of termination benefits, of which $0.6 million represents non-cash stock-based compensation expense related to the departure of the Company's former President and Chief Executive Officer ("CEO") in January 2010. The Company expects to incur an additional $0.2

million of employee termination benefit costs, operating lease exit costs and other relocation expenses related to the headquarters relocation during the remainder of 2011.

During the three months ended July 1, 2011, the Company communicated initiatives to improve productivity and reduce structural costs by rationalizing and leveraging its existing assets and back office functions. These initiatives include the consolidation of the Company's commercial marine end market operations, reduction in the back office personnel at several distribution centers in Europe, the closure of a small facility that previously produced units sold to certain customers located in the Middle East that the Company ceased supplying to during the year ended December 31, 2010, and the closure of a Portland, Maine production facility and consolidation of the operations with a Warren, Massachusetts facility. The Company expects that these actions will take place over the course of the third and fourth quarters of 2011 and will incur pre-tax expenses of approximately $6.0 million.

The Company recognizes the cost of involuntary termination benefits at the communication date or ratably over any remaining expected future service period. Voluntary termination benefits are recognized as a liability and an expense when employees accept the offer and the amount can be reasonably estimated.

13. Net Periodic Benefit Cost-Defined Benefit Plans

The following table sets forth the components of net periodic benefit cost of the non-contributory defined benefit pension plans and the Company's other post-retirement employee benefit plans:

(In thousands)	**Three Months Ended**		**Six Months Ended**	
	July 1, 2011	**July 2, 2010**	**July 1, 2011**	**July 2, 2010**
Pension Benefits – U.S. Plans:				
Service cost	$ —	$ —	$ —	$ —
Interest cost		3,125	5,692	6,109
Expected return on plan assets	(4,165)	(4,550)	(8,329)	(8,956)
Amortization	1,313	1,052	2,626	2,103
Net periodic benefit credit	$ (10)	$ (373)	$ (11)	$ (744)
Pension Benefits – Non U.S. Plans:				
Service cost	$334	$291	$622	$604
Interest cost	1,273	1,132	2,487	2,058
Expected return on plan assets	(363)	(410)	(716)	(592)
Amortization	159	83	313	172
Settlement loss(1)	1,476	—	1,476	—
Net periodic benefit cost	$ 2,879	$ 1,096	$ 4,182	$ 2,242
Other Post-Retirement Benefits:				
Service cost	$ —	$ —	$ —	$ —
Interest cost	173	167	345	334
Amortization	213	120	426	240
Net periodic benefit cost	$ 386	$ 287	$ 771	$ 574

(1) During the three and six months ended July 1, 2011, the Company terminated a frozen pension plan of one of its non-U.S. subsidiaries.

Employer contributions to the pension plans during the six months ended July 1, 2011 were $4.6 million, and the Company expects to contribute an additional $3.9 million during the remainder of 2011.

14. Financial Instruments

The carrying values of financial instruments, including Accounts receivable, Accounts payable and Other accrued liabilities approximate their fair values due to their short-term maturities. The estimated fair value of the Company's long-term debt of $80.5 million and $81.6 million as of July 1, 2011 and December 31, 2010, respectively, was based on current interest rates for similar types of borrowings. The estimated fair values may not represent actual values of the financial instruments that could be realized as of the balance sheet date or that will be realized in the future.

A summary of the Company's assets and liabilities that are measured at fair value on a recurring basis for each fair value hierarchy level for the periods presented follows:

(In thousands)	July 1, 2011			
	Level One	Level Two	Level Three	Total
Assets:				
Cash equivalents	$ 8,922	$ —	$ —	$ 8,922
Foreign currency contracts	—	388	—	388
	$ 8,922	$ 388	$ —	$ 9,310
Liabilities:				
Interest rate swap	$ —	$ 941	$ —	$ 941
Foreign currency contracts	—	51	—	51
	$ —	$ 992	$ —	$ 992

(In thousands)	December 31, 2010			
	Level One	Level Two	Level Three	Total
Assets:				
Cash equivalents	$ 24,925	—	$ —	$ 24,925
	$ 24,925	—	$ —	$ 24,925
Liabilities:				
Interest rate swap	$ —	$ 1,789	$ —	$ 1,789
Foreign currency contracts	—	257	—	257
	$ —	$ 2,046	$ —	$ 2,046

There were no transfers in or out of Level One, Two or Three during the six months ended July 1, 2011.

Cash Equivalents

The Company's cash equivalents consist of investments in interest-bearing deposit accounts and money market mutual funds which are valued based on quoted market prices. The fair value of these investments approximate cost due to their short-term maturities and the high credit quality of the issuers of the underlying securities.

Derivatives

The Company periodically enters into foreign currency, interest rate swap, and commodity derivative contracts. The Company uses interest rate swaps to manage exposure to interest rate fluctuations. Foreign currency contracts are used to manage exchange rate fluctuations and generally hedge transactions between the Euro and the U.S. dollar. Commodity futures contracts are used to manage costs of raw materials used in the Company's production processes.

The Company's derivative instruments are measured at fair value on a recurring basis using significant observable inputs and are included in Level Two of the fair value hierarchy.

Interest Rate Swap

The Company's interest rate swap is valued based on forward curves observable in the market. The notional value of the Company's interest rate swap was $25 million and $50 million as of July 1, 2011 and December 31, 2010, respectively, whereby it exchanged its LIBOR-based variable-rate interest for a fixed rate of 4.1375%. On June 30, 2011, the notional value decreased from $50 million to $25 million, and it expires on June 29, 2012. The interest rate swap agreement has been designated as a cash flow hedge, and therefore unrealized gains and losses are recognized in Accumulated other comprehensive loss to the extent that it is effective at offsetting changes in the hedged cash flows. Realized gains and losses are reclassified to Interest expense in the Condensed Consolidated Statements of Operations. There has been no significant ineffectiveness related to this arrangement since its inception. As of July 1, 2011, the Company expects to reclassify $1.0 million of net losses on the interest rate swap from Accumulated other comprehensive loss to Interest expense during the next twelve months.

Foreign Currency Contracts

Foreign currency contracts are measured using broker quotations or observable market transactions in either listed or over-the-counter markets. As of July 1, 2011 and December 31, 2010, the Company had foreign currency contracts with notional values of $8.7 million and $13.1 million, respectively. The fair values of the contracts are recorded in either Other current assets, Other assets, Other accrued liabilities or Other liabilities on the Condensed Consolidated Balance Sheets depending upon their respective expiration date. The Company has not elected hedge accounting for these contracts; therefore, changes in the fair value are recognized as a component of Selling, general and administrative expense in the Condensed Consolidated Statements of Operations.

The Company enters into derivative contracts with financial institutions of good standing, and the total credit exposure related to non-performance by those institutions is not material to the operations of the Company. The Company does not enter into derivative contracts for trading purposes.

The Company recognized the following in its Condensed Consolidated Financial Statements related to its derivative instruments:

(In thousands)	**Three Months Ended**		**Six Months Ended**	
	July 1, 2011	**July 2, 2010**	**July 1, 2011**	**July 2, 2010**
Interest Rate Swap Designated as a Cash Flow Hedge:				
Unrealized loss	$ (33)	$ (396)	$ (133)	$ (859)
Realized loss	(495)	(728)	(980)	(1,461)
Foreign Currency Contracts Not Designated in a Hedge Relationship:				
Unrealized gain (loss), net	274	(407)	700	(658)
Realized gain (loss), net	157	(305)	174	(738)

15. Commitments and Contingencies

Asbestos Liabilities and Insurance Assets

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

The subsidiaries settle asbestos claims for amounts the Company considers reasonable given the facts and circumstances of each claim. The annual average settlement payment per asbestos claimant has fluctuated during the past several years. The Company expects such fluctuations to continue in the future based upon, among other things, the number and type of claims settled in a particular period and the jurisdictions in which such claims arise. To date, the majority of settled claims have been dismissed for no payment.

Of the 22,020 pending claims as of July 1, 2011, approximately 3,400 of such claims have been brought in the Supreme Court of New York County, New York; approximately 1,000 of such claims have been brought in and the U.S. District Court, Eastern and Western Districts of Michigan; approximately 200 of such claims have been brought in the Superior Court, Middlesex County, New Jersey; and approximately 50 claims have been brought in various federal and state courts in Mississippi. The remaining pending claims have been filed in state and federal courts in Alabama, California, Kentucky, Louisiana, Pennsylvania, Rhode Island, Texas, Virginia, the U.S. Virgin Islands and Washington.

Claims activity related to asbestos is as follows[1]:

	Six Months Ended	
	July 1, 2011	July 2, 2010
	(Number of Claims)	
Claims unresolved, beginning of period	24,764	25,295
Claims filed[2]	1,760	2,061
Claims resolved[3]	(4,504)	(2,086)
Claims unresolved, end of period	22,020	25,270

(1) Excludes claims filed by one legal firm that have been ''administratively dismissed.''

(2) Claims filed include all asbestos claims for which notification has been received or a file has been opened.

(3) Claims resolved include all asbestos claims that have been settled, dismissed or that are in the process of being settled or dismissed based upon agreements or understandings in place with counsel for the claimants.

The Company has projected each subsidiary's future asbestos-related liability costs with regard to pending and future unasserted claims based upon the Nicholson methodology. The Nicholson methodology is a standard approach used by experts and has been accepted by numerous courts. It is the Company's policy to record a liability for asbestos-related liability costs for the longest period of time that it can reasonably estimate.

The Company believes that it can reasonably estimate the asbestos-related liability for pending and future claims that will be resolved in the next 15 years and has recorded that liability as its best estimate. While it is reasonably possible that the subsidiaries will incur costs after this period, the Company does not believe the reasonably possible loss or range of reasonably possible loss is estimable at the current time. Accordingly, no accrual has been recorded for any costs which may be paid after the next 15 years. Defense costs associated with asbestos-related liabilities as well as costs incurred related to litigation against the subsidiaries' insurers are expensed as incurred.

Each subsidiary has separate insurance coverage acquired prior to Company ownership of each independent entity. In its evaluation of the insurance asset, the Company used differing insurance allocation methodologies for each subsidiary based upon the applicable law pertaining to the affected subsidiary.

For one of the subsidiaries, the Delaware Court of Chancery ruled on October 14, 2009, that asbestos-related costs should be allocated among excess insurers using an ''all sums'' allocation (which allows an insured to collect all sums paid in connection with a claim from any insurer whose policy is triggered, up to the policy's applicable limits) and that the subsidiary has rights to excess insurance policies purchased by a former owner of the business. Based upon this ruling mandating an ''all sums'' allocation, as well as the language of the underlying insurance policies and the assertion and belief that defense costs are outside policy limits, the subsidiary expects to be responsible for approximately 10% of its future asbestos-related costs.

The subsidiary was notified in 2010 by the primary and umbrella carrier who had been fully defending and indemnifying the subsidiary for 20 years that the limits of liability of its primary and umbrella layer policies had been exhausted. Since then, the subsidiary has sought coverage from certain excess layer insurers whose terms and conditions follow form to the umbrella carrier. Certain first-layer excess insurers have defended and/or indemnified the subsidiary and/or agreed to defend and/or indemnify the subsidiary, subject to their reservations of rights and their applicable policy limits. Litigation between this subsidiary and its excess insurers is continuing and it is anticipated that the trial phase will be completed in 2011. The subsidiary continues to work with its excess insurers to obtain defense and indemnity payments while the litigation is proceeding. Given the uncertainties of litigation, there is a variety of possible outcomes, including but not limited to the subsidiary being required to fund all or a portion of the subsidiary's defense and indemnity payments until such time a final ruling orders payment by the insurers. While not impacting the results of operations, the funding requirement could range up to $10 million per quarter until final resolution.

In 2003, the other subsidiary filed a lawsuit against a large number of its insurers and its former parent to resolve a variety of disputes concerning insurance for asbestos-related bodily injury claims asserted against it. Although none of these insurance companies contested coverage, they disputed the timing, reasonableness and allocation of payments.

For this subsidiary it was determined by court ruling in 2007, that the allocation methodology mandated by the New Jersey courts will apply. Further court rulings in December of 2009, clarified the allocation calculation related to amounts currently due from insurers as well as amounts the Company expects to be reimbursed for asbestos-related costs incurred in future periods.

In connection with this litigation, the court engaged a special master to review the appropriate information and recommend an allocation formula in accordance with applicable law and the facts of the case. During 2010, the court-appointed special allocation master made its recommendation which, in May 2011, the court accepted with modifications. The Company currently anticipates that the final judgment at the trial court level in this litigation will be complete during the remainder of 2011, and appeals may follow. The Company cannot predict the outcome of this litigation with certainty, or whether the outcome will be more or less favorable than its best estimate included in the Condensed Consolidated Financial Statements. Given the uncertainty inherent in litigation, the Company estimates the range of possible results from positive $30 million to negative $30 million relative to is reported insurance assets on its Condensed Consolidated Balance Sheets. The timing of any cash inflows or outflows related to these matters cannot be estimated. The subsidiary expects to be responsible for approximately 15% of all future asbestos-related costs.

The Company has established reserves of $418.9 million and $429.7 million as of July 1, 2011 and December 31, 2010, respectively, for the probable and reasonably estimable asbestos-related liability cost it believes the subsidiaries will pay through the next 15 years. It has also established recoverables of $362.7 million and $374.4 million as of July 1, 2011 and December 31, 2010, respectively, for the insurance recoveries that are deemed probable during the same time period. Net of these recoverables, the expected cash outlay on a non-discounted basis for asbestos-related bodily injury claims over the next 15 years was $56.2 million and $55.3 million as of July 1, 2011 and December 31, 2010, respectively. In addition, the Company has recorded a receivable for liability and defense costs previously paid in the amount of $44.5 million and $51.8 million as of July 1, 2011 and December 31, 2010, respectively, for which insurance recovery is deemed probable. The Company has included the reserves for the asbestos liabilities in Accrued asbestos liability and Long-term asbestos liability and the related insurance recoveries in Asbestos insurance asset and Long-term asbestos insurance asset in the Condensed Consolidated Balance Sheets. The receivable for previously paid liability and defense costs is recorded in Asbestos insurance receivable and Long-term asbestos insurance receivable in the Condensed Consolidated Balance Sheets. The Company also has reflected in Other accrued liabilities $21.3 million and $23.3 million as of July 1, 2011 and December 31, 2010, respectively, for overpayments by certain insurers and unpaid legal costs related to defending itself against asbestos-related liability claims and legal action against the Company's insurers.

The expense related to these liabilities and legal defense was $1.9 million and $3.3 million for the three and six months ended July 1, 2011, respectively, and $0.5 million and $2.0 million for the three and six months ended July 2, 2010, respectively. Legal costs related to the subsidiaries' action against their asbestos insurers were $3.3 million and $5.4 million for the three and six months ended July 1, 2011, respectively, and $4.5 million and $8.4 million for the three and six months ended July 2, 2010, respectively.

Management's analyses are based on currently known facts and a number of assumptions. However, projecting future events, such as new claims to be filed each year, the average cost of resolving each claim, coverage issues among layers of insurers, the method in which losses will be allocated to the various insurance policies, interpretation of the effect on coverage of various policy terms and limits and their interrelationships, the continuing solvency of various insurance companies, the amount of remaining insurance available, as well as the numerous uncertainties inherent in asbestos litigation could cause the actual liabilities and insurance recoveries to be higher or lower than those projected or recorded which could materially affect the Company's financial condition, results of operations or cash flow.

General Litigation

On June 3, 1997, one of the Company's subsidiaries was served with a complaint in a case brought by Litton Industries, Inc. ("Litton") in the Superior Court of New Jersey which alleges damages in excess of $10.0 million incurred as a result of losses under a government contract bid transferred in connection with the sale of its former Electro-Optical Systems business. In 2004, this case was tried and the jury rendered a verdict of $2.1 million for the plaintiffs. After appeals by both parties, the Supreme Court of New Jersey upheld the plaintiffs' right to a refund of their attorney's fees and costs of trial, but remanded the issue to the trial court to reconsider the amount of fees using a proportionality analysis of the relationship between the fee requested and the damages recovered. The date for the new trial on additional claims allowed by the Appellate Division of the New Jersey Superior Court and the recalculation of attorney's fees has not been set. The court issued a schedule for summary judgment motions. After the summary judgment motions have been briefed, the court is expected to issue a ruling. The subsidiary intends to continue to defend this matter vigorously. As of both July 1, 2011 and December 31, 2010, $9.5 million was included in Other liabilities in the Company's Condensed Consolidated Balance Sheets related to this matter.

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 are expected to have a material adverse effect on the financial condition, results of operations or cash flow 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 will either prevail, has adequate insurance coverage or has established appropriate reserves to cover potential liabilities. Any costs that management estimates may be paid related to these proceedings or claims are accrued when the liability is considered probable and the amount can be reasonably estimated. There can be no assurance, however, as to the ultimate outcome of any of these matters, and if all or substantially all of these legal proceedings were to be determined adverse to the Company, there could be a material adverse effect on the financial condition, results of operations or cash flow of the Company.

PART B: COLFAX AUDITED CONSOLIDATED FINANCIAL INFORMATION FOR THE 2010 FINANCIAL YEAR (UNDER US GAAP)

Report of Ernst & Young LLP, Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Colfax Corporation

We have audited the accompanying consolidated balance sheets of Colfax Corporation as of December 31, 2010 and 2009, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2010. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Colfax Corporation at December 31, 2010 and 2009, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Colfax Corporation's internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 25, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Richmond, Virginia

February 25, 2011

COLFAX CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

Dollars in thousands, except per share amounts

	Year ended December 31,		
	2010	**2009**	**2008**
Net sales	$ 541,987	$ 525,024	$ 604,854
Cost of sales	350,579	339,237	387,667
Gross profit	191,408	185,787	217,187
Selling, general and administrative expenses	119,426	112,503	124,105
Research and development expenses	6,205	5,930	5,856
Restructuring and other related charges	10,323	18,175	—
Initial public offering related costs	—	—	57,017
Asbestos liability and defense costs (income)	7,876	(2,193)	(4,771)
Asbestos coverage litigation expenses	13,206	11,742	17,162
Operating income	34,372	39,630	17,818
Interest expense	6,684	7,212	11,822
Income before income taxes	27,688	32,418	5,996
Provision for income taxes	11,473	8,621	5,465
Net income	16,215	23,797	531
Dividends on preferred stock	—	—	(3,492)
Net income (loss) available to common shareholders	$ 16,215	$ 23,797	$ (2,961)
Net income (loss) per share-basic and diluted	$ 0.37	$ 0.55	$ (0.08)

See accompanying notes to consolidated financial statements.

COLFAX CORPORATION

CONSOLIDATED BALANCE SHEETS

Dollars in thousands, except per share amounts

	December 31,	
	2010	**2009**
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 60,542	$ 49,963
Trade receivables, less allowance for doubtful accounts of $2,562 and $2,837	98,070	88,493
Inventories, net	57,941	71,150
Deferred income taxes, net	6,108	7,114
Asbestos insurance asset	34,117	31,502
Asbestos insurance receivable	46,108	35,891
Prepaid expenses	11,851	11,109
Other current assets	6,319	2,426
Total current assets	321,056	297,648
Deferred income taxes, net	52,385	51,838
Property, plant and equipment, net	89,246	92,090
Goodwill	172,338	163,418
Intangible assets, net	28,298	11,952
Long-term asbestos insurance asset	340,234	357,947
Long-term asbestos insurance receivable	5,736	16,876
Deferred loan costs and other assets	12,784	14,532
Total assets	$ 1,022,077	$ 1,006,301
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt and capital leases	$ 10,000	$ 8,969
Accounts payable	50,896	36,579
Accrued asbestos liability	37,875	34,866
Accrued payroll	21,211	17,756
Advance payments from customers	17,250	5,896
Accrued taxes	6,173	2,154
Accrued termination benefits	2,180	9,473
Other accrued liabilities	45,925	35,406
Total current liabilities	191,510	151,099
Long-term debt, less current portion	72,500	82,516
Long-term asbestos liability	391,776	408,903
Pension and accrued post-retirement benefits	112,257	105,230
Deferred income tax liability	13,529	10,375
Other liabilities	24,134	31,353
Total liabilities	805,706	789,476
Shareholders' equity:		
Common stock: $0.001 par value; authorized 200,000,000; issued and outstanding 43,413,553 and 43,229,104	43	43
Additional paid-in capital	406,901	402,852
Accumulated deficit	(60,058)	(76,273)
Accumulated other comprehensive loss	(130,515)	(109,797)
Total shareholders' equity	216,371	216,825
Total liabilities and shareholders' equity	$ 1,022,077	$ 1,006,301

See accompanying notes to consolidated financial statements.

COLFAX CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)

Years ended December 31, 2010, 2009 and 2008
Dollars in thousands

	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2007	$ 1	$ 22	$ 201,660	$ (97,109)	$ (38,138)	$ 66,436
Comprehensive income (loss):						
Net income	—	—	—	531	—	531
Foreign currency translation, net of $-0- tax	—	—	—	—	(10,662)	(10,662)
Unrealized losses on hedging activities, net of $-0- tax	—	—	—	—	(5,815)	(5,815)
Changes in unrecognized pension and postretirement benefit costs, net of $1,731 tax benefit	—	—	—	—	(67,630)	(67,630)
Amounts reclassified to net income:						
Losses on hedging activities, net of $-0- tax	—	—	—	—	766	766
Net pension and other postretirement benefit costs, net of $128 tax expense	—	—	—	—	2,622	2,622
Total comprehensive loss	—	—	—	531	(80,719)	(80,188)
Net proceeds from initial public offering and conversion of preferred stock	(1)	22	192,999	—	—	193,020
Stock repurchase	—	(1)	(5,730)	—	—	(5,731)
Stock-based award activity	—	—	11,330	—	—	11,330
Preferred dividends declared	—	—	—	(3,492)	—	(3,492)
Balance at December 31, 2008	—	43	400,259	(100,070)	(118,857)	181,375
Comprehensive income (loss):						
Net income	—	—	—	23,797	—	23,797
Foreign currency translation, net of $7 tax benefit	—	—	—	—	5,401	5,401
Unrealized losses on hedging activities, net of $-0- tax	—	—	—	—	(866)	(866)
Changes in unrecognized pension and postretirement benefit costs, net of $572 tax benefit	—	—	—	—	(910)	(910)
Amounts reclassified to net income:						
Losses on hedging activities, net of $-0- tax	—	—	—	—	2,881	2,881
Net pension and other postretirement benefit costs, net of $1,438 tax expense	—	—	—	—	2,554	2,554
Total comprehensive income	—	—	—	23,797	9,060	32,857
Stock-based award activity	—	—	2,593	—	—	2,593
Balance at December 31, 2009	—	43	402,852	(76,273)	(109,797)	216,825
Comprehensive income (loss):						
Net income	—	—	—	16,215	—	16,215
Foreign currency translation, net of $1,224 tax benefit	—	—	—	—	(8,260)	(8,260)
Unrealized losses on hedging activities, net of $-0- tax	—	—	—	—	(1,201)	(1,201)
Changes in unrecognized pension and postretirement benefit costs, net of $1,717 tax benefit	—	—	—	—	(18,690)	(18,690)
Amounts reclassified to net income:						
Losses on hedging activities, net of $-0- tax	—	—	—	—	2,447	2,447
Net pension and other postretirement benefit costs, net of $89 tax expense	—	—	—	—	4,986	4,986
Total comprehensive loss	—	—	—	16,215	(20,718)	(4,503)
Stock-based award activity	—	—	4,049	—	—	4,049
Balance at December 31, 2010	$ —	$ 43	$ 406,901	$ (60,058)	$ (130,515)	$ 216,371

See accompanying notes to consolidated financial statements.

COLFAX CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

Dollars in thousands

	Year ended December 31, 2010	2009	2008
Cash flows from operating activities:			
Net income	$ 16,215	$ 23,797	$ 531
Adjustments to reconcile net income to cash provided by (used in) operating activities:			
Depreciation, amortization and fixed asset impairment charges	16,130	15,074	14,788
Noncash stock-based compensation	3,137	2,593	11,330
Write off of deferred loan costs	—	—	4,614
Amortization of deferred loan costs	677	677	934
Loss (gain) on sale of fixed assets	90	(64)	60
Deferred income taxes	(296)	2,689	(13,330)
Changes in operating assets and liabilities, net of acquisitions:			
Trade receivables	(6,060)	16,280	(20,612)
Inventories	11,598	10,763	(15,556)
Accounts payable and accrued liabilities, excluding asbestos related accrued expenses	21,759	(20,899)	7,044
Other current assets	(934)	2,605	(3,285)
Change in asbestos liability and asbestos-related accrued expenses, net of asbestos insurance asset and receivable	9,659	(10,166)	(9,457)
Changes in other operating assets and liabilities	(10,010)	(4,645)	(10,042)
Net cash provided by (used in) operating activities	61,965	38,704	(32,981)
Cash flows from investing activities:			
Purchases of fixed assets	(12,527)	(11,006)	(18,645)
Acquisitions, net of cash received	(27,960)	(1,678)	(439)
Proceeds from sale of fixed assets	74	219	23
Net cash used in investing activities	(40,413)	(12,465)	(19,061)
Cash flows from financing activities:			
Borrowings under term credit facility	—	—	100,000
Payments under term credit facility	(8,750)	(5,000)	(210,278)
Proceeds from borrowings on revolving credit facilities	5,500	—	28,185
Repayments of borrowings on revolving credit facilities	(5,500)	—	(28,158)
Payments on capital leases	(205)	(417)	(309)
Payments for loan costs	—	—	(3,347)
Net proceeds from stock-based awards	912	—	—
Proceeds from the issuance of common stock, net of offering costs	—	—	193,020
Repurchases of common stock	—	—	(5,731)
Dividends paid to preferred shareholders	—	—	(38,546)
Net cash (used in) provided by financing activities	(8,043)	(5,417)	34,836
Effect of exchange rates on cash	(2,930)	379	(2,125)
Increase (decrease) in cash and cash equivalents	10,579	21,201	(19,331)
Cash and cash equivalents, beginning of year	49,963	28,762	48,093
Cash and cash equivalents, end of year	$ 60,542	$ 49,963	$ 28,762
Cash interest paid	$ 6,105	$ 6,615	$ 9,970
Cash income taxes paid	$ 5,819	$ 16,596	$ 18,534

See accompanying notes to consolidated financial statements.

COLFAX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009, 2008 and 2007

Dollars in thousands, unless otherwise noted

1. Organization and Nature of Operations

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

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. The Company owns 44% of the common shares of Sistemas Centrales de Lubricación S.A. de C.V., a Mexican company and 28% of the common shares of Allweiler Al-Farid Pumps Company (S.A.E.), an Egyptian Corporation. These investments are recorded in these financial statements using the equity method of accounting. Accordingly, $7.2 million and $6.6 million are recorded in other assets on the consolidated balance sheets at December 31, 2010 and 2009, respectively. The Company records its share of these investments' net earnings, based on its economic ownership percentage. Accordingly, $1.8 million, $1.5 million and $1.5 million of earnings from equity investments were included as a reduction of selling, general and administrative expenses on the consolidated statements of operations for each of the three years ended December 31, 2010, 2009 and 2008, respectively. All significant intercompany accounts and transactions have been eliminated.

Revenue Recognition

The Company generally recognizes revenues and costs from product sales when all of the following criteria are met: persuasive evidence of an arrangement exists, the price is fixed and determinable, product delivery has occurred or services have been rendered, there are no further obligations to customers, and collectibility is probable. Product delivery occurs when title and risk of loss transfer to the customer. The Company's shipping terms vary based on the contract. If any significant obligations to the customer with respect to such sale remain to be fulfilled following shipments, typically involving obligations relating to installation and acceptance by the buyer, revenue recognition is deferred until such obligations have been fulfilled. Any customer allowances and discounts are recorded as a reduction in reported revenues at the time of sale because these allowances reflect a reduction in the sales price for the products sold. These allowances and discounts are estimated based on historical experience and known trends. Revenue related to service agreements is recognized as revenue over the term of the agreement.

In some cases, customer contracts may include multiple deliverables for product shipments and installation or maintenance labor. Deliverables are determined to be separate units of accounting if they have standalone value and there is no general right of refund. Revenues from product shipments on this type of contract are recognized when title and risk of loss transfer to the customer, and the service revenue components are recognized as services are performed.

In some cases, customers may request that we store products on their behalf until the product is needed. Under these arrangements, revenue is recognized when title and risk of loss have passed to the customer.

Amounts billed for shipping and handling are recorded as revenue. Shipping and handling expenses are recorded as cost of sales. Progress billings are generally shown as a reduction of inventory unless such billings are in excess of accumulated costs, in which case such balances are included in accrued liabilities. The Company accrues for bad debts, as a component of selling, general, and administrative expenses, based upon estimates of amounts deemed uncollectible and a specific review of significant delinquent accounts factoring in current and expected economic conditions. Product return reserves are accrued at the time of sale based on historical rates, and are recorded as a reduction to net sales.

Taxes Collected from Customers and Remitted to Governmental Authorities

The Company collects various taxes and fees as an agent in connection with the sale of products and remits these amounts to the respective taxing authorities. These taxes and fees have been presented on a net basis in the consolidated statements of operations and are recorded as a liability until remitted to the respective taxing authority.

Research and Development

Research and development costs are expensed as incurred.

Advertising

Advertising costs of $0.5 million, $0.5 million, and $0.9 million for years ending December 31, 2010, 2009 and 2008, respectively, are expensed as incurred and have been included in selling, general and administrative expenses.

Cash and Cash Equivalents

Cash and cash equivalents include all financial instruments purchased with an initial maturity of three months or less.

Trade Receivables

Receivables are presented net of allowances for doubtful accounts. The Company records the allowance for doubtful accounts based on its best estimate of probable losses incurred in the collection of accounts receivable. Estimated losses are based on historical collection experience, and are reviewed periodically by management.

Inventories

Inventories include the costs of material, labor and overhead. Inventories are stated at the lower of cost or market. Cost is primarily determined using the first-in, first-out method. The Company periodically reviews its quantities of inventories on hand and compares these amounts to the expected usage of each particular product. The Company records as a charge to cost of sales any amounts required to reduce the carrying value of inventories to net realizable value.

Property, Plant and Equipment

Property, plant and equipment are stated at historical cost, which includes the fair values of such assets acquired. Depreciation of property, plant and equipment is provided for on a straight-line basis over estimated useful lives ranging from three to 40 years. Assets recorded under capital leases are amortized over the shorter of their estimated useful lives or the lease terms. The estimated useful lives or lease terms of assets range from three to 40 years. Repairs and maintenance expenditures are expensed as incurred unless the repair extends the useful life of the asset.

Impairment of Goodwill and Indefinite-Lived Intangible Assets

Goodwill represents the costs in excess of the fair value of net assets acquired associated with acquisitions by the Company. Indefinite-lived intangible assets consist of trade names.

The Company evaluates the recoverability of goodwill and indefinite-lived intangible assets annually or more frequently if an event occurs or circumstances change in the interim that would more likely than not reduce the fair value of the asset below its carrying amount. Goodwill is considered to be impaired when the net book value of a reporting unit exceeds its estimated fair value.

During the year ended December 31, 2010, the Company changed the date of its annual goodwill and indefinite-lived intangible assets impairment testing from the last day of the fourth quarter to the first day of the fourth quarter. The Company adopted this change in timing in order to provide additional time to quantify the fair value of our reporting units and, if necessary, to determine the implied fair value of goodwill. This change in timing will also reduce the likelihood that the annual impairment analysis would not be completed by the required filing date of the Company's annual financial statements. The revised date also better aligns with our strategic planning and budgeting process, which is an integral component of the impairment testing. In accordance with GAAP, the Company will also perform interim impairment testing should circumstances requiring it arise. We believe this accounting change is preferable and does not result in the delay, acceleration, or avoidance of an impairment charge.

In the evaluation of goodwill for impairment, the Company first compares the fair value of the reporting unit to its carrying value. If the carrying value of a reporting unit exceeds its fair value, the goodwill of that reporting unit is potentially impaired and step two of the impairment analysis is performed. In step two of the analysis, an impairment loss is recorded equal to the excess of the carrying value of the reporting unit's goodwill over its implied fair value should such a circumstance arise.

The Company measures fair value of reporting units based on a present value of future discounted cash flows or a market valuation approach. The discounted cash flows model indicates the fair value of the reporting units based on the present value of the cash flows that the reporting units are expected to generate in the future. Significant estimates in the discounted cash flows model include: the weighted average cost of capital; long-term rate of growth and profitability of our business; and working capital effects. The market valuation approach indicates the fair value of the business based on a comparison of the Company against certain market information. Significant estimates in the market approach model include identifying appropriate market multiples and assessing earnings before interest, income taxes, depreciation and amortization (EBITDA) in estimating the fair value of the reporting units.

The analysis performed as of October 2, 2010, and December 31, 2009 and 2008 indicated no impairment to be present.

Impairment of Long-Lived Assets Other than Goodwill and Indefinite-Lived Intangible Assets

Intangibles primarily represent acquired customer relationships, acquired order backlog, acquired technology, software license agreements and patents. Acquired order backlog is amortized in the same period the corresponding revenue is recognized. A portion of the Company's acquired customer relationships is being amortized over seven years based on the present value of the future cash flows expected to be generated from the acquired customers. All other intangibles are being amortized on a straight-line basis over their estimated useful lives, generally ranging from three to 15 years.

The Company assesses its long-lived assets other than goodwill and indefinite-lived intangible assets for impairment whenever facts and circumstances indicate that the carrying amounts may not be fully recoverable. To analyze recoverability, the Company projects undiscounted net future cash flows over the remaining lives of such assets. If these projected cash flows are less than the carrying amounts, an impairment loss would be recognized, resulting in a write-down of the assets with a corresponding charge to earnings. The impairment loss is measured based upon the difference between the carrying amounts and the fair values of the assets. Assets to be disposed of are reported at the lower of the carrying amounts or fair value less cost to sell. Management determines fair value using the discounted cash flow method or other accepted valuation techniques. The Company recorded asset impairment losses totaling $0.6 million in 2009 in connection with the closure of two facilities. No such impairments were recorded in 2010 or 2008.

Derivatives

The Company periodically enters into foreign currency, interest rate swap, and commodity derivative contracts. The Company uses interest rate swaps to manage exposure to interest rate fluctuations. Foreign currency contracts are used to manage exchange rate fluctuations and generally hedge transactions between the Euro and the US dollar. Commodity futures contracts are used to manage costs of raw materials used in the Company's production processes.

The Company enters into such contracts with financial institutions of good standing, and the total credit exposure related to non-performance by those institutions is not material to the operations of the Company. The Company does not enter into contracts for trading purposes.

We designate a portion of our derivative instruments as cash flow hedges for accounting purposes. For all derivatives designated as hedges, we formally document the relationship between the hedging instrument and the hedged item, as well as the risk management objective and the strategy for using the hedging instrument. We assess whether the hedging relationship between the derivative and the hedged item is highly effective at offsetting changes in the cash flows both at inception of the hedging relationship and on an ongoing basis. Any change in the fair value of the derivative that is not effective at offsetting changes in the cash flows or fair values of the hedged item is recognized currently in earnings.

Interest rate swaps and other derivative contracts are recognized on the balance sheet as assets and liabilities, measured at fair value on a recurring basis using significant observable inputs, which is Level 2 as defined in the fair value hierarchy. For transactions in which we are hedging the variability of cash flows, changes in the fair value of the derivative are reported in accumulated other comprehensive income until earnings are affected by the hedged item. Changes in the fair value of derivatives not designated as hedges are recognized currently in earnings.

Self-Insurance

We are self-insured for a portion of our product liability, workers' compensation, general liability, medical coverage and certain other liability exposures. The Company accrues loss reserves up to the retention amounts when such amounts are reasonably estimable and probable. The accompanying consolidated balance sheets include estimated amounts for claims exposure based on experience factors and management estimates for known and anticipated claims as follows:

	December 31,	
	2010	**2009**
Medical insurance	$ 702	$ 697
Workers' compensation	153	189
Total self-insurance reserves	$ 855	$ 886

Warranty Costs

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

Warranty activity for the years ended December 31, 2010 and 2009 consisted of the following:

	2010	**2009**
Warranty liability at beginning of the year	$ 2,852	$ 3,108
Accrued warranty expense, net adjustments	2,079	1,651
Change in estimates related to pre-existing warranties	(589)	(798)
Cost of warranty service work performed	(1,264)	(1,191)
Foreign exchange translation effect	(115)	82
Warranty liability at end of the year	$ 2,963	$ 2,852

Income Taxes

Income taxes for the Company are accounted for under the asset and liability method. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is generally recognized in income in the period that includes the enactment date.

Valuation allowances are recorded if it is more likely than not that some portion of the deferred tax asset will not be realized. In evaluating the need for a valuation allowance, we take into account various factors, including the expected level of future taxable income and available tax planning strategies. If actual results differ from the assumptions made in the evaluation of our valuation allowance, we record a change in valuation allowance through income tax expense or other comprehensive income in the period such determination is made.

Foreign Currency Exchange Gains and Losses

The Company's financial statements are presented in US dollars. The functional currencies of the Company's operating subsidiaries are the local currencies of the countries in which each subsidiary is located. Assets and liabilities denominated in foreign currencies are translated at rates of exchange in effect at the balance sheet date. Revenues and expenses are translated at average rates of exchange in effect during the year. The amounts recorded in each year are net of income taxes to the extent the underlying equity balances in the entities are not deemed to be permanently reinvested.

Transactions in foreign currencies are translated at the exchange rate in effect at the date of each transaction. Differences in exchange rates during the period between the date a transaction denominated in a foreign currency is consummated and the date on which it is either settled or translated for inclusion in the consolidated balance sheets are recognized in the consolidated statements of operations for that period. The foreign currency transaction gain (loss) in income was \$(0.4) million, \$(1.4) million, and \$0.3 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Debt Issuance Costs

Costs directly related to the placement of debt are capitalized and amortized using the straight-line method, which approximates the effective interest method over the term of the related obligation. Amounts written off due to early extinguishment of debt are charged to earnings. Cost and accumulated amortization related to debt issuance costs amounted to approximately \$3.4 million and 1.8 million, respectively, as of December 31, 2010 and \$3.4 million and \$1.1 million, respectively, as of December 31, 2009.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the US requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the periods presented. Actual results could differ from those estimates.

Reclassifications

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

3. Recent Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2009-13, *Multiple-Deliverable Revenue Arrangements – a consensus of the FASB Emerging Issues Task Force*. ASU No. 2009-13 addresses the unit of accounting for arrangements involving multiple deliverables and how arrangement consideration should be allocated to the separate units of accounting. The Company has adopted the provisions of ASU No. 2009-13 prospectively beginning January 1, 2011. The Company does not anticipate a material impact on its results of operations from adopting the provisions of ASU No. 2009-13.

4. Acquisitions

The following acquisitions were accounted for using the acquisition method of accounting and, accordingly, the accompanying financial statements include the financial position and the results of operations from the dates of acquisition.

On August 19, 2010, we completed the acquisition of Baric Group ("Baric") for \$27.0 million, net of cash acquired. During the fourth quarter of 2010, a final working capital settlement of \$0.2 million was paid pursuant to terms of the purchase agreements. Baric is a supplier of highly engineered fluid handling systems primarily for lubrication applications, with its primary operations based in Blyth, United Kingdom. The following table summarizes intangible assets acquired:

	Asset	Weighted Average Amortization Period (years)
Acquired customer relationships	$ 7,053	10.0
Acquired developed technology	6,492	9.6
Backlog	3,339	2.3
Other	395	8.6
Trade names – indefinite life	2,770	
Goodwill	12,940	
Total intangible assets acquired	$ 32,989	

The weighted average amortization period for total acquired amortizing intangibles is approximately 8.3 years. None of the goodwill acquired is expected to be tax deductible.

On August 31, 2009, we completed the acquisition of PD-Technik Ingenieurbüro GmbH ("PD-Technik"), a provider of marine aftermarket related products and services located in Hamburg, Germany, for $1.3 million, net of cash acquired in the transaction.

On November 29, 2007, the Company acquired Fairmount Automation, Inc. ("Fairmount"), an original equipment manufacturer of mission critical programmable automation controllers in fluid handling applications primarily for the US Navy, for $4.5 million plus contingent payments based on achievement of revenue and earnings targets over the three year period ending December 31, 2010. In the fourth quarters of 2009 and 2008, the first two targets were achieved, resulting in payments of $0.4 million in each period, which were recorded as goodwill. In the fourth quarter of 2010, the final target was achieved, resulting in a payment of $0.7 million, which was recorded as goodwill.

5. Income Taxes

Income before income taxes and the components of the provision for income taxes were as follows:

	Year ended December 31,		
	2010	2009	2008
Income (loss) before income tax expense:			
Domestic	$ (12,737)	$ 698	$ (54,303)
Foreign	40,425	31,720	60,299
	$ 27,688	$ 32,418	$ 5,996
Provision for income taxes:			
Current income tax expense (benefit):			
Federal	$ (30)	$ (1,323)	$ (1,145)
State	261	344	239
Foreign	11,538	6,911	19,701
	11,769	5,932	18,795
Deferred income tax expense (benefit):			
Domestic	—	2,241	(12,607)
Foreign	(296)	448	(723)
	(296)	2,689	(13,330)
	$ 11,473	$ 8,621	$ 5,465

US income taxes at the statutory rate reconciled to the overall U.S. and foreign provision for income taxes were as follows:

	Year ended December 31,		
	2010	2009	2008
Tax at U.S. federal income tax rate	$ 9,691	$ 11,346	$ 2,099
State taxes	(5)	34	(1,500)
Effect of international tax rates	(2,522)	(2,260)	(3,342)
Payment of non-deductible underwriting fee	—	—	4,483
Changes in valuation and tax reserves	3,827	(710)	2,903
Other	482	211	822
Provision for income taxes	$ 11,473	$ 8,621	$ 5,465

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the deferred tax assets and liabilities were as follows:

	December 31,			
	2010		2009	
	Current	Long-Term	Current	Long-Term
Deferred tax assets:				
Post-retirement benefit obligations	$ 1,076	$ 28,688	$ 1,003	$ 23,262
Expenses not currently deductible	7,401	30,042	9,552	30,200
Net operating loss carryover	—	49,789	—	42,268
Tax credit carryover	—	5,728	—	5,560
Other	918	823	—	837
Total deferred tax assets	9,395	115,070	10,555	102,127
Valuation allowance for deferred tax assets	(2,987)	(49,904)	(2,649)b	(42,404)
Net deferred tax assets	6,408	65,166	7,906	59,723
Net tax liabilities:				
Depreciation / amortization	—	14,901	—	10,578
Other	503	11,410	1,074	7,680
Total deferred tax liabilities	503	26,311	1,074	18,258
Net deferred tax assets	$ 5,905	38,855	6,832	41,465

For purposes of the balance sheet presentation, the Company nets current and non-current tax assets and liabilities within each taxing jurisdiction. The above table is presented prior to the netting of the current and non-current deferred tax items. The Company evaluates the recoverability of its net deferred tax assets on a jurisdictional basis by considering whether net deferred tax assets will be realized on a more likely than not basis. To the extent a portion or all of the applicable deferred tax assets do not meet the more likely than not threshold, a valuation allowance is recorded. During the year ending December 31, 2010, the valuation allowance increased from $45.1 million to $52.9 million with $4.2 million and $3.6 million of the increase recognized in income tax expense and other comprehensive income, respectively. The $7.8 million net increase in 2010 was primarily attributable to U.S. deferred tax assets the Company believes may not be realized. Consideration was given to U.S. tax planning strategies and future U.S. taxable income as to how much of the relevant deferred tax asset could be realized on a more likely than not basis.

The Company has U.S. net operating loss carryforwards of approximately $130.5 million expiring in years 2021 through 2030, and minimum tax credits of approximately $1.9 million that may be carried forward indefinitely. Tax credit carryforwards include foreign tax credits that have been offset by a valuation allowance. We experienced an "ownership change" within the meaning of Section 382 of the Internal Revenue Code of 1986, as amended, as a result of the IPO. The Company's ability to use these various carryforwards existing at the time of the ownership change to offset any taxable income generated in taxable periods after the ownership change may be limited under Section 382 and other federal tax provisions.

For the years ended December 31, 2010, 2009 and 2008, the Company intends that all undistributed earnings of its controlled international subsidiaries will be reinvested and no tax expense in the United States has been recognized under the applicable accounting standard, for these reinvested earnings. The amount of unremitted earnings from these international subsidiaries, subject to local statutory restrictions, as of December 31, 2010 is approximately $151.5 million. It is not reasonably determinable as to the amount of deferred tax liability that would need to be provided if such earnings were not reinvested.

The Company applies an accounting standard which establishes a single model to address accounting for uncertainty in tax positions. This accounting standard applies to all tax positions and requires a recognition threshold and measurement of a tax position taken or expected to be taken in a tax return. This standard also provides guidance on classification, interest and penalties, accounting in interim periods and transition, and significantly expanded income tax disclosure requirements.

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits is as follows:

Balance at December 31, 2008	$ 0,101
Additions for tax positions in prior periods	73
Additions for tax positions in current period	308
Reductions for tax positions in prior periods	(1,896)
Foreign exchange impact / other	160
Balance at December 31, 2009	8,746
Additions for tax positions in prior periods	590
Additions for tax positions in current period	412
Reductions for tax positions in prior periods	(1,076)
Foreign exchange impact / other	(81)
Balance at December 31, 2010	8,591

The Company's unrecognized tax benefits as of December 31, 2010 and 2009 totaled $8.9 million and $9.3 million inclusive of $0.3 million and $0.5 million of interest and penalties, respectively. These amounts were offset in part by tax benefits of approximately $0.6 million and $0.7 million for the years ended December 31, 2010 and 2009, respectively. The net liabilities for uncertain tax positions for the years ended December 31, 2010 and 2009 were $8.3 million and $8.6 million, respectively, and if recognized, would favorably impact the effective tax rate.

The Company records interest and penalties on uncertain tax positions for post-adoption periods as a component of income tax expense. The interest and penalty expense recorded in income tax expense attributed to uncertain tax positions for the years ended December 31, 2010, 2009 and 2008 was $0.1 million, $0.2 million and $0.2 million, respectively.

The Company is subject to income tax in the U.S., state, and international locations. The Company's significant operations outside the U.S. are located in Germany and Sweden. In Sweden, tax years 2005 to 2010 and in Germany, tax years 2006 to 2010 remain subject to examination. In the U.S., tax years 2005 and beyond generally remain open for examination by U.S. and state tax authorities as well as tax years ending in 1997, 1998, 2000 and 2003 that have U.S. tax attributes available that have been carried forward to open tax years or are available to be carried forward to future tax years.

Due to the difficulty in predicting with reasonable certainty when tax audits will be fully resolved and closed, the range of reasonably possible significant increases or decreases in the liability for unrecognized tax benefits that may occur within the next 12 months is difficult to ascertain. Currently, we estimate it is reasonably possible the expiration of various statutes of limitations and resolution of tax audits may reduce our tax expense in the next 12 months ranging from zero to $5.7 million.

6. Restructuring and Other Related Charges

The Company initiated a series of restructuring actions beginning in 2009 in response to then current and expected future economic conditions. As a result, for the years ended December 31, 2010 and 2009, the Company recorded pre-tax restructuring and other related costs of $10.3 million and $18.2 million, respectively. The costs incurred in the year ended December 31, 2010 include $2.2 million of termination benefits, including $0.6 million of non-cash stock-based compensation expense, related to the departure of the Company's former President and Chief Executive Officer (CEO) in January of 2010. Additionally, the costs incurred in the year ended December 31, 2010 include $1.3 million of termination benefits related to the October 2010 departures of the Company's former Chief Financial Officer and General Counsel. The costs incurred in the year ended December 31, 2009 include a $0.6 million non-cash asset impairment charge related to closure of a repair facility.

As of December 31, 2010, excluding additions from businesses acquired in 2009 and 2010, we have reduced our company-wide workforce by 237 associates from December 31, 2008. Additionally, through the second quarter of 2010, we participated in a German government-sponsored furlough program in which the government paid the wage-related costs for participating associates. Payroll taxes and other employee benefits related to employees' furlough time are included in restructuring costs.

The Company has relocated its Richmond, Virginia corporate headquarters to the Columbia, Maryland area, in order to provide improved access to international travel and to its key advisors. In connection with the move, the Company has incurred $0.6 million of employee termination benefit costs, reflected in restructuring and other related charges, and $0.4 million of other relocation related costs in 2010, which are reflected in selling, general and administrative expenses. We expect to incur an additional $1.5 million of employee termination benefit costs, operating lease exit costs and other relocation expenses related to the headquarters relocation in the first six months of 2011.

During the second quarter of 2009, we closed a repair facility in Aberdeen, NC. Further, during the fourth quarter of 2009, we closed a manufacturing facility in Sanford, NC and moved its production to the Company's facilities in Monroe, NC and Columbia, KY. We recorded non-cash impairment charges of $0.6 million to reduce the carrying value of the real estate and equipment at these facilities to their estimated fair values.

We recognize the cost of involuntary termination benefits at the communication date or ratably over any remaining expected future service period. Voluntary termination benefits are recognized as a liability and a loss when employees accept the offer and the amount can be reasonably estimated. We record asset impairment charges to reduce the carrying amount of long-lived assets that will be sold or disposed of to their estimated fair values. Fair values are estimated using observable inputs including third party appraisals and quoted market prices.

A summary of restructuring activity for the year ended December 31, 2010 is shown below.

	Year Ended December 31, 2010				
	Restructuring Liability at Dec. 31, 2009	Provisions	Payments	Foreign Currency Translation	Restructuring Liability at Dec. 31, 2010
Restructuring and Other Related Charges:					
Termination benefits[1]	$ 9,473	$ 7,610	$ (14,169)	$ (734)	$ 2,180
Furlough charges[2]	—	327	(319)	(8)	—
Facility closure charges[3]	—	909	(909)	—	—
Consulting costs[4]	—	903	(903)	—	—
	$ 9,473	$ 9,749	$ (16,300)	$ (742)	$ 2,180
Non-cash termination benefits[5]		574			
Total		10,323			

(1) Includes severance and other termination benefits such as outplacement services.

(2) Includes payroll taxes and other employee benefits related to German employees' furlough time.

(3) Includes the cost of relocating and training associates and relocating equipment in connection with the closing of the Sanford, NC facility.

(4) Includes outside consulting fees directly related to the Company's restructuring and performance improvement initiatives.

(5) Includes stock-based compensation expense related to the accelerated vesting of certain share-based payments in connection with the departure of the Company's former President and CEO in January 2010.

7. Earnings (Loss) Per Share

The following table presents the computation of basic and diluted earnings (loss) per share:

	Year ended December 31,		
	2010	**2009**	**2008**
Numerator:			
Net income	$ 16,215	$ 23,797	$ 531
Dividends on preferred stock	—	—	(3,492)
Net income (loss) available to common shareholders	$ 16,215	$ 23,797	$ (2,961)
Denominator:			
Weighted-average shares of common stock outstanding – basic	43,389,878	43,222,616	36,240,157
Net income (loss) per share – basic	$ 0.37	$ 0.55	$ (0.08)
Weighted-average shares of common stock outstanding – basic	43,389,878	43,222,616	36,240,157
Net effect of potentally dilutive securities[1]	277,347	103,088	—
Weighted-average shares of common stock outstanding – diluted	43,667,225	43,325,704	36,240,157
Net income (loss) per share – diluted	$ 0.37	$ 0.55	$ (0.08)

(1) Potentially dilutive securities consist of options and restricted stock units.

In the years ended December 31, 2010, 2009 and 2008, respectively, approximately 1.3 million, 0.6 million and 0.5 million potentially dilutive stock options, restricted stock units and deferred stock units were excluded from the calculation of diluted loss per share since their effect would have been anti-dilutive.

8. Inventories

Inventories consisted of the following:

	December 31,	
	2010	2009
Raw materials	$ 23,758	$ 28,445
Work in process	29,565	32,888
Finished goods	20,121	21,013
	73,444	82,346
Less-Customer progress billings	(7,726)	(3,171)
Less-Allowance for excess, slow-moving and obsolete inventory	(7,777)	(8,025)
	$ 57,941	$ 71,150

9. Property, Plant and Equipment

Property, plant and equipment consisted of the following:

	Depreciable Lives in Years	December 31,	
		2010	2009
Land	—	$ 15,106	$ 16,618
Buildings and improvements	3 – 40	39,666	36,651
Machinery and equipment	3 – 15	121,933	119,727
Software	3 – 5	17,063	17,324
		193,768	190,320
Less-Accumulated depreciation		(104,522)	(98,230)
		$ 89,246	$ 92,090

Depreciation expense, including the amortization of assets recorded under capital leases, for the years ended December 31, 2010, 2009 and 2008, was approximately $12.1 million, $11.8 million and $12.1 million, respectively. These amounts include depreciation expense related to software for the years ended December 31, 2010, 2009 and 2008 of $1.9 million, $1.7 million and $2.0 million, respectively.

10. Goodwill and Intangible Assets

Changes in the carrying amount of goodwill during the years ended December 31, 2010 and 2009 are as follows:

	Goodwill
Balance December 31, 2008	$ 161,694
Contingent purchase price payment for Fairmount acquisition	418
Attributable to 2009 acquisition of PD-Technik	6
Impact of changes in foreign exchange rates	1,300
Balance December 31, 2009	163,418
Contingent purchase price payment for Fairmount acquisition	736
Attributable to 2010 acquisition of Baric	12,940
Impact of changes in foreign exchange rates	(4,756)
Balance December 31, 2010	$ 172,338

Other intangible assets consisted of the following:

	December 31,			
	2010		2009	
	Gross Carrying Amount	Accumlated Amortization	Gross Carrying Amount	Accumlated Amortization
Acquired customer relationships	$ 22,084	$ (10,719)	$ 15,512	$ (8,989)
Trade names – indefinite life	4,819	—	2,062	—
Acquired developed technology	12,231	(3,331)	5,811	(2,444)
Acquired backlog of open orders	3,311	(474)	—	—
Other intangibles	591	(214)	146	(146)
	$ 43,036	$ (14,738)	$ 23,531	$ (11,579)

In connection with the acquisition of PD-Technik in 2009, customer relationship intangibles of $0.9 million were acquired and are being amortized over a period of six years.

Amortization expense for the years ended December 31, 2010, 2009 and 2008 was approximately $3.5 million, $2.6 million and $2.7 million, respectively. Amortization expense for the next five fiscal years is expected to be: 2011-$5.3 million, 2012-$5.0 million, 2013-$2.4 million, 2014-$2.1 million, and 2015-$1.7 million.

11. Retirement and Benefit Plans

The Company sponsors various defined benefit plans, defined contribution plans and other post-retirement benefits plans, including health and life insurance, for certain eligible employees or former employees. We use December 31 as the measurement date for all of our employee benefit plans.

As a result of a settlement agreement reached in October of 2010, we assumed directly the pension obligation for a group of former employees of a divested subsidiary in place of an obligation to indemnify the purchaser of the subsidiary for all pension-related costs of the former employees. The pension plan covering those employees transferred the rights to the assets and liabilities to one of our foreign plans. The amounts related to this settlement are reflected as ''Plan combinations'' in the tables below. The net underfunded position of $2.9 million has been recorded as current year pension expense. This expense is substantially offset within SG&A by the reversal of an accrual established in prior years for this matter.

The following table summarizes the changes in our pension and other post-retirement benefit plan obligations and plan assets and includes a statement of the plans' funded status:

	Pension Benefits		Other Post-retirement Benefits	
Year ended December 31,	2010	2009	2010	2009
Change in benefit obligation:				
Projected benefit obligation at beginning of year	$ 306,571	$ 295,165	$ 10,859	$ 10,370
Service cost	1,168	1,381	—	—
Interest cost	16,514	17,577	553	525
Actuarial loss	20,344	10,662	3,671	772
Acquisitions	—	72	—	—
Plan combinations	12,639	—	—	—
Foreign exchange effect	(4,827)	2,958	—	—
Benefits paid	(21,121)	(21,244)	(1,280)	(808)
Projected benefit obligation at end of year	$ 331,288	$ 306,571	$ 13,803	$ 10,859
Accumulated benefit obligation at end of year	$ 327,498	$ 303,598	$ —	$ —
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 209,921	$ 192,859	$ —	$ —
Actual return on plan assets	22,886	29,193	—	—
Employer contribution	10,797	7,517	1,280	808
Acquisitions	—	60	—	—
Plan combinations	9,762	—		
Foreign exchange effect	(1,005)	1,536	—	—
Benefits paid	(21,121)	(21,244)	(1,280)	(808)
Fair value of plan assets at end of year	$ 231,240	$ 209,921	$ —	—
Funded status at end of year	$ (100,048)	$ (96,650)	$ (13,803)	(10,859)
Amounts recognized in the balance sheet at December 31:				
Non-current assets	$ 290	$ 244	$ —	$ —
Current liabilities	(1,050)	(1,114)	(834)	(1,409)
Non-current liabilities	(99,288)	(95,780	(12,969)	(9,450)
Total	$ (100,048)	$ (96,650)	$ (13,803)	$ (10,859)

The accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were $324.8 million and $228.1 million, respectively, as of December 31, 2010 and $301.2 million and $207.2 million, respectively, as of December 31, 2009.

The projected benefit obligation and fair value of plan assets for the pension plans with projected benefit obligations in excess of plan assets were $328.5 million and $228.1 million, respectively, as of December 31, 2010 and $304.1 million and $207.2 million, respectively, as of December 31, 2009.

The following table summarizes the changes in our foreign pension plans' obligations and plan assets, included in the previous disclosure, and includes a statement of the foreign plans' funded status:

	Pension Benefits	
Year ended December 31,	2010	2009
Change in benefit obligation:		
Projected benefit obligation at beginning of year	$ 80,960	$ 80,960
Service cost	1,168	1,168
Interest cost	4,138	4,138
Actuarial loss	5,494	5,494
Acquisitions	—	—
Plan combinations	12,639	12,639
Foreign exchange effect	(4,827)	(4,827)
Benefits paid	(4,436)	(4,436)
Projected benefit obligation at end of year	$ 95,136	$ 95,136
Accumulated benefit obligation at end of year	$ 91,346	$ 91,346
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 24,841	$ 24,841
Actual return on plan assets	1,638	1,638
Employer contribution	3,271	3,271
Acquisitions	—	—
Plan combinations	9,762	9,762
Foreign exchange effect	(1,005)	(1,005)
Benefits paid	(4,436)	(4,436)
Fair value of plan assets at end of year	34,071	34,071
Funded status at end of year	$ (61,065)	$ (61,065)

Expected contributions to the pension plans for 2011 are $6.7 million. The following benefit payments are expected to be paid during the years ending December 31:

	Pension Benefits		Other Post-retirement Benefits
	All Plans	Foreign Plans	
2011	$ 23,080	$ 4,554	$ 834
2012	22,232	4,752	895
2013	22,182	4,833	922
2014	22,228	4,923	932
2015	22,424	5,003	945
Years 2016-2020	110,002	25,782	4,534

The Company's primary investment objective for its pension plan assets is to provide a source of retirement income for the plans' participants and beneficiaries. The assets are invested with the goal of preserving principal while providing a reasonable real rate of return over the long term. Diversification of assets is achieved through strategic allocations to various asset classes. Actual allocations to each asset class vary due to periodic investment strategy changes, market value fluctuations, the length of time it takes to fully implement investment allocation positions, and the timing of benefit payments and contributions. The asset allocation is monitored and rebalanced as required, as frequently as on a quarterly basis in some instances. The following are the actual and target allocation percentages for the Company's pension plan assets:

	Actual Allocation December 31.		
	2010	2009	Target Allocation
United States Plans:			
Equity securities:			
U.S.	34%	39%	32% – 42%
International	16	12	10% – 16%
Fixed income securities	32	34	27% – 43%
Hedge fund	18	15	13% – 20%
Foreign Plans:			
Large cap equity securities	11	15	0% – 20%
Fixed income securities	57	83	80% – 100%
Cash and cash equivalents	32	2	0% – 5%

The large proportion of assets in cash for foreign plans at December 31, 2010 is a temporary situation due to the transfer of assets resulting from the October settlement agreement.

The following table presents the Company's pension plan assets using the fair value hierarchy as of December 31, 2010 and 2009. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value. Level 1 refers to fair values determined based on quoted prices in active markets for identical assets. Level 2 refers to fair values estimated using significant observable inputs, and Level 3 includes fair values estimated using significant unobservable inputs.

	December 31, 2010			
	Total	Level 1	Level 2	Level 3
United States Plans:				
Cash and cash equivalents	$ 3	$ 3	$ —	$ —
Equity mutual funds:				
U.S. large cap	54,086	54,086	—	—
U.S. small / mid-cap	12,339	12,339	—	—
International	32,271	32,271	—	—
Fixed income mutual funds:				
U.S. government and corporate	39,923	39,923	—	—
High yield bonds	16,011	16,011		
Emerging markets debt	6,194	6,194	—	—
Multi-strategy hedge funds	36,342	—	—	36,342
Foreign Plans:				
Cash and cash equivalents	10,638	10,638	—	—
Large cap equity securities	3,885	3,885	—	—
Non-U.S. Government bonds	13,520		13,520	
Other [(a)]	6,028	—	6,028	—
	$ 231,240	$ 175,350	$ 19,548	$ 36,342

(a) This class includes diversified portfolio funds maintained for certain foreign plans.

	December 31, 2009			
	Total	Level 1	Level 2	Level 3
United States Plans:				
Cash and cash equivalents	$ 1,180	$ 1,180	$ —	$ —
Equity mutual funds:				
U.S. large cap	56,400	56,400	—	—
U.S. small / mid-cap	15,992	15,992	—	—
International	22,548	22,548	—	—
Fixed income mutual funds:				
U.S. government and corporate	39,192	39,192	—	—
High yield bonds	11,613	11,613		
Emerging markets debt	11,386	11,386	—	—
Multi-strategy hedge funds	26,769	—	—	26,769
Foreign Plans:				
Cash and cash equivalents	568	568	—	—
Large cap equity securities	3,688	3,688	—	—
Non-U.S. Government bonds	15,498		15,498	
Other [(a)]	5,087	—	5,087	—
	$ 209,921	$ 162,567	$ 20,585	$ 26,769

(a) This class includes diversified portfolio funds maintained for certain foreign plans.

Fixed income securities held by the foreign plans are valued using quotes from independent pricing vendors based on recent trading activity and other relevant information, including market interest rate curves, referenced credit spreads and estimated prepayment rates. The hedge fund investment is valued at the net asset value of units held by the plans at year end.

The table below presents a summary of the changes in the fair value of the Level 3 assets held.

Balance at January 1, 2009	$ 25,983
Unrealized gains	786
Balance at December 31, 2009	26,769
Net purchases and sales	9,036
Realized losses	(316)
Unrealized gains	853
Balance at December 31, 2010	$ 36,342

The components of net periodic cost and other comprehensive loss (income) were as follows:

	Pension Benefits			Other Post-retirement Benefits		
	2010	2009	2008	2010	2009	2008
Components of net periodic benefit cost:						
Service cost	$ 1,168	$ 1,381	$ 1,160	$ —	$ —	$ —
Interest cost	16,514	17,577	17,429	553	525	501
Amortization	4,593	3,639	2,523	482	353	227
Plan combinations	2,877	—	—	—	—	—
Expected return on plan assets	(19,331)	(19,570)	(20,509)	—	—	—
Net periodic benefit cost	$ 5,821	$ 3,027	$ 603	$ 1,035	$ 878	$ 728
Change in plan assets and benefit obligations recognized in other comprehensive loss (income):						
Current year net actuarial loss	16,736	710	66,101	3,671	772	901
Prior service cost	—	—	—	—	—	2,359
Less amounts included in net periodic cost:				—	—	
Amortization of net loss	(4,593)	(3,639)	(2,523)	(234)	(104)	(165)
Amortization of prior service cost	—	—	—	(248)	(249)	(62)
Total recognized in other comprehensive loss (income)	$ 12,143	$ (2,929)	$ 63,578	$ 3,189	$ 419	$ 3,033

The components of net periodic cost and other comprehensive (income) loss for our foreign pension plans, included within the previous disclosure, were as follows:

	Foreign Pension Benefits		
	2010	2009	2008
Components of net periodic benefit cost:			
Service cost	$ 1,168	$ 1,381	$ 1,160
Interest cost	4,138	4,668	4,364
Recognized net actuarial loss	385	808	348
Plan combinations	2,877		
Expected return on plan assets	(1,259)	(1,204)	(1,456)
Net periodic benefit cost	$ 7,309	$5,653	$ 4,416
Change in plan assets and benefit obligations recognized in other comprehensive loss (income):			
Current year net actuarial loss (gain)	5,062	(6,464)	6,339
Less amounts included in net periodic cost:			
Amortization of net loss	(385)	(808)	(348)
Total recognized in other comprehensive loss (income)	$ 4,677	$ (7,272)	$ 5,991

The components of accumulated other comprehensive income that have not been recognized as components of net periodic cost are as follows:

	Pension Benefits		Other Post-retirement Benefits	
	2010	2009	2010	2009
At December 31,				
Net actuarial loss	$ 153,757	$ 141,614	$ 6,774	$ 3,337
Prior service cost	—	—	1,800	2,048
Total	$ 153,757	$ 141,614	$ 8,574	$ 5,385

The components of accumulated other comprehensive income that are expected to be recognized in net periodic cost during the year ended December 31, 2011 are as follows:

	Pension Benefits	Other Post-retirement Benefits
Net actuarial loss	$ 5,854	$ 567
Prior service cost	—	248
Total	$ 5,854	$ 815

The key economic assumptions used in the measurement of the Company's benefit obligations at December 31, 2010 and 2009 are as follows:

	Pension Benefits		Other Post-retirement Benefits	
	2010	2009	2010	2009
Weighted-average discount rate:				
For all plans	5.1%	5.7%	5.2%	5.6%
For all foreign plans	5.4%	5.6%	—	—
Weighted-average rate of increase in compensation levels for active foreign plans	2.6%	2.0%	—	—

The key economic assumptions used in the computation of net periodic benefit cost for the years ended December 31, 2010, 2009 and 2008 are as follows:

	Pension Benefits			Other Post-retirement Benefits		
	2010	2009	2008	2010	2009	2008
Weighted-average discount rate:						
For all plans	5.7%	6.1%	6.0%	5.6%	6.0%	6.3%
For all foreign plans	5.6%	5.8%	4.7%	—	—	—
Weighted-average expected return on plan assets:						
For all plans	8.3%	8.3%	8.3%	—	—	—
For all foreign plans	5.4%	5.0%	5.1%	—	—	—
Weighted-average rate of increase in compensation levels for active foreign plans	2.2%	2.1%	2.2%	—	—	—

In determining discount rates, the Company utilizes the single discount rate equivalent to discounting the expected future cash flows from each plan using the yields at each duration from a published yield curve as of the measurement date.

For measurement purposes, an annual rate of increase in the per capita cost of covered health care benefits of approximately 16.0% was assumed. The rate was assumed to decrease gradually to 5.0% by 2021 and remain at that level thereafter for benefits covered under the plans.

The expected long-term rate of return on plan assets was based on the Company's investment policy target allocation of the asset portfolio between various asset classes and the expected real returns of each asset class over various periods of time that are consistent with the long-term nature of the underlying obligations of these plans.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage point change in assumed health care cost trend rates would have the following pre-tax effects:

	1 Percentage Point Increase	1 Percentage Point Increase
Effect on total service and interest cost components for 2010	$ 52	$ (43)
Effect on post-retirement benefit obligation at December 31, 2010	1,667	(1,358)

The Company maintains defined contribution plans covering substantially all of their non-union domestic employees, as well as certain union domestic employees. Under the terms of the plans, eligible employees may generally contribute from 1% to 50% of their compensation on a pre-tax basis. The Company's contributions are based on 50% of the first 6% of each participant's pre-tax contribution. Additionally, the Company makes a unilateral contribution of 3% of all employees' salary (including non-contributing participants) to the defined contribution plans. The Company's expense for 2010, 2009 and 2008 was $2.4 million, $2.4 million and $2.2 million, respectively, related to these plans.

12. Debt

Long-term debt consisted of the following:

	December 31, 2010	December 31, 2009
Term A notes (senior bank debt)	$ 82,500	$ 91,250
Capital leases and other	—	235
Total debt	82,500	91,485
Less-current portion Term A	(10,000)	(8,750)
Less-current portion capital leases and other	—	(219)
	$ 72,500	$ 82,516

On May 13, 2008, coinciding with the closing of the IPO, the Company terminated its existing credit facility. There were no material early termination penalties incurred as a result of the termination. Deferred loan costs of $4.6 million were written off in connection with this termination. On the same day, the Company entered into a new credit agreement (the Credit Agreement). The Credit Agreement, led by Bank of America Securities LLC and administered by Bank of America, is a senior secured structure with a $150.0 million revolver and a Term A Note of $100.0 million.

The Term A Note bears interest at LIBOR plus a margin ranging from 2.25% to 2.75% determined by the total leverage ratio calculated at quarter end. At December 31, 2010, the interest rate was 2.76% inclusive of 2.50% margin. The Term A Note, as entered into on May 13, 2008, has $2.5 million due on a quarterly basis on the last day of each March, June, September and December beginning with June 30, 2010 and ending March 31, 2013, and one installment of $60.0 million payable on May 13, 2013.

The $150.0 million revolver contains a $50.0 million letter of credit sub-facility, a $25.0 million swing line loan sub-facility and a €100.0 million sub-facility. The annual commitment fee on the revolver ranges from 0.4% to 0.5% determined by the total leverage ratio calculated at quarter end. At December 31, 2010, the commitment fee was 0.5% and there was $14.1 million outstanding on the letter of credit sub-facility. The bankruptcy of Lehman Brothers, one of the financial institutions in the consortium that provided the Company's revolving credit line, resulted in their default under the terms of the revolver and we will not be able to draw on their commitment of $6.0 million, leaving approximately $129.9 million available under the revolver loan. The Credit Agreement was amended on February 14, 2011 to eliminate Lehman Brothers' commitment, thereby reducing the total amount of the revolving credit line to $144.0 million. At December 31, 2009, the commitment fee was 0.4% and there was $14.4 million outstanding on the letter of credit sub-facility, leaving approximately $136 million available under the revolver loan.

Substantially all assets and stock of the Company's domestic subsidiaries and 65% of the shares of certain European subsidiaries are pledged as collateral against borrowings under the Credit Agreement. Certain European assets are pledged against borrowings directly made to our European subsidiary. The Credit Agreement contains customary covenants limiting the Company's ability to, among other things, pay cash dividends, incur debt or liens, redeem or repurchase Company stock, enter into transactions with affiliates, make investments, merge or consolidate with others or dispose of assets. In addition, the Credit Agreement contains financial covenants requiring the Company to maintain a total leverage ratio of not more than 3.25 to 1.0 and a fixed charge coverage ratio of not less than 1.50 to 1.0, measured at the end of each quarter. If the Company does not comply with the various covenants under the Credit Agreement and related agreements, the lenders may, subject to various customary cure rights, require the immediate payment of all amounts outstanding under the Term A Note and revolver and foreclose on the collateral. The Company is in compliance with all such covenants as of December 31, 2010.

The future aggregate annual maturities of long-term debt at December 31, 2010 are:

	Term Debt
2011	$ 10,000
2012	10,000
2013	62,500
Total	$ 82,500

13. Shareholders' Equity

Preferred Stock

On May 13, 2008, pursuant to the amended articles of incorporation, the Company's preferred stock was automatically converted into shares of common stock upon the closing of the IPO, determined by dividing the original issue price of the preferred shares by the issue price of the common shares at the offering date.

The holders of the Company's preferred stock were entitled to receive dividends in preference to any dividend on the common stock at the rate of LIBOR plus 2.50% per annum, when and if declared by the Company's board of directors. Preferred dividends of $3.5 million, $12.2 million and $13.7 million were declared on May 12, 2008, December 31, 2007, and May 15, 2007, respectively. These amounts were paid immediately prior to the consummation of the Company's IPO on May 13, 2008. The holders of the preferred stock did not have voting rights except in certain corporate matters involving the priority and payment rights of such shares.

Stock Split

On April 21, 2008, the Company's board of directors approved a restatement of capital accounts of the Company through an amendment of the Company's certificate of incorporation to provide for a stock split to convert each share of common stock issued and outstanding into 13,436.22841 shares of common stock. The consolidated financial statements give retroactive effect as though the stock split occurred for all periods presented.

Issuance of Common Stock

On May 13, 2008, the Company completed its IPO of 21,562,500 shares of common stock at a per share price of $18.00. Of the 21,562,500 shares sold in the offering, 11,852,232 shares were sold by the Company and 9,710,268 shares were sold by certain selling stockholders. The Company received net proceeds of approximately $193.0 million, net of the underwriter's discount of $14.4 million and offering-related costs of $5.9 million.

Results for the year ended December 31, 2008, include $57.0 million of nonrecurring costs associated with the IPO, including $10.0 million of share-based compensation and $27.8 million of special cash bonuses paid under previously adopted executive compensation plans, as well as $2.8 million of employer payroll taxes and other related costs. It also included $11.8 million to reimburse the selling stockholders for the underwriting discount on the shares sold by them and the write off of $4.6 million of deferred loan costs associated with the early termination of a credit facility.

In 2010 and 2009, 194,999 and 18,078 shares of common stock, respectively, were issued in connection with stock option exercises and employee share-based payment arrangements that vested during the year.

Repurchases of Common Stock

On November 5, 2008, the Company's board of directors authorized the repurchase of up to $20 million (up to $10 million per year in 2008 and 2009) of the Company's common stock from time to time on the open market or in privately negotiated transactions. The repurchase program was conducted pursuant to SEC Rule 10b5-1. The timing and amount of any shares repurchased was determined by the Company's management based on its evaluation of market conditions and other factors. In the fourth quarter of 2008, the Company purchased 795,000 shares of its common stock for approximately $5.7 million. There were no repurchases in 2009 or 2010.

Dividend Restrictions

The Company's Credit Agreement limits the amount of cash dividends and common stock repurchases the Company may make to a total of $10 million annually.

Accumulated Other Comprehensive Income

The components of accumulated other comprehensive income (loss) are as follows:

	December 31,	
	2010	**2009**
Foreign currency translation adjustment	$ 5,928	$ 14,188
Unrealized losses on hedging activities	(1,789)	(3,035)
Net unrecognized pension and other post-retirement benefit costs	(134,654)	(120,950)
Total accumulated other comprehensive loss	$ (130,515)	$ (109,797)

Share-Based Payments

2008 Omnibus Incentive Plan

The Company adopted the Colfax Corporation 2008 Omnibus Incentive Plan (the 2008 Plan) on April 21, 2008. The 2008 Plan provides the compensation committee of the board of directors discretion in creating employee equity incentives. Awards under the 2008 Plan may be made in the form of stock options, stock appreciation rights, restricted stock, restricted stock units, dividend equivalent rights, performance shares, performance units, and other stock-based awards.

The Company measures and recognizes compensation expense relating to share-based payments based on the fair value of the instruments issued. Stock-based compensation expense is recognized as a component of "Selling, general and administrative expenses" in the accompanying consolidated statements of operations as payroll costs of the employees receiving the awards are recorded in the same line item. Stock-based compensation expense related to the departure of the Company's former President and CEO in January 2010 was recognized as a component of "Restructuring and other related charges". In the years ended December 31, 2010, 2009 and 2008, $3.1 million, $2.6 million and $1.3 million, respectively, of compensation cost and deferred tax benefits of approximately $1.1 million, $0.9 million and $0.4 million, respectively, were recognized. Compensation expense for 2010 included $0.6 million related to the former President and CEO's departure. Compensation expense recognized for the former President and CEO reflects the accelerated vesting of certain stock options and performance-based restricted stock units on January 9, 2010. Additional compensation cost of $0.4 million was recognized for the accelerated vesting and extended exercise terms related to the departures of the Company's former Chief Financial Officer and General Counsel. At December 31, 2010, the Company had $5.6 million of unrecognized compensation expense related to stock-based awards that will be recognized over a weighted-average period of approximately 2.0 years. The intrinsic value of awards exercised or converted was $1.2 million and $0.1 million in 2010 and 2009, respectively. There were no awards exercised or converted in 2008. At December 31, 2010, the Company had issued stock-based awards that are described below.

Stock Options

Under the 2008 Plan, the Company may grant options to purchase common stock, with a maximum term of 10 years at a purchase price equal to the market value of the common stock on the date of grant. Or, in the case of an incentive stock option granted to a 10% stockholder, the Company may grant options to purchase common stock with a maximum term of 5 years, at a purchase price equal to 110% of the market value of the common stock on the date of grant. One-third of the options granted pursuant to the 2008 Plan vest on each anniversary of the grant date and the options expire in seven years.

Stock-based compensation expense for stock option awards was based on the grant-date fair value using the Black-Scholes option pricing model. We recognize compensation expense for stock option awards on a ratable basis over the requisite service period of the entire award. The following table shows the weighted-average assumptions we used to calculate fair value of stock option awards using the Black-Scholes option pricing model, as well as the weighted-average fair value of options granted during the years ended December 31, 2010 and 2009.

	Years Ended December 31,		
	2010	2009	2008
Weighted-average assumptions used in Black-Scholes model:			
Expected period that options will be outstanding *(in years)*	4.50	4.50	4.50
Interest rate (based on U.S. Treasury yields at time of grant)	2.38	1.87	3.08
Volatility	52.22	32.50	32.35
Dividend yield	—	—	—
Weighted-average fair value of options granted	$ 5.63	$ 2.24	$ 5.75

Expected volatility is estimated based on the historical volatility of comparable public companies. The Company uses historical data to estimate employee termination within the valuation model. Separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. Since the Company has limited option exercise history, it has elected to estimate the expected life of an award based upon the SEC-approved ''simplified method'' noted under the provisions of Staff Accounting Bulletin No. 107 with the continued use of this method extended under the provisions of Staff Accounting Bulletin No. 110.

Stock option activity for the years ended December 31, 2010 and 2009 is as follows:

	Shares	Weighted-Average Exercise Price	Remaining Contractual Term	Aggregate Intrinsic Value
			(Years)	
Outstanding at January 1, 2008	—	$ —		
Granted	531,999	17.94		
Exercised	—	—		
Forfeited	(17,008)	18.00		
Outstanding at December 31, 2008	514,991	$ 17.93		
Granted	844,165	7.44		
Exercised	—	—		
Forfeited	(91,523)	11.70		
Outstanding at December 31, 2009	1,267,633	11.40		
Granted	756,471	12.48		
Exercised	(152,490)	7.48		
Forfeited	(295,125)	10.71		
Expired	(35,833)	15.94		
Outstanding at December 31, 2010	1,540,656	12.34	5.47	$ 9,380
Vested or expected to vest at December 31, 2010	1,146,682	13.06	5.11	$ 6,162
Exercisable at December 31, 2010	478,052	13.82	4.72	$ 2,214

The aggregate intrinsic value is based on the difference between the Company's closing stock price at the balance sheet date and the exercise price of the stock option, multiplied by the number of in-the-money options. The amount of intrinsic value will change based on the fair value of the Company's stock.

Performance-Based Awards

Under the 2008 Plan, the compensation committee may award performance-based restricted stock and restricted stock units whose vesting is contingent upon meeting various performance goals. The vesting of the stock units is determined based on whether the Company achieves the applicable performance criterion established by the compensation committee of the board of directors. If the performance criteria are satisfied, the units are subject to additional time vesting requirements, by which units will vest fully in two equal installments on the fourth and fifth anniversary of the grant date, provided the individual remains an employee during this period.

The fair value of each grant of performance-based restricted stock or restricted stock units is equal to the market value of a share of common stock on the date of grant and the compensation expense is recognized when it is expected that the performance goals will be achieved. The performance criterion for the performance-based restricted stock units (PRSUs) granted in 2008 was achieved; however, the performance criterion for those granted in 2009 was not achieved and accordingly, no compensation expense for the 2009 grants was recognized. The performance criterion for PRSUs granted in 2010 was achieved, except for those granted to the CEO as part of his initial employment agreement in January. The PRSUs granted to the CEO are subject to separate criterion that may be achieved through 2013.

Other Restricted Stock and Restricted Stock Units

Under the 2008 Plan, the compensation committee may award non-performance based restricted stock and restricted stock units (RSUs) to selected executives, key employees and outside directors. The compensation committee determines the terms and conditions of each award including the restriction period and other criteria applicable to the awards.

The employee RSUs vest either 100% at the 1st anniversary of the grant date or 50% at the 1st anniversary and 50% at the 2nd anniversary of the grant date. The majority of the director RSUs granted to date vest in three equal installments on each anniversary of the grant date over a 3-year period. Directors can also elect to defer their annual board fees into RSUs with immediate vesting. Delivery of the shares underlying these director restricted stock units is deferred until termination of the director's service on the Company's board. The fair value of each restricted stock unit is equal to the market value of a share of common stock on the date of grant.

The following table summarizes the Company's PRSU and RSU and activity for 2010 and 2009:

	PRSUs		PRSUs	
Nonvested shares	**Shares**	**Weighted-Average Grant Date Fair Value**	**Shares**	**Weighted-Average Grant Date Fair Value**
Nonvested at January 1, 2008	—	$ —	—	$ —
Granted	125,041	17.89	73,305	18.00
Vested	—	—	—	—
Forfeited	(694)	18.00	(1,116)	18.00
Nonvested at December 31, 2008	124,347	17.89	72,189	18.00
Granted	337,716	7.44	69,610	8.35
Vested	—	—	(48,871)	15.72
Forfeited	(31,566)	10.69	—	—
Nonvested at December 31, 2009	430,497	10.22	92,928	11.97
Granted	263,454	12.10	44,693	12.88
Vested	(25,000)	18.00	(53,828)	13.69
Forfeited	(385,456)	8.72	—	—
Nonvested at December 31, 2010	283,495	13.33	83,793	11.35

The fair value of shares vested was $1.0 million and $0.4 million in 2010 and 2009, respectively. No shares vested during 2008.

2001 Plan and 2006 Plan

In 2001 and 2006, the board of directors implemented long-term cash incentive plans as a means to motivate senior management or those most responsible for the overall growth and direction of the Company. Certain executive officers participated in the Colfax Corporation 2001 Employee Appreciation Rights Plan (the 2001 Plan) or the 2006 Executive Stock Rights Plan (the 2006 Plan).

Generally, each of these plans provided the applicable officers with the opportunity to receive a certain percentage, in cash (or, with respect to the 2001 Plan only, in equity, at the determination of the Board of Directors), of the increase in value of the Company from the date of grant of the award until the date of the liquidity event.

The 2001 Plan rights fully vested on the third anniversary of the grant date. The 2006 Plan rights vested if a liquidity event occurred prior to the expiration of the term of the plan. Amounts were only payable upon the occurrence of a liquidity event. The Board determined that the IPO qualified as a liquidity event for both plans. In conjunction with the IPO, the participants received a total of 557,597 shares of common stock and approximately $27.8 million in cash payments under the 2001 Plan and 2006 Plan and thereafter both plans terminated. In the year ended December 31, 2008, the Company recognized $10.0 million of stock-based compensation expense associated with the 557,597 shares of common stock awarded and a related tax benefit of approximately $3.8 million.

14. Financial Instruments

The carrying values of financial instruments, including accounts receivable, accounts payable and other accrued liabilities, approximate their fair values due to their short-term maturities. The estimated fair value of the Company's long-term debt of $81.6 million and $88.6 million at December 31, 2010 and 2009, respectively, was based on current interest rates for similar types of borrowings. The estimated fair values may not represent actual values of the financial instruments that could be realized as of the balance sheet date or that will be realized in the future.

A summary of the Company's assets and liabilities that are measured at fair value on a recurring basis for each fair value hierarchy level for the periods presented follows:

	December 31, 2009			
	Total	**Level 1**	**Level 2**	**Level 3**
As of December 31, 2010				
Assets:				
Cash equivalents	$ 24,925	$ 24,925	$ —	$ —
Liabilities:				
Interest rate swap	$ 1,789	—	$ 1,789	—
Foreign currency contracts	257	—	257	—
	2,046	—	2,046	—
As of December 31, 2009				
Assets:				
Cash equivalents	$ 33,846	$ 33,846	$ —	$ —
Liabilities:				
Interest rate swap	$ 3,035	$ —	$ 3,035	$ —
Foreign currency contracts	121	—	121	—
	$ 3,156	$ —	$ 3,156	$ —

There were no significant transfers between level 1 and level 2 during 2010 or 2009.

Cash Equivalents

The Company's cash equivalents consist of investments in interest-bearing deposit accounts and money market mutual funds which are valued based on quoted market prices. The fair value of these investments approximate cost due to their short-term maturities and the high credit quality of the issuers of the underlying securities. Interest rate swaps are valued based on forward curves observable in the market. Foreign currency contracts are measured using broker quotations or observable market transactions in either listed or over-the-counter markets. There were no changes during the periods presented in the Company's valuation techniques used to measure asset and liability fair values on a recurring basis.

Derivatives

The Company periodically enters into foreign currency, interest rate swap, and commodity derivative contracts. The Company uses interest rate swaps to manage exposure to interest rate fluctuations. Foreign currency contracts are used to manage exchange rate fluctuations and generally hedge transactions between the Euro and the U.S. dollar. Commodity futures contracts are used to manage costs of raw materials used in the Company's production processes.

The Company enters into such contracts with financial institutions of good standing, and the total credit exposure related to non-performance by those institutions is not material to the operations of the Company. The Company does not enter into contracts for trading purposes.

We designate a portion of our derivative instruments as cash flow hedges for accounting purposes. For all derivatives designated as hedges, we formally document the relationship between the hedging instrument and the hedged item, as well as the risk management objective and the strategy for using the hedging instrument. We assess whether the hedging relationship between the derivative and the hedged item is highly effective at offsetting changes in the cash flows both at inception of the hedging relationship and on an ongoing basis. Any change in the fair value of the derivative that is not effective at offsetting changes in the cash flows or fair values of the hedged item is recognized currently in earnings.

Interest rate swaps and other derivative contracts are recognized on the balance sheet as assets and liabilities, measured at fair value on a recurring basis using significant observable inputs, which is Level 2 as defined in the fair value hierarchy. For transactions in which we are hedging the variability of cash flows, changes in the fair value of the derivative are reported in accumulated other comprehensive income (loss) (AOCI), to the extent they are effective at offsetting changes in the hedged item, until earnings are affected by the hedged item. Changes in the fair value of derivatives not designated as hedges are recognized currently in earnings.

On June 24, 2008, the Company entered into an interest rate swap with an aggregate notional value of $75 million whereby it exchanged its LIBOR-based variable rate interest for a fixed rate of 4.1375%. The notional value decreased to $50 million on June 30, 2010 and will decrease to $25 million on June 30, 2011, and expires on June 29, 2012. The fair values of the swap agreement, based on third-party quotes, were liabilities of $1.8 million and $3.0 million at December 31, 2010 and 2009, respectively, and are recorded in ''Other long term liabilities'' on the consolidated balance sheet. The swap agreement has been designated as a cash flow hedge, and therefore changes in its fair value are recorded as an adjustment to other comprehensive income. The effective portion of net losses recognized in AOCI during the years ended December 31, 2010, 2009, and 2008 were $1.2 million, $0.9 million and $5.8 million, respectively. There has been no significant ineffectiveness related to this arrangement since its inception. During the years ended December 31, 2010, 2009 and 2008, $2.4 million, $2.9 million and $0.8 million, respectively, of losses on the swap were reclassified from AOCI to interest expense. At December 31, 2010, the Company expects to reclassify $1.4 million of net losses on the interest rate swap from accumulated other comprehensive income to earnings during the next twelve months.

As of December 31, 2010 and 2009, the Company had no open commodity futures contracts, but in previous periods had copper and nickel futures contracts. The Company did not elect hedge accounting for these contracts, and therefore changes in their fair value were recognized in earnings. For the years ended December 31, 2009 and 2008, the consolidated statements of operations include $2.0 million and $(1.7) million, respectively, of unrealized gains (losses) as a result of changes in the fair value of these contracts. Realized (losses) on these contracts of $(1.0) million and $(0.4) million were recognized in the years ended December 31, 2009 and 2008, respectively.

As of December 31, 2010 and 2009, the Company had foreign currency contracts with notional values of $13.1 million and $10.5 million, respectively. The fair values of the contracts were liabilities of $0.3 million and $0.1 million at December 31, 2010 and 2009, respectively and are recorded in ''Other accrued liabilities'' and ''Other liabilities'' on the consolidated balance sheets. The Company has not elected hedge accounting for these contracts; therefore, changes in the fair value are recognized as a component of selling, general and administrative expense. For the years ended December 31, 2010, 2009 and 2008, the consolidated statements of operations include $(0.2) million, $(0.7) million and $0.3 million, respectively, of unrealized gains (losses) as a result of changes in the fair value of these contracts. Realized gains (losses) on these contracts of $(1.4) million, $0.9 million and $(0.3) million were recognized in the years ended December 31, 2010, 2009, and 2008, respectively.

15. Concentration of Credit Risk

In addition to interest rate swaps, financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of trade accounts receivable.

The Company performs credit evaluations of its customers prior to delivery or commencement of services and normally does not require collateral. Letters of credit are occasionally required for international customers when the Company deems necessary. The Company maintains an allowance for potential credit losses and losses have historically been within management's expectations.

The Company may be exposed to credit-related losses in the event of non-performance by counterparties to financial instruments. Counterparties to the Company's financial instruments represent, in general, international financial institutions or well-established financial institutions.

No one customer accounted for 10% or more of the Company's sales in 2010, 2009 or 2008 or accounts receivable at December 31, 2010 or 2009.

16. Related Party Transactions

During 2008, the Company paid a management fee of $0.5 million to Colfax Towers, a party related by common ownership, recorded in selling, general and administrative expenses. This arrangement was discontinued following the Company's IPO in May 2008.

17. Operations by Geographical Area

The Company's operations have been aggregated into a single reportable operating segment for the design, production and distribution of fluid handling products. The operations of the Company on a geographic basis are as follows:

	Years Ended December 31,		
	2010	2009	2008
Net sales by origin:			
United States	$ 183,803	$ 177,373	$ 189,924
Foreign locations:			
Germany	196,399	180,917	239,723
Other	161,785	166,734	175,207
Total foreign locations	358,184	347,651	414,930
Total net sales	$ 541,987	$ 525,024	$ 604,854
Net sales by product:			
Pumps, including aftermarket parts and service	$ 444,907	$ 443,073	$ 529,300
Systems, including installation service	78,598	69,339	58,231
Valves	14,568	10,081	10,094
Other	3,914	2,531	7,229
Total net sales	541,987	525,024	604,854

	December 31,	
	2010	2009
Long-lived assets:		
United States	$ 27,757	$ 24,785
Foreign locations:		
Germany	42,619	48,232
Other	18,870	19,073
Total foreign locations	61,489	67,305
Total long-lived assets	$ 89,246	$ 92,090

18. Commitments and Contingencies

Asbestos Liabilities and Insurance Assets

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

The subsidiaries settle asbestos claims for amounts management considers reasonable given the facts and circumstances of each claim. The annual average settlement payment per asbestos claimant has fluctuated during the past several years. Management expects such fluctuations to continue in the future based upon, among other things, the number and type of claims settled in a particular period and the jurisdictions in which such claims arise. To date, the majority of settled claims have been dismissed for no payment.

Of the 24,764 pending claims, approximately 3,500 of such claims have been brought in various federal and state courts in Mississippi; approximately 3,300 of such claims have been brought in the Supreme Court of New York County, New York; approximately 200 of such claims have been brought in the Superior Court, Middlesex County, New Jersey; and approximately 900 claims have been filed in state courts in Michigan and the U.S. District Court, Eastern and Western Districts of Michigan. The remaining pending claims have been filed in state and federal courts in Alabama, California, Kentucky, Louisiana, Pennsylvania, Rhode Island, Texas, Virginia, the U.S. Virgin Islands and Washington.

Claims activity related to asbestos is as follows[(1)]:

	Years Ended December 31,		
	2010	2009	2008
Claims unresolved at the beginning of the period	25,295	35,357	37,554
Claims filed[(2)]	3,692	3,323	4,729
Claims resolved[(3)]	(4,223)	(13,385)	(6,926)
Claims unresolved at the end of the period	24,764	25,295	35,357
Average cost of resolved claims[(4)]	$ 12,037	$ 11,106	$ 5,378

(1) Excludes claims filed by one legal firm that have been "administratively dismissed."

(2) Claims filed include all asbestos claims for which notification has been received or a file has been opened.

(3) Claims resolved include asbestos claims that have been settled or dismissed or that are in the process of being settled or dismissed based upon agreements or understandings in place with counsel for the claimants.

(4) Average cost of settlement to resolve claims in whole dollars. These amounts exclude claims settled in Mississippi for which the majority of claims have historically been resolved for no payment. These amounts exclude insurance recoveries. The increase in average cost of resolved claims from 2008 to 2009 is driven primarily by a shift in the mix of settled claims from dismissals with no dollar value to mesothelioma settlements.

The Company has projected each subsidiary's future asbestos-related liability costs with regard to pending and future unasserted claims based upon the Nicholson methodology. The Nicholson methodology is a standard approach used by experts and has been accepted by numerous courts. It is the Company's policy to record a liability for asbestos-related liability costs for the longest period of time that it can reasonably estimate.

The Company believes that it can reasonably estimate the asbestos-related liability for pending and future claims that will be resolved in the next 15 years and has recorded that liability as its best estimate. While it is reasonably possible that the subsidiaries will incur costs after this period, the Company does not believe the reasonably possible loss or range of reasonably possible loss is estimable at the current time. Accordingly, no accrual has been recorded for any costs which may be paid after the next 15 years. Defense costs associated with asbestos-related liabilities as well as costs incurred related to litigation against the subsidiaries' insurers are expensed as incurred.

During the third quarter of 2009, an analysis of claims data including filing and dismissal rates, alleged disease mix, filing jurisdiction, as well as settlement values resulted in the determination that the Company should revise its rolling 15-year estimate of asbestos-related liability for pending and future claims. The analysis reflected that a statistically significant increase in mesothelioma filings had occurred and was expected to continue for both subsidiaries. As a result, the Company recorded an $11.6 million pretax charge in the third quarter of 2009, which was comprised of an increase to its asbestos-related liabilities of $111.3 million offset by expected insurance recoveries of $99.7 million.

Each subsidiary has separate insurance coverage acquired prior to Company ownership of each independent entity. In its evaluation of the insurance asset, the Company used differing insurance allocation methodologies for each subsidiary based upon the applicable law pertaining to the affected subsidiary.

In November 2008, one of the subsidiaries entered into a settlement agreement with the primary and umbrella carrier governing all aspects of the carrier's past and future handling of the asbestos related bodily injury claims against the subsidiary. As a result of this agreement, during the third quarter of 2008, the Company increased its insurance asset by $7.0 million attributable to resolution of a dispute concerning certain pre-1966 insurance policies and recorded a corresponding pretax gain. The Company reimbursed the primary insurer for $7.6 million in deductibles and retrospective premiums in the fourth quarter of 2008 and has no further liability to the insurer under these provisions of the primary policies.

For this subsidiary, the Delaware Court of Chancery ruled on October 14, 2009, that asbestos-related costs should be allocated among excess insurers using an ''all sums'' allocation (which allows an insured to collect all sums paid in connection with a claim from any insurer whose policy is triggered, up to the policy's applicable limits) and that the subsidiary has rights to excess insurance policies purchased by a former owner of the business. Based upon this ruling mandating an ''all sums'' allocation, as well as the language of the underlying insurance policies and the assertion and belief that defense costs are outside policy limits, the Company, as of October 2, 2009, increased its future expected recovery percentage from 67% to 90% of asbestos-related costs following the exhaustion of its primary and umbrella layers of insurance and recorded a pretax gain of $17.3 million. The subsidiary expects to be responsible for approximately 10% of its future asbestos-related costs.

During the third quarter of 2010, an insolvent carrier that had written approximately $1.4 million in limits for which this subsidiary had assumed no recovery made a cash settlement offer of approximately $0.7 million. As such, the subsidiary recorded a gain for this amount and a receivable from the insurer.

The subsidiary was notified during the third quarter of 2010 by the primary and umbrella carrier who had been fully defending and indemnifying the subsidiary for twenty years that the limits of liability of its primary and umbrella layer policies had been exhausted. Since then, the subsidiary has sought coverage from certain excess layer insurers whose terms and conditions follow form to the umbrella carrier. Certain first-layer excess insurers have defended and/or indemnified the subsidiary and/or agreed to defend and/or indemnify the subsidiary, subject to their reservations of rights and their applicable policy limits. Litigation between this subsidiary and its excess insurers is continuing and it is anticipated that the trial phase will be completed in 2011. The subsidiary continues to work with its excess insurers to obtain defense and indemnity payments while the litigation is proceeding. Given the uncertainties of litigation, there are a variety of possible outcomes, including but not limited to the subsidiary being required to fund all or a portion of the subsidiary's defense and indemnity payments until such time a final ruling orders payment by the insurers. While not impacting the results of operations, the funding requirement could range up to $10 million per quarter until final resolution.

In 2003, the other subsidiary filed a lawsuit against a large number of its insurers and its former parent to resolve a variety of disputes concerning insurance for asbestos-related bodily injury claims asserted against it. Although none of these insurance companies contested coverage, they disputed the timing, reasonableness and allocation of payments.

For this subsidiary it was determined by court ruling in the fourth quarter of 2007, that the allocation methodology mandated by the New Jersey courts will apply. Further court rulings in December of 2009, clarified the allocation calculation related to amounts currently due from insurers as well as amounts the Company expects to be reimbursed for asbestos-related costs incurred in future periods. As a result, in the fourth quarter of 2009, the Company increased its receivable for past costs by $11.9 million and decreased its insurance asset for future costs by $9.8 million and recorded a pretax gain of $2.1 million.

In connection with this litigation, the court engaged a special master to review the appropriate information and recommend an allocation formula in accordance with applicable law and the facts of the case. During the fourth quarter of 2010, the court-appointed special allocation master made its recommendation which has not yet been accepted by the court. Based upon the recommendation, the Company reduced the current asbestos receivable by $2.3 million, increased the long-term asbestos asset by $0.4 million and recorded a net charge to asbestos liability and defense costs of $1.9 million in the third quarter of 2010. As a result of the current status of this litigation, we decreased the amount currently due from insurers by $0.5 million and decreased the insurance asset for future periods by $1.6 million and recorded a pretax loss of $2.1 million in the fourth quarter of 2010. We currently anticipate that the trial phase in this litigation will be complete in 2011. We cannot predict the outcome of this litigation with certainty, or whether the outcome will be more or less favorable than our best estimate included in the consolidated financial statements. Given the uncertainty inherent in litigation, we would estimate the range of possible results from positive $30 million to negative $30 million relative to our reported insurance assets on our consolidated balance sheets. The timing of any cash inflows or outflows related to these matters cannot be estimated. The subsidiary expects to be responsible for approximately 15% of all future asbestos-related costs.

The Company has established reserves of $429.7 million and $443.8 million as of December 31, 2010 and December 31, 2009, respectively, for the probable and reasonably estimable asbestos-related liability cost it believes the subsidiaries will pay through the next 15 years. It has also established recoverables of $374.4 million and $389.4 million as of December 31, 2010 and December 31, 2009, respectively, for the insurance recoveries that are deemed probable during the same time period. Net of these recoverables, the expected cash outlay on a non-discounted basis for asbestos-related bodily injury claims over the next 15 years was $55.3 million and $54.3 million as of December 31, 2010 and December 31, 2009, respectively. In addition, the Company has recorded a receivable for liability and defense costs previously paid in the amount of $51.8 million and $52.8 million as of December 31, 2010 and December 31, 2009, respectively, for which insurance recovery is deemed probable. The Company has recorded the reserves for the asbestos liabilities as ''Accrued asbestos liability'' and ''Long-term asbestos liability'' and the related insurance recoveries as ''Asbestos insurance asset'' and ''Long-term asbestos insurance asset''. The receivable for previously paid liability and defense costs is recorded in ''Asbestos insurance receivable'' and ''Long-term asbestos insurance receivable''. The Company also has reflected in other accrued liabilities $23.3 million and $15.8 million as of December 31, 2010 and December 31, 2009, respectively, for overpayments by certain insurers and unpaid legal costs related to defending itself against asbestos-related liability claims and legal action against the Company's insurers.

The expense (income) related to these liabilities and legal defense was $7.9 million, net of estimated insurance recoveries, for the year ended December 31, 2010 compared to ($2.2) million and ($4.8) million for the years ended December 31, 2009 and 2008, respectively. Legal costs related to the subsidiaries' action against their asbestos insurers were $13.2 million for the year ended December 31, 2010 compared to $11.7 million and $17.2 million for the years ended December 31, 2009 and 2008, respectively.

Management's analyses are based on currently known facts and a number of assumptions. However, projecting future events, such as new claims to be filed each year, the average cost of resolving each claim, coverage issues among layers of insurers, the method in which losses will be allocated to the various insurance policies, interpretation of the effect on coverage of various policy terms and limits and their interrelationships, the continuing solvency of various insurance companies, the amount of remaining insurance available, as well as the numerous uncertainties inherent in asbestos litigation could cause the actual liabilities and insurance recoveries to be higher or lower than those projected or recorded which could materially affect our financial condition, results of operations or cash flow.

General Litigation

On June 3, 1997, one of our subsidiaries was served with a complaint in a case brought by Litton Industries, Inc. (''Litton'') in the Superior Court of New Jersey which alleges damages in excess of $10.0 million incurred as a result of losses under a government contract bid transferred in connection with the sale of its former Electro-Optical Systems business. In the third quarter of 2004, this case was tried and the jury rendered a verdict of $2.1 million for the plaintiffs. After appeals by both parties, the Supreme Court of New Jersey upheld the plaintiffs' right to a refund of their attorney's fees and costs of trial, but remanded the issue to the trial court to reconsider the amount of fees using a proportionality analysis of the relationship between the fee requested and the damages recovered. The date for the new trial on additional claims allowed by the Appellate Division of the New Jersey Superior Court and the recalculation of attorney's fees has not been set. The subsidiary intends to continue to defend this matter vigorously. At December 31, 2010, the Company's consolidated balance sheet includes a liability, reflected in ''Other liabilities'', related to this matter of $9.5 million.

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

Guarantees

At December 31, 2010, there were $14.1 million of letters of credit outstanding. Additionally, at December 31, 2010, we had issued $16.4 million of bank guarantees securing primarily customer prepayments, performance, and product warranties in our European and Asian operations.

Minimum Lease Obligations

The Company has the following minimum rental obligations under non-cancelable operating leases for certain property, plant and equipment. The remaining lease terms range from 1 to 5 years.

Year ended December 31,	
2011	$ 3,845
2012	2,997
2013	2,126
2014	1,613
2015	1,498
Thereafter	646
Total	$ 12,725

Net rental expense under operating leases was approximately $4.6 million, $4.8 million, and $5.1 million in 2010, 2009 and 2008, respectively.

19. Quarterly Results for 2010 and 2009 (Unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(millions, except per share amounts)			
2010				
Net sales	$ 119,971	$ 122,968	$ 132,397	$ 166,651
Gross profit	41,756	42,981	47,097	59,574
Net (loss) income	(374)	2,088	5,851	8,650
Net (loss) income per share – basic and diluted	$ (0.01)	$ 0.05	$ 0.13	$ 0.20
2009				
Net sales	$ 136,323	$ 129,185	$ 128,545	$ 130,971
Gross profit	48,015	44,555	46,206	47,011
Net income	7,065	4,476	5,530	6,726
Net income per share – basic	$ 0.16	$ 0.10	$ 0.13	$ 0.16
Net income per share – diluted	$ 0.16	$ 0.10	$ 0.13	$ 0.15

PART C: COLFAX AUDITED CONSOLIDATED FINANCIAL INFORMATION FOR THE 2009 FINANCIAL YEAR (UNDER US GAAP)

Report of Ernst & Young LLP, Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Colfax Corporation

We have audited the accompanying consolidated balance sheets of Colfax Corporation as of December 31, 2009 and 2008, and the related consolidated statements of income, shareholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2009. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Colfax Corporation at December 31, 2009 and 2008, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As more fully discussed in Note 2, the Company has restated the accompanying consolidated financial statements and financial statement schedule for all periods presented to correct an error in accounting for certain of its defined benefit pension plans.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Colfax Corporation's internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 25, 2010, except for the effects of the material weakness described in the sixth paragraph of that report, as to which the date is December 13, 2010, expressed an adverse opinion thereon.

/s/ Ernst & Young LLP

Richmond, Virginia
February 25, 2010,
except for the effects of the matters described in Note 2, as to which the date is
December 13, 2010

COLFAX CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

Dollars in thousands, except per share amounts

	Year ended December 31,		
	2009 Restated	2008 Restated	2007 Restated
Net sales	$525,024	$604,854	$506,305
Cost of sales	339,237	387,667	330,714
Gross profit	185,787	217,187	175,591
Selling, general and administrative expenses	112,503	124,105	97,426
Restructuring and other related charges	18,175	—	—
Initial public offering related costs	—	57,017	—
Research and development expenses	5,930	5,856	4,162
Asbestos liability and defense income	(2,193)	(4,771)	(63,978)
Asbestos coverage litigation expenses	11,742	17,162	13,632
Operating income	39,630	17,818	124,349
Interest expense	7,212	11,822	19,246
Income before income taxes	32,418	5,996	105,103
Provision for income taxes	8,621	5,465	39,457
Net income	23,797	531	65,646
Dividends on preferred stock	—	(3,492)	(25,816)
Net income (loss) available to common shareholders	$23,797	$(2,961)	$39,830
Net income (loss) per share-basic and diluted	$0.55	$(0.08)	$1.82

See accompanying notes to consolidated financial statements.

COLFAX CORPORATION

CONSOLIDATED BALANCE SHEETS

Dollars in thousands, except per share amounts

	December 31,	
	2009 Restated	**2008 Restated**
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$49,963	$28,762
Trade receivables, less allowance for doubtful accounts of $2,837 and $2,486	88,493	101,064
Inventories, net	71,150	80,327
Deferred income taxes, net	7,114	6,489
Asbestos insurance asset	31,502	26,473
Asbestos insurance receivable	28,991	36,371
Prepaid expenses	11,109	9,632
Other current assets	2,426	5,901
Total current assets	290,748	295,019
Deferred income taxes, net	51,838	53,372
Property, plant and equipment, net	92,090	92,090
Goodwill	163,418	161,694
Intangible assets, net	11,952	13,516
Long-term asbestos insurance asset	357,947	277,542
Long-term asbestos insurance receivable	16,876	—
Deferred loan costs, pension and other assets	14,532	14,317
Total assets	$999,401	$907,550
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt and capital leases	$8,969	$5,420
Accounts payable	36,579	52,138
Accrued asbestos liability	34,866	28,574
Accrued payroll	17,756	19,162
Accrued taxes	2,154	11,457
Accrued termination benefits	9,473	—
Other accrued liabilities	34,402	37,535
Total current liabilities	144,199	154,286
Long-term debt, less current portion	82,516	91,701
Long-term asbestos liability	408,903	328,684
Pension and accrued post-retirement benefits	105,230	110,218
Deferred income tax liability	10,375	7,685
Other liabilities	31,353	33,601
Total liabilities	782,576	726,175
Shareholders' equity:		
Common stock: $0.001 par value; authorized 200,000,000; issued and outstanding	43	43
Additional paid-in capital	402,852	400,259
Retained deficit	(76,273)	(100,070)
Accumulated other comprehensive loss	(109,797)	(118,857)
Total shareholders' equity	216,825	181,375
Total liabilities and shareholders' equity	$999,401	$907,550

See accompanying notes to consolidated financial statements.

COLFAX CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)

Years ended December 31, 2009, 2008 and 2007
Dollars in thousands

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Deficit (Restated)	Accumulated Other Compre-hensive Loss (Restated)	Total (Restated)
Balance as previously reported at December 31, 2006	$ 1	$ 22	$ 201,660	$ (141,561)	$ (54,223)	$ 5,899
Cumulative adjustment for restatement (see Note 2)			11,365	1,751	13,116	
Restated Balance at December 31, 2006	1	22	201,660	(130,196)	(52,472)	19,015
Comprehensive income:						
Net income	—	—	—	65,646	—	65,646
Foreign currency translation, net of $265 tax expense	—	—	—	—	8,952	8,952
Changes in unrecognized pension and postretirement benefit costs, net of $4,158 tax expense	—	—	—	—	3,900	3,900
Amounts reclassified to net income:						
Net realized investment gains, net of $409 tax benefit	—	—	—	—	(667)	(667)
Net pension and other postretirement benefit costs, net of $1,590 tax expense	—	—	—	—	2,149	2,149
Total comprehensive income	—	—	—	65,646	14,334	79,980
Adoption of new accounting standard (see Note 6)	—	—	—	(6,743)	—	(6,743)
Preferred dividends declared	—	—	—	(25,816)	—	(25,816)
Balance at December 31, 2007	1	22	201,660	(97,109)	(38,138)	66,436
Comprehensive income (loss):						
Net income	—	—	—	531	—	531
Foreign currency translation, net of $-0- tax	—	—	—	—	(10,662)	(10,662)
Unrealized losses on hedging activities, net of $-0- tax	—	—	—	—	(5,815)	(5,815)
Changes in unrecognized pension and postretirement benefit costs, net of $1,731 tax benefit	—	—	—	—	(67,630)	(67,630)
Amounts reclassified to net income:						
Losses on hedging activities, net of $-0- tax	—	—	—	—	766	766
Net pension and other postretirement benefit costs, net of $128 tax expense	—	—	—	—	2,622	2,622
Total comprehensive loss	—	—	—	531	(80,719)	(80,188)
Net proceeds from initial public offering and conversion of preferred stock	(1)	22	192,999	—	—	193,020
Stock repurchase	—	(1)	(5,730)	—	—	(5,731)
Stock-based compensation	—	—	11,330	—	—	11,330
Preferred dividends declared	—	—	—	(3,492)	—	(3,492)
Balance at December 31, 2008	—	43	400,259	(100,070)	(118,857)	181,375
Comprehensive income:						
Net income	—	—	—	23,797	—	23,797
Foreign currency translation, net of $7 tax benefit	—	—	—	—	5,401	5,401
Unrealized gains on hedging activities, net of $-0- tax	—	—	—	—	(866)	(866)
Changes in unrecognized pension and postretirement benefit costs, net of $572 tax benefit	—	—	—	—	(910)	(910)
Amounts reclassified to net income:						
Losses on hedging activities, net of $-0- tax	—	—	—	—	2,881	2,881
Net pension and other postretirement benefit costs, net of $1,438 tax expense	—	—	—	2,554	2,554	
Total comprehensive income	—	—	—	23,797	9,060	32,857
Stock-based compensation	—	—	12,593	—	—	12,593
Balance at December 31, 2009	$ —	$ 43	$ 402,852	$ (76,273)	$ (109,797)	$ 216,825

See accompanying notes to consolidated financial statements.

COLFAX CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

Dollars in thousands

	Year ended December 31,		
	2009 Restated	2008 Restated	2007 Restated
Cash flows from operating activities:			
Net income	$ 23,797	$ 531	$ 65,646
Adjustments to reconcile net income to cash provided by (used in) operating activities:			
Depreciation, amortization and fixed asset impairment charges	15,074	14,788	15,239
Noncash stock-based compensation	2,593	11,330	—
Write off of deferred loan costs	—	4,614	—
Amortization of deferred loan costs	677	934	1,644
Loss (gain) on sale of fixed assets	(64)	60	(35)
Deferred income taxes	2,689	(13,330)	22,496
Changes in operating assets and liabilities, net of acquisitions:			
Trade receivables	16,280	(20,612)	(3,149)
Inventories	10,763	(15,556)	(2,279)
Accounts payable and accrued liabilities, excluding asbestos related accrued expenses	(20,899)	7,044	8,748
Other current assets	2,605	(3,285)	(2,304)
Change in asbestos liability and asbestos-related accrued expenses, net of asbestos insurance asset and receivable	(10,166)	(9,457)	(27,807)
Changes in other operating assets and liabilities	(5,063)	(10,042)	(3,716)
Net cash provided by (used in) operating activities	38,286	(32,981)	74,483
Cash flows from investing activities:			
Purchases of fixed assets	(11,006)	(18,645)	(13,671)
Acquisitions, net of cash received	(1,260)	(439)	(32,987)
Proceeds from sale of fixed assets	219	23	133
Net cash used in investing activities	(12,047)	(19,061)	(46,525)
Cash flows from financing activities:			
Borrowings under term credit facility	—	100,000	55,000
Payments under term credit facility	(5,000)	(210,278)	(11,791)
Proceeds from borrowings on revolving credit facilities	—	28,185	58,000
Repayments of borrowings on revolving credit facilities	—	(28,158)	(86,500)
Payments on capital leases	(417)	(309)	(449)
Payments for loan costs	—	(3,347)	(1,368)
Payment of deferred stock issuance costs	—	—	(1,155)
Proceeds from the issuance of common stock, net of offering costs	—	193,020	—
Repurchases of common stock	—	(5,731)	—
Dividends paid to preferred shareholders	—	(38,546)	—
Net cash (used in) provided by financing activities	(5,417)	34,836	11,737
Effect of exchange rates on cash	379	2,125	790
Increase (decrease) in cash and cash equivalents	21,201	(19,331)	40,485
Cash and cash equivalents, beginning of year	28,762	48,093	7,608
Cash and cash equivalents, end of year	$ 49,963	$ 28,762	$ 48,093
Cash interest paid	$ 6,615	$ 9,970	$ 16,978
Cash income taxes paid	$ 16,596	$ 18,534	$ 12,931

See accompanying notes to consolidated financial statements.

1. Organization and Nature of Operations

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

2. Restatement

On October 19, 2010, the Audit Committee of the Company's Board of Directors concluded, based upon the recommendation of the Company's management, that the Company should restate these financial statements to correct an overstatement of its pension liability. The Company has restated all periods in the accompanying consolidated financial statements.

While preparing the 2010 census data for our defined benefit pension plan actuarial valuations, the Company determined that previous actuarial valuations for the plans of a U.S. subsidiary contained errors due to errors in participant data. The errors largely originated in census data compiled by the subsidiary's former actuaries prior to our acquisition of the subsidiary in 1997. Because these errors affected the valuation of pension liabilities at the date of acquisition, goodwill was also overstated.

This amendment also contains two immaterial balance sheet reclassification corrections at December 31, 2009 to reclassify a portion of the asbestos insurance asset from long term to current and to reflect certain property previously recorded in other assets as property, plant and equipment.

The following tables set forth the effects of the restatement on affected line items within the Company's previously reported financial statements. The income tax effects of the restatement include the effects of reductions to the valuation allowance for deferred tax assets as a result of the reduction in gross deferred tax assets (see Note 6, Income Taxes):

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31, 2009		
	As Previously Reported	Adjustment	As Restated
Selling, general and administrative expenses	$ 113,674	$ (1,171)	$ 112,503
Operating income	38,459	1,171	39,630
Income before income taxes	31,247	1,171	32,418
Provision for income taxes	9,525	(904)	8,621
Net income	21,722	2,075	23,797
Net income available to common shareholders	21,722	2,075	23,797
Net income per share-basic and diluted	$ 0.50	$ 0.05	$ 0.55

	Year Ended December 31, 2008		
	As Previously Reported	Adjustment	As Restated
Selling, general and administrative expenses	$ 125,234	$ (1,129)	$ 124,105
Operating income	16,689	1,129	17,818
Income before income taxes	4,867	1,129	5,996
Provision for income taxes	5,438	27	5,465
Net income	(571)	1,102	531
Net income available to common shareholders	(4,063)	1,102	(2,961)
Net income per share-basic and diluted	$ (0.11)	$ 0.03	$ (0.08)

	Year Ended December 31, 2007		
	As Previously Reported	Adjustment	As Restated
Selling, general and administrative expenses	$ 98,500	$ (1,074)	$ 97,426
Operating income	123,275	1,074	124,349
Income before income taxes	104,029	1,074	105,103
Provision for income taxes	39,147	310	39,457
Net income	64,882	764	65,646
Net income available to common shareholders	39,066	764	39,830
Net income per share-basic and diluted	$ 1.79	$ 0.03	$ 1.82

CONSOLIDATED BALANCE SHEETS

	December 31, 2009			December 31, 2008		
	As Previously Reported	Adjustment and Reclassi-fications	As Restated	As Previously Reported	Adjustment	As Restated
Deferred income taxes, net	$ 6,823	$ 291	$ 7,114	$ 6,327	$ 162	$ 6,489
Asbestos insurance asset	30,606	896	31,502	26,473	—	26,473
Total current assets	289,561	1,187	290,748	294,857	162	295,019
Deferred income taxes, net	52,023	(185)	51,838	53,428	(56)	53,372
Property, plant and equipment, net	90,434	1,656	92,090	92,090	—	92,090
Goodwill	167,254	(3,836)	163,418	165,530	(3,836)	161,694
Long-term asbestos insurance asset	358,843	(896)	357,947	277,542	—	277,542
Deferred loan costs, pension and other assets	16,188	(1,656)	14,532	16,113	(1,796)	14,317
Total assets	1,003,131	(3,730)	999,401	913,076	(5,526)	907,550
Pension and accrued post-retirement benefits	126,953	(21,723)	105,230	130,188	(19,970)	110,218
Total liabilities	804,299	(21,723)	782,576	746,145	(19,970)	726,175
Retained deficit	(91,579)	15,306	(76,273)	(113,301)	13,231	(100,070)
Accumulated other comprehensive loss	(112,484)	2,687	(109,797)	(120,070)	1,213	(118,857)
Total shareholders' equity	198,832	17,993	216,825	166,931	14,444	181,375
Total liabilities and shareholders' equity	$ 1,003,131	$ (3,730)	$ 999,401	$ 913,076	$ (5,526)	$ 907,550

The cumulative adjustment to retained deficit as of January 1, 2008 was a decrease of $12.1 million.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2009		
	As Previously Reported	Adjustment	As Restated
Cash flows from operating activities:			
Net income	$ 21,722	$ 2,075	$ 23,797
Deferred income taxes	3,593	(904)	2,689
Accounts payable and accrued liabilities, excluding asbestos	(20,899)	—	(20,899)
Changes in other operating assets and liabilities	(3,892)	(1,171)	(5,063)
Net cash provided by (used in) operating activities	38,286	—	38,286

	Year Ended December 31, 2008		
	As Previously Reported	Adjustment	As Restated
Cash flows from operating activities:			
Net income	$ (571)	$ 1,102	$ 531
Deferred income taxes	(13,357)	27	(13,330)
Accounts payable and accrued liabilities, excluding asbestos	7,020	24	7,044
Changes in other operating assets and liabilities	(8,889)	(1,153)	(10,042)
Net cash provided by (used in) operating activities	(32,981)	—	(32,981)

	Year Ended December 31, 2007		
	As Previously Reported	Adjustment	As Restated
Cash flows from operating activities:			
Net income	$ 64,882	$ 764	$ 65,646
Deferred income taxes	22,186	310	22,496
Accounts payable and accrued liabilities, excluding asbestos	8,772	(24)	8,748
Changes in other operating assets and liabilities	(2,666)	(1,050)	(3,716)
Net cash provided by (used in) operating activities	74,483	—	74,483

CONSOLIDATED COMPREHENSIVE INCOME (LOSS)

	As Previously Reported	Adjustment	As Restated
Year ended December 31, 2007	$ 14,829	$ (495)	$ 14,334
Year ended December 31, 2008	$ (80,676)	$ (43)	$ (80,719)
Year ended December 31, 2009	$ 7,586	$ 1,474	$ 9,060

3. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. The Company owns 44% of the common shares of Sistemas Centrales de Lubricación S.A. de C.V., a Mexican company and 28% of the common shares of Allweiler Al-Farid Pumps Company (S.A.E.), an Egyptian Corporation. These investments are recorded in these financial statements using the equity method of accounting. Accordingly, $6.6 million and $5.4 million are recorded in other assets on the consolidated balance sheets at December 31, 2009 and 2008, respectively. The Company records its share of these investments' net earnings, based on its economic ownership percentage. Accordingly, $1.5 million of earnings from equity investments were included as a reduction of selling, general and administrative expenses on the consolidated statements of operations for each of the three years ended December 31, 2009, 2008 and 2007, respectively. All significant intercompany accounts and transactions have been eliminated.

Revenue Recognition

The Company generally recognizes revenues and costs from product sales when all of the following criteria are met: persuasive evidence of an arrangement exists, the price is fixed and determinable, product delivery has occurred or services have been rendered, there are no further obligations to customers, and collectibility is probable. Product delivery occurs when title and risk of loss transfer to the customer. The Company's shipping terms vary based on the contract. If any significant obligations to the customer with respect to such sale remain to be fulfilled following shipments, typically involving obligations relating to installation and acceptance by the buyer, revenue recognition is deferred until such obligations have been fulfilled. Any customer allowances and discounts are recorded as a reduction in reported revenues at the time of sale because these allowances reflect a reduction in the sales price for the products sold. These allowances and discounts are estimated based on historical experience and known trends. Revenue related to service agreements is recognized as revenue over the term of the agreement.

In some cases, customer contracts may include multiple deliverables for product shipments and installation or maintenance labor. The cost of the products is generally quoted separately from the service costs, and the services that are provided are available from other vendors. Revenues from product shipments on this type of contract are recognized when title and risk of loss transfer to the customer, and the service revenue components are recognized as services are performed.

For long-term contracts, revenue is generally recognized based on the percentage-of-completion method calculated on the units of delivery basis or the cost-to-cost basis. Percentage of completion revenue was approximately 2.2%, 0.9%, and 2.9% of consolidated revenues for the years ended December 31, 2009, 2008 and 2007, respectively. For long-term contracts in which reasonable estimates cannot be made, the Company uses the completed contract method.

Amounts billed for shipping and handling are recorded as revenue. Shipping and handling expenses are recorded as cost of sales. Progress billings are generally shown as a reduction of inventory unless such billings are in excess of accumulated costs, in which case such balances are included in accrued liabilities. The Company accrues for bad debts, as a component of selling, general, and administrative expenses, based upon estimates of amounts deemed uncollectible and a specific review of significant delinquent accounts factoring in current and expected economic conditions. Product return reserves are accrued at the time of sale based on historical rates, and are recorded as a reduction to net sales.

Taxes Collected from Customers and Remitted to Governmental Authorities

The Company collects various taxes and fees as an agent in connection with the sale of products and remits these amounts to the respective taxing authorities. These taxes and fees have been presented on a net basis in the consolidated statements of operations and are recorded as a liability until remitted to the respective taxing authority.

Research and Development

Research and development costs are expensed as incurred.

Advertising

Advertising costs of $0.5 million, $0.9 million, and $0.6 million for years ending December 31, 2009, 2008 and 2007, respectively, are expensed as incurred and have been included in selling, general and administrative expenses.

Cash and Cash Equivalents

Cash and cash equivalents include all financial instruments purchased with an initial maturity of three months or less.

Trade Receivables

Receivables are presented net of allowances for doubtful accounts. The Company records the allowance for doubtful accounts based on its best estimate of probable losses incurred in the collection of accounts receivable. Estimated losses are based on historical collection experience, and are reviewed periodically by management.

Inventories

Inventories include the costs of material, labor and overhead. Inventories are stated at the lower of cost or market. Cost is primarily determined using the first-in, first-out method. The Company periodically reviews its quantities of inventories on hand and compares these amounts to the expected usage of each particular product. The Company records as a charge to cost of sales any amounts required to reduce the carrying value of inventories to net realizable value.

Property, Plant and Equipment

Property, plant and equipment are stated at historical cost, which includes the fair values of such assets acquired. Depreciation of property, plant and equipment is provided for on a straight-line basis over estimated useful lives ranging from three to 40 years. Assets recorded under capital leases are amortized over the shorter of their estimated useful lives or the lease terms. The estimated useful lives or lease terms of assets range from three to 40 years. Repairs and maintenance expenditures are expensed as incurred unless the repair extends the useful life of the asset.

Impairment of Goodwill and Indefinite-Lived Intangible Assets

Goodwill represents the costs in excess of the fair value of net assets acquired associated with acquisitions by the Company.

The Company evaluates the recoverability of goodwill and indefinite-lived intangible assets annually on December 31 or more frequently if an event occurs or circumstances change in the interim that would more likely than not reduce the fair value of the asset below its carrying amount. Goodwill is considered to be impaired when the net book value of a reporting unit exceeds its estimated fair value.

In the evaluation of goodwill for impairment, the Company first compares the fair value of the reporting unit to its carrying value. If the carrying value of a reporting unit exceeds its fair value, the goodwill of that reporting unit is potentially impaired and step two of the impairment analysis is performed. In step two of the analysis, an impairment loss is recorded equal to the excess of the carrying value of the reporting unit's goodwill over its implied fair value should such a circumstance arise.

The Company measures fair value of reporting units based on a present value of future discounted cash flows or a market valuation approach. The discounted cash flows model indicates the fair value of the reporting units based on the present value of the cash flows that the reporting units are expected to generate in the future. Significant estimates in the discounted cash flows model include: the weighted average cost of capital; long-term rate of growth and profitability of our business; and working capital effects. The market valuation approach indicates the fair value of the business based on a comparison of the Company against certain market information. Significant estimates in the market approach model include identifying appropriate market multiples and assessing earnings before interest, income taxes, depreciation and amortization (EBITDA) in estimating the fair value of the reporting units.

The analysis performed for each of the years ended December 31, 2009, 2008 and 2007 indicated no impairment to be present.

Impairment of Long-Lived Assets Other than Goodwill and Indefinite-Lived Intangible Assets

Intangibles primarily represent acquired customer relationships, acquired order backlog, acquired technology, software license agreements and patents. Acquired order backlog is amortized in the same period the corresponding revenue is recognized. A portion of the Company's acquired customer relationships is being amortized over seven years based on the present value of the future cash flows expected to be generated from the acquired customers. All other intangibles are being amortized on a straight-line basis over their estimated useful lives, generally ranging from three to 15 years.

The Company assesses its long-lived assets other than goodwill and indefinite-lived intangible assets for impairment whenever facts and circumstances indicate that the carrying amounts may not be fully recoverable. To analyze recoverability, the Company projects undiscounted net future cash flows over the remaining lives of such assets. If these projected cash flows are less than the carrying amounts, an impairment loss would be recognized, resulting in a write-down of the assets with a corresponding charge to earnings. The impairment loss is measured based upon the difference between the carrying amounts and the fair values of the assets. Assets to be disposed of are reported at the lower of the carrying amounts or fair value less cost to sell. Management determines fair value using the discounted cash flow method or other accepted valuation techniques. The Company recorded asset impairment losses totaling $0.6 million in 2009 in connection with the closure of two facilities. No such impairments were recorded in 2008 or 2007.

Derivatives

The Company periodically enters into foreign currency, interest rate swap, and commodity derivative contracts. The Company uses interest rate swaps to manage exposure to interest rate fluctuations. Foreign currency contracts are used to manage exchange rate fluctuations and generally hedge transactions between the Euro and the U.S. dollar. Commodity futures contracts are used to manage costs of raw materials used in the Company's production processes.

The Company enters into such contracts with financial institutions of good standing, and the total credit exposure related to non-performance by those institutions is not material to the operations of the Company. The Company does not enter into contracts for trading purposes.

We designate a portion of our derivative instruments as cash flow hedges for accounting purposes. For all derivatives designated as hedges, we formally document the relationship between the hedging instrument and the hedged item, as well as the risk management objective and the strategy for using the hedging instrument. We assess whether the hedging relationship between the derivative and the hedged item is highly effective at offsetting changes in the cash flows both at inception of the hedging relationship and on an ongoing basis. Any change in the fair value of the derivative that is not effective at offsetting changes in the cash flows or fair values of the hedged item is recognized currently in earnings.

Interest rate swaps and other derivative contracts are recognized on the balance sheet as assets and liabilities, measured at fair value on a recurring basis using significant observable inputs, which is Level 2 as defined in the fair value hierarchy. For transactions in which we are hedging the variability of cash flows, changes in the fair value of the derivative are reported in accumulated other comprehensive income until earnings are affected by the hedged item. Changes in the fair value of derivatives not designated as hedges are recognized currently in earnings.

Self-Insurance

We are self-insured for a portion of our product liability, workers' compensation, general liability, medical coverage and certain other liability exposures. The Company accrues loss reserves up to the retention amounts when such amounts are reasonably estimable and probable. The accompanying consolidated balance sheets include estimated amounts for claims exposure based on experience factors and management estimates for known and anticipated claims as follows:

	December 31,	
	2009	**2008**
Medical insurance	$ 697	$ 563
Workers' compensation	189	173
Total self-insurance reserves	$ 886	$ 736

Warranty Costs

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

Warranty activity for the years ended December 31, 2009 and 2008 consisted of the following:

	2009	**2008**
Warranty liability at beginning of the year	$ 3,108	$ 2,971
Accrued warranty expense, net of adjustments	860	801
Changes in estimates related to pre-existing warranties	(552)	374
Cost of warranty service work performed	(646)	(869)
Foreign exchange translation effect	82	(169)
Warranty liability at end of the year	$ 2,852	$ 3,108

Income Taxes

Income taxes for the Company are accounted for under the asset and liability method. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is generally recognized in income in the period that includes the enactment date.

Valuation allowances are recorded if it is more likely than not that some portion of the deferred tax asset will not be realized. In evaluating the need for a valuation allowance, we take into account various factors, including the expected level of future taxable income and available tax planning strategies. If actual results differ from the assumptions made in the evaluation of our valuation allowance, we record a change in valuation allowance through income tax expense or other comprehensive income in the period such determination is made.

Foreign Currency Exchange Gains and Losses

The Company's financial statements are presented in U.S. dollars. The functional currencies of the Company's operating subsidiaries are the local currencies of the countries in which each subsidiary is located. Assets and liabilities denominated in foreign currencies are translated at rates of exchange in effect at the balance sheet date. Revenues and expenses are translated at average rates of exchange in effect during the year. The amounts recorded in each year are net of income taxes to the extent the underlying equity balances in the entities are not deemed to be permanently reinvested.

Transactions in foreign currencies are translated at the exchange rate in effect at the date of each transaction. Differences in exchange rates during the period between the date a transaction denominated in a foreign currency is consummated and the date on which it is either settled or translated for inclusion in the consolidated balance sheets are recognized in the consolidated statements of operations for that period. The foreign currency transaction gain (loss) in income was $(1.4) million, $0.3 million, and $1.0 million for the years ended December 31, 2009, 2008 and 2007, respectively.

Debt Issuance Costs

Costs directly related to the placement of debt are capitalized and amortized using the straight-line method, which approximates the effective interest method over the term of the related obligation. Amounts written off due to early extinguishment of debt are charged to earnings. Cost and accumulated amortization related to debt issuance costs amounted to approximately $3.4 million and $1.1 million, respectively, as of December 31, 2009 and $3.3 million and $0.4 million, respectively, as of December 31, 2008.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the periods presented. Actual results could differ from those estimates.

Reclassifications

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

4. Recent Accounting Pronouncements

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

5. Acquisitions

The following acquisitions were accounted for using the purchase method of accounting and, accordingly, the accompanying financial statements include the financial position and the results of operations from the dates of acquisition.

On January 31, 2007, the Company purchased all of the outstanding stock of Lubrication Systems Company of Texas (LSC), a manufacturer of fluid handling systems, including oil mist lubrication systems and lube oil purification systems, for $29.8 million. As a result of the acquisition of LSC, intangible assets of $22.6 million were recorded. The purchase of LSC complements the Company's existing line of fluid handling products.

On November 29, 2007, the Company acquired Fairmount Automation, Inc. (Fairmount), an original equipment manufacturer of mission critical programmable automation controllers in fluid handling applications primarily for the U.S. Navy, for $4.5 million plus contingent payments based on achievement of future revenue and earnings targets over the period ending December 31, 2010. In the fourth quarters of 2009 and 2008, the first two targets were achieved, resulting in payments of $0.4 million in each period, which were recorded as goodwill. Remaining contingent payments, if any, of up to $1.3 million will also be recorded as additional goodwill. In addition to strengthening its existing position with the U.S. Navy, the Company is leveraging Fairmount's experienced engineering talent and technology expertise to develop a portfolio of fluid handling solutions with diagnostic and prognostic capabilities for use in industrial applications.

On August 31, 2009, we completed the acquisition of PD-Technik Ingenieurbüro GmbH ("PD-Technik"), a provider of marine aftermarket related products and services located in Hamburg, Germany, for $1.3 million, net of cash acquired in the transaction.

Purchase price allocations are based on fair value of the acquired assets and liabilities. This information is obtained mainly through due diligence and other information from the sellers, as well as tangible and intangible asset appraisals. The allocations for our significant acquisitions, Fairmount and LSC, are as follows:

	Fairmount	LSC
Cash	$ 1,155	$ 74
Accounts receivable	243	5,809
Inventories	469	4,248
Prepaid expenses and other current assets	77	301
Property, plant and equipment	109	428
Goodwill	3,028	15,065
Trade name	90	870
Developed technology	860	2,770
Backlog of open orders	—	552
Customer relationships	990	3,330
Other long-term as sets	—	1,381
Total assets acquired	$ 7,021	$ 34,828
Accounts payable and accrued liabilities assumed	$ 1,698	$ 5,078

Developed technology is being amortized over a term of 6 to 15 years. Backlog of open orders is amortized over a term of approximately one year. Customer relationships are being amortized over periods of 7 to 10 years. The weighted average amortization period for intangibles subject to amortization is approximately six years.

Goodwill deductible for income tax purposes due to the Fairmount and LSC acquisitions is $2.8 million and $14.4 million, respectively.

The unaudited pro forma information below gives effect to these acquisitions as if they had occurred at the beginning of the period. The pro forma information is presented for informational purposes only and is not necessarily indicative of the results of operations that actually would have occurred had the acquisitions been consummated as of that time.

	Pro Forma Year ended December 31 2007 Restated
Net sales	$ 510,021
Net income	65,521
Earnings per common share – basic and diluted	$ 1.81

6. Income Taxes

Income before income taxes and the components of the provision for income taxes were as follows:

	Year ended December 31,		
	2009 Restated	2008 Restated	2007 Restated
Income (loss), before income tax expense:			
Domestic	$ 698	$ (54,303)	$ 60,993
Foreign	31,720	60,299	44,110
	$ 32,418	5,996	105,103
Provision for income taxes:			
Current income tax expense (benefit):			
Federal	$ (1,323)	$ (1,145)	$ 444
State	344	239	199
Foreign	6,911	19,701	16,318
	5,932	18,795	16,961
Deferred income tax expense (benefit):			
Domestic	2,241	(12,607)	24,567
Foreign	448	(723)	(2,071)
	2,689	(13,330)	22,496
	$ 8,621	$ 5,465	$ 39,457

U.S. income taxes at the statutory rate reconciled to the overall U.S. and foreign provision for income taxes were as follows:

	Year ended December 31,		
	2009 Restated	2008 Restated	2007 Restated
Tax at U.S. federal income tax rate	$ 11,346	$ 2,099	$ 36,786
State taxes	34	(1,500)	2,131
Effect of international tax rates	(2,260)	(3,342)	(2,230)
Payment of non-deductible underwriting fee	—	4,483	—
Changes in valuation and tax reserves	(710)	2,903	755
Inclusion of foreign earnings	—	—	1,565
Other	211	822	450
Provision for income taxes	$ 8,621	$ 5,465	$ 39,457

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the deferred tax assets and liabilities were as follows:

	December 31,			
	2009 Restated		2008 Restated	
	Current	Long-Term	Current	Long-Term
Deferred tax assets:				
Post-retirement benefit obligations	$ 1,003	$ 23,262	$ 602	$ 25,632
Expenses not currently deductible	9,552	30,200	7,536	30,017
Net operating loss carryover	—	42,268	—	42,770
Tax credit carryover	—	5,560	—	7,518
Other	—	837	—	1,094
Total deferred tax assets	10,555	102,127	8,138	107,031
Valuation allowance for deferred tax assets	(2,649)	(42,404)	(1,649)	(43,556)
Net deferred tax assets	7,906	59,723	6,489	63,475
Net tax liabilities:				
Tax over book depreciation	—	10,578	—	10,809
Other	1,074	7,680	—	6,979
Total deferred tax liabilities	1,074	18,258	—	17,788
Net deferred tax assets	$ 6,832	$ 41,465	$ 6,489	$ 45,687

For purposes of the balance sheet presentation, the Company nets current and non-current tax assets and liabilities within each taxing jurisdiction. The above table is presented prior to the netting of the current and non-current deferred tax items. The Company evaluates the recoverability of its net deferred tax assets on a jurisdictional basis by considering whether net deferred tax assets will be realized on a more likely than not basis. To the extent a portion or all of the applicable deferred tax assets do not meet the more likely than not threshold, a valuation allowance is recorded. During the year ending December 31, 2009, the valuation allowance decreased from $45.2 million to $45.1 million with the decrease recognized in income tax expense. The $0.1 million net decrease in 2009 was primarily attributable to a corresponding reduction in deferred tax assets due to the pension restatement, offset in part by an increase attributable to certain separate company losses the company believes may not be realized. Consideration was given to U.S. tax planning strategies and future U.S. taxable income as to how much of the relevant deferred tax asset could be realized on a more likely than not basis.

The Company has U.S. net operating loss carryforwards of approximately $109.6 million expiring in years 2021 through 2028, and minimum tax credits of approximately $1.9 million that may be carried forward indefinitely. Tax credit carryforwards include foreign tax credits that have been offset by a valuation allowance. We experienced an ‘‘ownership change’’ within the meaning of Section 382 of the Internal Revenue Code of 1986, as amended, as a result of the IPO. The Company's ability to use these various carryforwards existing at the time of the ownership change to offset any taxable income generated in taxable periods after the ownership change may be limited under Section 382 and other federal tax provisions.

For the years ended December 31, 2009, 2008 and 2007, the Company intends that all undistributed earnings of its controlled international subsidiaries will be reinvested and no tax expense has been recognized under the applicable accounting standard, for these reinvested earnings. The amount of unremitted earnings from these international subsidiaries, subject to local statutory restrictions, as of December 31, 2009 is approximately $128.2 million. It is not reasonably determinable as to the amount of deferred tax liability that would need to be provided if such earnings were not reinvested.

The Company adopted an accounting standard which created a single model to address accounting for uncertainty in tax positions. This accounting standard applies to all tax positions and requires a recognition threshold and measurement of a tax position taken or expected to be taken in a tax return. This standard also provides guidance on classification, interest and penalties, accounting in interim periods and transition, and significantly expanded income tax disclosure requirements. As a result of the implementation of this accounting standard, the Company increased its net liability for unrecognized tax benefits by $6.7 million with a corresponding charge to beginning retained earnings as of January 1, 2007.

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits is as follows:

Balance at December 31, 2007	$ 10,299
Additions for tax positions in prior periods	886
Additions for tax positions in current period	886
Reductions for tax positions in prior periods	(1,658)
Foreign exchange impact / other	(312)
Balance at December 31, 2008	$ 10,101
Additions for tax positions in prior periods	73
Additions for tax positions in current period	308
Reductions for tax positions in prior periods	(1,896)
Foreign exchange impact / other	160
Balance at December 31, 2009	$ 8,746

The Company's unrecognized tax benefits as of December 31, 2009 and 2008 totaled $9.3 million and $11.1 million inclusive of $0.5 million and $1.0 million of interest, respectively. These amounts were offset in part by tax benefits of approximately $0.7 million and $1.4 million for the years ended December 31, 2009 and 2008, respectively. The net liabilities for uncertain tax positions for the years ended December 31, 2009 and 2008 were $8.6 million and $9.7 million, respectively, and if recognized, would favorably impact the effective tax rate.

The Company records interest and penalties on uncertain tax positions for post-adoption periods as a component of income tax expense. The interest and penalty expense recorded in income tax expense attributed to uncertain tax positions for the years ending December 31, 2009, 2008 and 2007 was $0.2 million, $0.2 million and $0.3 million, respectively.

The Company is subject to income tax in the U.S., state, and international locations. The Company's significant operations outside the U.S. are located in Germany and Sweden. In Sweden, tax years 2004 to 2009 and in Germany, tax years 2003 and 2006 to 2008 remain subject to examination. In the U.S., tax years 2005 and beyond generally remain open for examination by U.S. and state tax authorities as well as tax years ending in 1997, 1998, 2000 and 2003 that have U.S. tax attributes available that have been carried forward to open tax years or are available to be carried forward to future tax years.

Due to the difficulty in predicting with reasonable certainty when tax audits will be fully resolved and closed, the range of reasonably possible significant increases or decreases in the liability for unrecognized tax benefits that may occur within the next 12 months is difficult to ascertain. Currently, we estimate it is reasonably possible the expiration of various statutes of limitations and resolution of tax audits may reduce our tax expense in the next 12 months ranging from zero to $1.3 million.

7. Restructuring and Other Related Charges

The Company has initiated a series of restructuring actions during 2009 in response to current and expected future economic conditions. As a result, the Company recorded pre-tax restructuring and related costs of $18.2 million during the year ended December 31, 2009. As of December 31, 2009, we have reduced our company-wide workforce by 328 associates from December 31, 2008. Additionally, during 2009, approximately 630 associates participated in a German government-sponsored furlough program in which the government pays the wage-related costs for the portion of the work week the associate is not working. Payroll taxes and other employee benefits related to employees' furlough time are included in restructuring costs. Our agreement with the German works council allowing participation in the furlough program ends February 2011. Future restructuring costs that may be incurred cannot be reasonably estimated as of the date these financial statements are filed.

During the second quarter of 2009, we closed a repair facility in Aberdeen, NC. Further, during the fourth quarter of 2009, we closed a manufacturing facility in Sanford, NC and moved its production to the Company's facilities in Monroe, NC and Columbia, KY. We recorded non-cash impairment charges of $0.6 million to reduce the carrying value of the real estate and equipment at these facilities to their estimated fair values.

We recognize the cost of involuntary termination benefits at the communication date or ratably over any remaining expected future service period. Voluntary termination benefits are recognized as a liability and a loss when employees accept the offer and the amount can be reasonably estimated. We record asset impairment charges to reduce the carrying amount of long-lived assets that will be sold or disposed of to their estimated fair values. Fair values are estimated using observable inputs including third party appraisals and quoted market prices.

A summary of restructuring activity for the year ended December 31, 2009 is shown below.

	Year Ended December 31, 2009				
	Restructuring Liability at Dec. 31, 2008	**Provisions**	**Payments**	**Foreign Currency Translation**	**Restructuring Liability at Dec. 31, 2009**
Restructuring Charges:					
Termination benefits[1]	$ —	$ 15,218	$ (5,545)	$ (200)	$ 9,473
Furlough charges[2]	—	1,187	(1,273)	86	—
Facility closure charges[3]	—	1,122	(1,122)	—	—
Total Restructuring Charges	$ —	17,527	$ (7,940)	$ (114)	$ 9,473
Other Related Charges:					
Asset impairment charges[4]		648			
Total Restructuring and Other Related Charges		$ 18,175			

(1) Includes severance and other termination benefits such as outplacement services.

(2) Includes payroll taxes and other employee benefits related to German employees' furlough time.

(3) Includes the cost of relocating and training associates and relocating equipment in connection with the closing of the Sanford, NC facility.

(4) Includes asset impairment charges associated with the real estate and equipment at the Aberdeen, NC and Sanford, NC locations.

8. Earnings (Loss) Per Share

The following table presents the computation of basic and diluted earnings (loss) per share:

	Year ended December 31,		
	2009 Restated	2008 Restated	2007 Restated
Numerator:			
Net income	$ 23,797	$ 531	$ 65,646
Dividends on preferred stock	—	(3,492)	(25,816)
Net income (loss) available to common shareholders	$ 23,797	$ (2,961)	$ 39,830
Denominator:			
Weighted-average shares of common stock outstanding – basic	43,222,616	36,240,157	21,885,929
Net income (loss) per share – basic	$ 0.55	$ (0.08)	$ 1.82
Weighted-average shares of common stock outstanding – basic	43,222,616	36,240,157	21,885,929
Net effect of potentially dilutive securities[1]	103,088	—	—
Weighted-average shares of common stock outstanding – diluted	43,325,704	36,240,157	21,885,929
Net income (loss) per share – diluted	$ 0.55	$ (0.08)	$ 1.82

(1) Potentially dilutive securities consist of options and restricted stock units.

In the years ended December 31, 2009 and 2008, respectively, approximately 0.6 million and 0.5 million potentially dilutive stock options, restricted stock units and deferred stock units were excluded from the calculation of diluted loss per share since their effect would have been anti-dilutive.

9. Inventories

Inventories consisted of the following:

	December 31,	
	2009	2008
Raw materials	$ 28,445	$ 34,074
Work in process	32,888	33,691
Finished goods	21,013	21,600
	82,346	89,365
Less-Customer progress billings	(3,171)	(2,115)
Less-Allowance for excess, slow-moving and obsolete inventory	(8,025)	(6,923)
	$ 71,150	$ 80,327

10. Property, Plant and Equipment

Property, plant and equipment consisted of the following:

	Depriciable Lives in Years	December 31, 2009	December 31, 2008
Land	—	$ 16,618	$ 16,593
Buildings and improvements	3 – 40	36,651	34,784
Machinery and equipment	3 – 15	119,727	114,857
Software	3 – 5	17,324	14,487
		190,320	180,721
Less-Accumulated depreciation		(98,230)	(88,631)
		$ 92,090	$ 92,090

Depreciation expense, including the amortization of assets recorded under capital leases, for the years ended December 31, 2009, 2008 and 2007, was approximately $11.8 million, $12.1 million and $11.8 million, respectively. These amounts include depreciation expense related to software for the years ended December 31, 2009, 2008 and 2007 of $1.7 million, $2.0 million and $2.6 million, respectively.

11. Goodwill and Intangible Assets

Changes in the carrying amount of goodwill during the years ended December 31, 2009 and 2008 are as follows:

	Goodwill Restated
Balance	$ 165,123
Contingent purchase price payment for Fairmount acquisition	439
Adjustments due to finalization of purchase price allocations	165
Impact of changes in foreign exchange rates	(4,033)
Balance December 31, 2008	161,694
Contingent purchase price payment for Fairmount acquisition	418
Attributable to 2009 acquisition of PD-Technik	6
Impact of changes in foreign exchange rates	1,300
Balance December 31, 2009	$ 163,418

Other intangible assets consisted of the following:

	December 31, 2009 Gross Carrying Amount	December 31, 2009 Accumulated Amortization	December 31, 2008 Gross Carrying Amount	December 31, 2008 Accumulated Amortization
Acquired customer relationships	$ 15,512	$ (8,989)	$ 14,450	$ (7,022)
Trade names – indefinite life	2,062	—	2,040	—
Acquired developed technology	5,811	(2,444)	5,808	(1,760)
Other intangibles	146	(146)	464	(464)
	$ 23,531	$ (11,579)	$ 22,762	$ (9,246)

In connection with the acquisition of PD-Technik in 2009, customer relationship intangibles of $0.9 million were acquired and are being amortized over a period of six years.

Amortization expense for the years ended December 31, 2009, 2008 and 2007 was approximately $2.6 million, $2.7 million and $3.4 million, respectively. Amortization expense for the next five fiscal years is expected to be: 2010 – $2.5 million, 2011 – $2.5 million, 2012 – $2.2 million, 2013 – $1.0 million, and 2014 – $0.7 million.

12. Retirement and Benefit Plans

The Company sponsors various defined benefit plans, defined contribution plans and other post-retirement benefits plans, including health and life insurance, for certain eligible employees or former employees. We use December 31 as the measurement date for all of our employee benefit plans.

The following table summarizes the changes in our pension and other post-retirement benefit plan obligations and plan assets and includes a statement of the plans' funded status:

	Pension Benefits		Other Post-retirement Benefits	
Year ended December 31,	2009 Restated	2008 Restated	2009	2008
Change in benefit obligation:				
Projected benefit obligation at beginning of year	$ 295,165	$ 303,654	$ 10,370	$ 7,304
Service cost	1,381	1,160	—	—
Interest cost	17,577	17,429	525	501
Plan amendments	—	—	—	2,359
Actuarial loss	10,662	3,740	772	901
Acquisitions	72	—	—	—
Settlement/curtailment	—	—	—	—
Foreign exchange effect	2,958	(7,844)	—	—
Benefits paid	(21,244)	(22,974)	(808)	(695)
Projected benefit obligation at end of year	$ 306,571	$ 295,165	$ 10,859	$ 10,370
Accumulated benefit obligation at end of year	$ 303,598	$ 290,007	$ —	$ —
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 192,859	$ 257,036	$ —	$ —
Actual return on plan assets	29,193	(42,694)	—	—
Employer contribution	7,517	5,695	808	695
Acquisitions	60	—	—	—
Foreign exchange effect	1,536	(4,204)	—	—
Benefits paid	(21,244)	(22,974)	(808)	(695)
Fair value of plan assets at end of year	$ 209,921	$ 192,859	$ —	$ —
Funded status at end of year	$ (96,650)	$ (102,306)	$ (10,859)	$ (10,370)
Amounts recognized in the balance sheet at December 31:				
Non-current assets	$ 244	$ 132	$ –	$ –
Current liabilities	(1,114)	(1,153)	(1,409)	(1,437)
Non-current liabilities	(95,780)	(101,285)	(9,450)	(8,933)
Total	$ (96,650)	$ (102,306)	$ (10,859)	$ (10,370)

The accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were $301.2 million and $207.2 million, respectively, as of December 31, 2009 and $288.1 million and $190.7 million, respectively, as of December 31, 2008.

The projected benefit obligation and fair value of plan assets for the pension plans with projected benefit obligations in excess of plan assets were $304.1 million and $207.2 million, respectively, as of December 31, 2009 and $293.1 million and $190.7 million, respectively, as of December 31, 2008.

The following table summarizes the changes in our foreign pension plans' obligations and plan assets, included in the previous disclosure, and includes a statement of the foreign plans' funded status:

	Foreign Pension Benefits	
Year ended December 31,	2009	2008
Change in benefit obligation:		
Projected benefit obligation at beginning of year	$ 82,253	$ 83,649
Service cost	1,381	1,160
Interest cost	4,668	4,364
Actuarial (gain) loss	(5,947)	5,786
Acquisitions	72	—
Foreign exchange effect	2,958	(7,844)
Benefits paid	(4,425)	(4,862)
Projected benefit obligation at end of year	$ 80,960	$ 82,253
Accumulated benefit obligation at end of year	$ 77,988	$ 77,097
Change in plan assets		
Fair value of plan assets at beginning of year	$ 23,219	$ 28,918
Actual return on plan assets	1,390	69
Employer contribution	3,061	3,298
Acquisitions	60	—
Foreign exchange effect	1,536	(4,204)
Benefits paid	(4,425)	(4,862)
Fair value of plan assets at end of year	$ 24,841	$ 23,219
Funded status at end of year	$ (56,119)	$ (59,034)

Expected contributions to the pension plans for 2010 are $5.5 million. The following benefit payments are expected to be paid during the years ending December 31:

	Pension Benefits		Other Post-retirement
	All Plans	Foreign Plans	Benefits
	Restated		
2010	$ 22,203	$ 4,664	$ 1,409
2011	23,308	4,760	843
2012	22,290	4,793	850
2013	22,219	4,858	840
2014	22,281	4,969	817
Years 2015-2019	109,186	24,652	3,689

The Company's primary investment objective for its pension plan assets is to provide a source of retirement income for the plans' participants and beneficiaries. The assets are invested with the goal of preserving principal while providing a reasonable real rate of return over the long term. Diversification of assets is achieved through strategic allocations to various asset classes. Actual allocations to each asset class vary due to periodic investment strategy changes, market value fluctuations, the length of time it takes to fully implement investment allocation positions, and the timing of benefit payments and contributions. The asset allocation is monitored and rebalanced as required, as frequently as on a quarterly basis in some instances. The following are the actual and target allocation percentages for the Company's pension plan assets:

	Actual Allocation December 31,		
	2009	**2008**	**Target Allocation**
United States Plans:			
Equity securities:			
U.S.	39%	36%	34% – 42%
International	12	12	10% – 14%
Fixed income securities	34	37	27% – 43%
Hedge fund	15	15	13% – 17%
Foreign Plans:			
Large cap equity securities	15	19	0% – 20%
Fixed income securities	83	80	80% – 100%
Cash and cash equivalents	2	1	0% – 5%

The following table presents the Company's pension plan assets using the fair value hierarchy as of December 31, 2009. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value. Level 1 refers to fair values determined based on quoted prices in active markets for identical assets. Level 2 refers to fair values estimated using significant observable inputs, and Level 3 includes fair values estimated using significant unobservable inputs.

	Total	Level 1	Level 2	Level 3
United States Plans:				
Cash and cash equivalents	$ 1,180	$ 1,180	$ —	$ —
Equity mutual funds:				
U.S. large cap	56,400	56,400	—	—
U.S. small / mid-cap	15,992	15,992	—	—
Foreign	22,548	22,548	—	—
Fixed income mutual funds:				
U.S.	50,805	50,805	—	—
Foreign	11,386	11,386	—	—
Hedge fund	26,769	—	—	26,769
Foreign Plans:				
Cash and cash equivalents	568	568	—	—
Large cap equity securities	3,688	3,688	—	—
Fixed income securities	20,585	—	20,585	—
	$ 209,921	$ 162,567	$ 20,585	$ 26,769

Fixed income securities held by the foreign plans are valued using quotes from independent pricing vendors based on recent trading activity and other relevant information, including market interest rate curves, referenced credit spreads and estimated prepayment rates. The hedge fund investment is valued at the net asset value of units held by the plans at year end.

The table below presents a summary of the changes in the fair value of the Level 3 assets held during the year ended December 31, 2009.

Balance at January 1, 2009	$ 25,983
Unrealized gains	786
Balance at December 31, 2009	$ 26,769

The components of net periodic cost and other comprehensive (income) loss were as follows:

	Pension Benefits			Other Post-retirement Benefits		
	2009 Restated	2008 Restated	2007 Restated	2009	2008	2007
Components of net periodic benefit cost:						
Service cost	$ 1,381	$ 1,160	$ 1,170	$ —	$ —	$ —
Interest cost	17,577	17,429	16,954	525	501	445
Amortization	3,639	2,523	3,606	353	227	133
Expected return on plan assets	(19,570)	(20,509)	(19,667)	—	—	—
Net periodic benefit cost	$ 3,027	$ 603	$ 2,063	$ 878	$ 728	$ 578
Change in plan assets and benefit obligations recognized in other comprehensive (income) loss:						
Current year net actuarial loss (gain)	710	66,101	(8,225)	772	901	167
Prior service cost	—	—	—	—	2,359	—
Less amounts included in net periodic cost:						
Amortization of net loss	(3,639)	(2,523)	(3,606)	(104)	(165)	(133)
Amortization of prior service cost	—	—	—	(249)	(62)	—
Total recognized in other comprehensive (income) loss	$ (2,929)	$ 63,578	$ (11,831)	$ 419	$ 3,033	$ 34

The components of net periodic cost and other comprehensive (income) loss for our foreign pension plans, included within the previous disclosure, were as follows:

	Foreign Pension Benefits		
	2009	2008	2007
Components of net periodic benefit cost:			
Service cost	$ 1,381	$ 1,160	$ 1,170
Interest cost	4,668	4,364	3,738
Recognized net actuarial loss	808	348	718
Expected return on plan assets	(1,204)	(1,456)	(1,538)
Net periodic benefit cost	$ 5,653	$ 4,416	$ 4,088
Change in plan assets and benefit obligations recognized in other comprehensive loss (income):			
Current year net actuarial (gain) loss	(6,464)	6,339	(4,202)
Less amounts included in net periodic cost:			
Amortization of net loss	(808)	(348)	(718)
Total recognized in other comprehensive loss (income)	($7,272)	$ 5,991	$ (4,920)

The components of accumulated other comprehensive income that have not been recognized as components of net periodic cost are as follows:

	Pension Benefits		Other Post-retirement Benefits	
	2009 Restated	2008 Restated	2009	2008
At December 31,				
Net actuarial loss	$ 141,614	$ 144,543	$ 3,337	$ 2,669
Prior service cost	—	—	2,048	2,297
Total	$ 141,614	$ 144,543	5,385	$ 4,966

The components of accumulated other comprehensive income that are expected to be recognized in net periodic cost during the year ended December 31, 2010 are as follows:

	Pension Benefits Restated	Other Post-retirement Benefits
Net actuarial loss	$ 4,565	$ 248
Prior service cost	—	233
Total	$ 4,565	481

The key economic assumptions used in the measurement of the Company's benefit obligations at December 31, 2009 and 2008 are as follows:

	Pension Benefits		Other Post-retirement Benefits	
	2009	2008	2009	2008
Weighted-average discount rate:				
For all plans	5.7%	6.1%	5.6%	6.0%
For all foreign plans	5.6%	5.8%	—	—
Weighted-average rate of increase in compensation levels for active foreign plans	2.0%	2.1%	—	—

The key economic assumptions used in the computation of net periodic benefit cost for the years ended December 31, 2009, 2008 and 2007 are as follows:

	Pension Benefits			Other Post-retirement Benefits		
	2009	2008	2007	2009	2008	2007
Weighted-average discount rate:						
For all plans	6.1%	6.0%	5.9%	6.0%	6.3%	6.0%
For all foreign plans	5.8%	4.7%	5.4%	—	—	
Weighted-average return on plan assets:						
For all plans	8.3%	8.3%	8.4%	—	—	—
For all foreign plans	5.0%	5.1%	5.5%	—	—	—
Weighted-average rate of increase in compensation levels for active foreign plans	2.1%	2.2%	2.6%	—	—	—

In determining discount rates, the Company utilizes the single discount rate equivalent to discounting the expected future cash flows from each plan using the yields at each duration from a published yield curve as of the measurement date.

For measurement purposes, an annual rate of increase in the per capita cost of covered health care benefits of approximately 7.0% was assumed. The rate was assumed to decrease gradually to 5.0% by 2014 and remain at that level thereafter for benefits covered under the plans.

The expected long-term rate of return on plan assets was based on the Company's investment policy target allocation of the asset portfolio between various asset classes and the expected real returns of each asset class over various periods of time that are consistent with the long-term nature of the underlying obligations of these plans.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage point change in assumed health care cost trend rates would have the following pre-tax effects:

	1 Percentage Point Increase	1 Percentage Point Decrease
Effect on total service and interest cost components for 2009	$ 44	$ (35)
Effect on post-retirement benefit obligation at December 31, 2009	1,201	(945)

The Company maintains defined contribution plans covering substantially all of their non-union domestic employees, as well as certain union domestic employees. Under the terms of the plans, eligible employees may generally contribute from 1% to 50% of their compensation on a pre-tax basis. The Company's contributions are based on 50% of the first 6% of each participant's pre-tax contribution. Additionally, the Company makes a unilateral contribution of 3% of all employees' salary (including non-contributing participants) to the defined contribution plans. The Company's expense for 2009, 2008 and 2007 was $2.4 million, $2.2 million and $2.0 million, respectively, related to these plans.

13. Debt

Long-term debt consisted of the following:

	December 31,	
	2009	2008
Term A notes (senior bank debt)	$ 91,250	$ 96,250
Capital leases and other	235	871
Total debt	91,485	97,121
Less-current portion Term A	(8,750)	(5,000)
Less-current portion capital leases and other	(219)	(420)
Total	$ 82,516	$ 91,701

On May 13, 2008, coinciding with the closing of the IPO, the Company terminated its existing credit facility. There were no material early termination penalties incurred as a result of the termination. Deferred loan costs of $4.6 million were written off in connection with this termination. On the same day, the Company entered into a new credit agreement (the Credit Agreement). The Credit Agreement, led by Banc of America Securities LLC and administered by Bank of America, is a senior secured structure with a $150.0 million revolver and a Term A Note of $100.0 million.

The Term A Note bears interest at LIBOR plus a margin ranging from 2.25% to 2.75% determined by the total leverage ratio calculated at quarter end. At December 31, 2009, the interest rate was 2.48% inclusive of 2.25% margin. The Term A Note, as entered into on May 13, 2008, has $1.25 million due on a quarterly basis on the last day of each March, June, September and December beginning with June 30, 2008 and ending March 31, 2010, $2.5 million due on a quarterly basis on the last day of each March, June, September and December beginning with June 30, 2010 and ending March 31, 2013, and one installment of $60.0 million payable on May 13, 2013.

The $150.0 million revolver contains a $50.0 million letter of credit sub-facility, a $25.0 million swing line loan sub-facility and a €100.0 million sub-facility. The annual commitment fee on the revolver ranges from 0.4% to 0.5% determined by the total leverage ratio calculated at quarter end. At December 31, 2009, the commitment fee was 0.4% and there was $14.4 million outstanding on the letter of credit sub-facility, leaving approximately $136 million available under the revolver loan. The bankruptcy of Lehman Brothers, one of the financial institutions in the consortium that provided the Company's revolving credit line, resulted in their default under the terms of the revolver and it is doubtful that we would be able to draw on their commitment of $6.0 million. At December 31, 2008, the commitment fee was 0.4% and there was $16.7 million outstanding on the letter of credit sub-facility, leaving approximately $130 million available under the revolver loan.

Substantially all assets and stock of the Company's domestic subsidiaries and 65% of the shares of certain European subsidiaries are pledged as collateral against borrowings under the Credit Agreement. Certain European assets are pledged against borrowings directly made to our European subsidiary. The Credit Agreement contains customary covenants limiting the Company's ability to, among other things, pay cash dividends, incur debt or liens, redeem or repurchase Company stock, enter into transactions with affiliates, make investments, merge or consolidate with others or dispose of assets. In addition, the Credit Agreement contains financial covenants requiring the Company to maintain a total leverage ratio of not more than 3.25 to 1.0 and a fixed charge coverage ratio of not less than 1.50 to 1.0, measured at the end of each quarter. If the Company does not comply with the various covenants under the Credit Agreement and related agreements, the lenders may, subject to various customary cure rights, require the immediate payment of all amounts outstanding under the Term A Note and revolver and foreclose on the collateral. The Company is in compliance with all such covenants as of December 31, 2009.

The future aggregate annual maturities of long-term debt and annual principal payments for capital leases at December 31, 2009 are:

	Term Debt	Capital Leases & Other	Total
2010	$ 8,750	$ 219	$ 8,969
2011	10,000	7	10,007
2012	10,000	9	10,009
2013	62,500	—	62,500
2014	—	—	—
	$ 91,250	$ 235	$ 91,485

14. Shareholders' Equity

Preferred Stock

On May 13, 2008, pursuant to the amended articles of incorporation, the Company's preferred stock was automatically converted into shares of common stock upon the closing of the IPO, determined by dividing the original issue price of the preferred shares by the issue price of the common shares at the offering date.

The holders of the Company's preferred stock were entitled to receive dividends in preference to any dividend on the common stock at the rate of LIBOR plus 2.50% per annum, when and if declared by the Company's board of directors. Preferred dividends of $3.5 million, $12.2 million and $13.7 million were declared on May 12, 2008, December 31, 2007, and May 15, 2007, respectively. These amounts were paid immediately prior to the consummation of the Company's IPO on May 13, 2008. The holders of the preferred stock did not have voting rights except in certain corporate matters involving the priority and payment rights of such shares.

Stock Split

On April 21, 2008, the Company's board of directors approved a restatement of capital accounts of the Company through an amendment of the Company's certificate of incorporation to provide for a stock split to convert each share of common stock issued and outstanding into 13,436.22841 shares of common stock. The consolidated financial statements give retroactive effect as though the stock split occurred for all periods presented.

Issuance of Common Stock

On May 13, 2008, the Company completed its IPO of 21,562,500 shares of common stock at a per share price of $18.00. Of the 21,562,500 shares sold in the offering, 11,852,232 shares were sold by the Company and 9,710,268 shares were sold by certain selling stockholders. The Company received net proceeds of approximately $193.0 million, net of the underwriter's discount of $14.4 million and offering-related costs of $5.9 million.

Results for the year ended December 31, 2008, include $57.0 million of nonrecurring costs associated with the IPO, including $10.0 million of share-based compensation and $27.8 million of special cash bonuses paid under previously adopted executive compensation plans, as well as $2.8 million of employer payroll taxes and other related costs. It also included $11.8 million to reimburse the selling stockholders for the underwriting discount on the shares sold by them and the write off of $4.6 million of deferred loan costs associated with the early termination of a credit facility.

In 2009, 18,078 shares of common stock were issued in connection with employee share-based payment arrangements that vested during the year.

Repurchases of Common Stock

On November 5, 2008, the Company's board of directors authorized the repurchase of up to $20 million (up to $10 million per year in 2008 and 2009) of the Company's common stock from time to time on the open market or in privately negotiated transactions. The repurchase program was conducted pursuant to SEC Rule 10b5-1. The timing and amount of any shares repurchased was determined by the Company's management based on its evaluation of market conditions and other factors. In the fourth quarter of 2008, the Company purchased 795,000 shares of its common stock for approximately $5.7 million. There were no repurchases in 2009.

Dividend Restrictions

The Company's Credit Agreement limits the amount of cash dividends and common stock repurchases the Company may make to a total of $10 million annually.

Accumulated Other Comprehensive Income

The components of accumulated other comprehensive income (loss) are as follows:

	December 31,	
	2009 Restated	**2008 Restated**
Foreign currency translation adjustment	$ 14,188	$ 8,787
Unrealized losses on hedging activities	(3,035)	(5,050)
Net unrecognized pension and other post-retirement benefit costs	(120,950)	(122,594)
Total accumulated other comprehensive loss	$ (109,797)	$ (118,857)

Share-Based Payments

2008 Omnibus Incentive Plan

The Company adopted the Colfax Corporation 2008 Omnibus Incentive Plan (the 2008 Plan) on April 21, 2008. The 2008 Plan provides the compensation committee of the board of directors discretion in creating employee equity incentives. Awards under the 2008 Plan may be made in the form of stock options, stock appreciation rights, restricted stock, restricted stock units, dividend equivalent rights, performance shares, performance units, and other stock-based awards.

The Company measures and recognizes compensation expense relating to share-based payments based on the fair value of the instruments issued. Stock-based compensation expense is recognized as a component of "Selling, general and administrative expenses" in the accompanying consolidated statements of operations as payroll costs of the employees receiving the awards are recorded in the same line item. In the years ended December 31, 2009 and 2008, $2.6 million and $1.3 million, respectively, of compensation cost and deferred tax benefits of approximately $0.9 million and $0.4 million, respectively, were recognized. At December 31, 2009, the Company had $4.5 million of unrecognized compensation expense related to stock-based awards that will be recognized over a weighted-average period of approximately 2.3 years. At December 31, 2009, the Company had issued stock-based awards that are described below.

Stock Options

Under the 2008 Plan, the Company may grant options to purchase common stock, with a maximum term of 10 years at a purchase price equal to the market value of the common stock on the date of grant. Or, in the case of an incentive stock option granted to a 10% stockholder, the Company may grant options to purchase common stock with a maximum term of 5 years, at a purchase price equal to 110% of the market value of the common stock on the date of grant. One-third of the options granted pursuant to the 2008 Plan vest on each anniversary of the grant date and the options expire in seven years.

Stock-based compensation expense for stock option awards was based on the grant-date fair value using the Black-Scholes option pricing model. We recognize compensation expense for stock option awards on a ratable basis over the requisite service period of the entire award. The following table shows the weighted-average assumptions we used to calculate fair value of stock option awards using the Black-Scholes option pricing model, as well as the weighted-average fair value of options granted during the years ended December 31, 2009 and 2008.

	Year Ended December 31,	
	2009	**2008**
Weighted-average assumptions used in Black-Scholes model:		
Expected period that options will be outstanding (*in years*)	4.50	4.50
Interest rate (*based on U.S. Treasury yields at time of grant*)	1.87%	3.08%
Volatility	32.50%	23.35%
Dividend yield	—	—
Weighted-average fair value of options granted	$ 2.24	$ 5.75

Expected volatility is estimated based on the historical volatility of comparable public companies. The Company uses historical data to estimate employee termination within the valuation model. Separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. Since the Company has limited option exercise history, it has elected to estimate the expected life of an award based upon the SEC-approved ''simplified method'' noted under the provisions of Staff Accounting Bulletin No. 107 with the continued use of this method extended under the provisions of Staff Accounting Bulletin No. 110.

Stock option activity for the years ended December 31, 2009 and 2008 is as follows:

	Shares	**Weighted Average Exercise Price**	**Remaining Contractual Term**	**Aggregate Intrinsic Value**
			(Years)	
Outstanding at January 1, 2008	—	$ —		
Granted	531,999	17.94		
Exercised	—	—		
Forfeited	(17,008)	18.00		
Outstanding at December 31, 2008	514,991	$ 17.93		
Granted	844,165	7.44		
Exercised	—	—		
Forfeited	(91,523)	11.70		
Outstanding at December 31, 2009	1,267,633	$ 11.40	5.88	$ 3,655
Vested and expected to vest at December 31, 2009	1,150,635	$ 11.16	5.90	$ 3,439
Exercisable at December 31, 2009	159,883	$ 17.93	5.36	$ 8

The aggregate intrinsic value is based on the difference between the Company's closing stock price at the balance sheet date and the exercise price of the stock option, multiplied by the number of in-the-money options. The amount of intrinsic value will change based on the fair value of the Company's stock.

The aggregate fair value of options that vested in 2009 was $0.9 million.

Performance-Based Awards

Under the 2008 Plan, the compensation committee may award performance-based restricted stock and restricted stock units whose vesting is contingent upon meeting various performance goals. The vesting of the stock units is determined based on whether the Company achieves the applicable performance criterion established by the compensation committee of the board of directors. If the performance criteria are satisfied, the units are subject to additional time vesting requirements, by which units will vest fully in two equal installments on the fourth and fifth anniversary of the grant date, provided the individual remains an employee during this period.

The fair value of each grant of performance-based restricted stock or restricted stock units is equal to the market value of a share of common stock on the date of grant and the compensation expense is recognized when it is expected that the performance goals will be achieved. The performance criterion for the performance-based restricted stock units (PRSUs) granted in 2008 was achieved; however, the performance criterion for those granted in 2009 was not achieved and accordingly, no compensation expense for the 2009 grants was recognized.

Other Restricted Stock and Restricted Stock Units

Under the 2008 Plan, the compensation committee may award non-performance based restricted stock and restricted stock units (RSUs) to selected executives, key employees and outside directors. The compensation committee determines the terms and conditions of each award including the restriction period and other criteria applicable to the awards.

The employee RSUs vest either 100% at the 1st anniversary of the grant date or 50% at the 1st anniversary and 50% at the 2nd anniversary of the grant date. The majority of the director RSUs granted to date vest in three equal installments on each anniversary of the grant date over a 3-year period. Directors can also elect to defer their annual board fees into RSUs with immediate vesting. Delivery of the shares underlying these director restricted stock units is deferred until termination of the director's service on the Company's board. The fair value of each restricted stock unit is equal to the market value of a share of common stock on the date of grant.

The following table summarizes the Company's PRSU and RSU and activity for 2009 and 2008:

	PRSUs		RSUs	
	Shares	**Weighted-Average Grant Date Fair Value**	**Shares**	**Weighted-Average Grant Date Fair Value**
Nonvested at January 1, 2008	—	—	—	—
Granted	125,041	17.89	73,305	18.00
Vested	—	—	—	—
Forfeited	(694)	18.00	(1,116)	18.00
Nonvested at December 31, 2008	124,347	$ 17.89	72,189	$ 18.00
Granted	337,716	7.44	69,610	8.35
Vested	—	—	69,610	15.72
Forfeited	(31,566)	10.69	(48,871)	—
Nonvested at December 31, 2009	430,497	$ 10.22	92,928	$ 11.97

2001 Plan and 2006 Plan

In 2001 and 2006, the board of directors implemented long-term cash incentive plans as a means to motivate senior management or those most responsible for the overall growth and direction of the Company. Certain executive officers participated in the Colfax Corporation 2001 Employee Appreciation Rights Plan (the 2001 Plan) or the 2006 Executive Stock Rights Plan (the 2006 Plan).

Generally, each of these plans provided the applicable officers with the opportunity to receive a certain percentage, in cash (or, with respect to the 2001 Plan only, in equity, at the determination of the Board of Directors), of the increase in value of the Company from the date of grant of the award until the date of the liquidity event.

The 2001 Plan rights fully vested on the third anniversary of the grant date. The 2006 Plan rights vested if a liquidity event occurred prior to the expiration of the term of the plan. Amounts were only payable upon the occurrence of a liquidity event. The Board determined that the IPO qualified as a liquidity event for both plans. In conjunction with the IPO, the participants received a total of 557,597 shares of common stock and approximately $27.8 million in cash payments under the 2001 Plan and 2006 Plan and thereafter both plans terminated. In the year ended December 31, 2008, the Company recognized $10.0 million of stock-based compensation expense associated with the 557,597 shares of common stock awarded and a related tax benefit of approximately $3.8 million.

15. Financial Instruments

The carrying values of financial instruments, including accounts receivable, accounts payable and other accrued liabilities, approximate their fair values due to their short-term maturities. The estimated fair value of the Company's long-term debt of $88.6 million and $92.3 million at December 31, 2009 and 2008, respectively, was based on current interest rates for similar types of borrowings. The estimated fair values may not represent actual values of the financial instruments that could be realized as of the balance sheet date or that will be realized in the future.

A summary of the Company's assets and liabilities that are measured at fair value on a recurring basis for each fair value hierarchy level for the periods presented follows:

	Total	Level 1	Level 2	Level 3
As of December 3, 2009				
Assets:				
Cash equivalents	$ 33,846	$ 33,846	$ —	$ —
Liabilities:				
Derivatives	$ 3,156	$ —	$ 3,156	$ —
As of December 31, 2008				
Assets:				
Cash equivalents	$ 17,965	$ 17,965	$ —	$ —
Derivatives	1,651	—	1,651	—
	$ 19,616	$ 17,965	$ 1,651	$ —
Liabilities				
Derivatives	$ 7,070	$ —	$ 7,079	$ —

The Company's cash equivalents consist of investments in interest-bearing deposit accounts and money market mutual funds which are valued based on quoted market prices. The fair value of these investments approximate cost due to their short-term maturities and the high credit quality of the issuers of the underlying securities. Interest rate swaps are valued based on forward curves observable in the market. Other derivative contracts are measured using broker quotations or observable market transactions in either listed or over-the-counter markets. There were no changes during the periods presented in the Company's valuation techniques used to measure asset and liability fair values on a recurring basis.

On June 24, 2008, the Company entered into an interest rate swap with an aggregate notional value of $75 million whereby it exchanged its LIBOR-based variable rate interest for a fixed rate of 4.1375%. The notional value decreases to $50 million and then $25 million on June 30, 2010 and June 30, 2011, respectively, and expires on June 29, 2012. The fair value of the swap agreement, based on third-party quotes, was a liability of $3.0 million and $5.0 million at December 31, 2009 and 2008, respectively, which are recorded in "Other long term liabilities" on the consolidated balance sheet. The swap agreement has been designated as a cash flow hedge, and therefore changes in its fair value are recorded as an adjustment to other comprehensive income. There has been no ineffectiveness related to this arrangement since its inception. During the years ended December 31, 2009 and 2008, $2.9 million and $0.8 million, respectively, of losses on the swap were reclassified from AOCI to interest expense. At December 31, 2009, the Company expects to reclassify $2.3 million of net losses on the interest rate swap from accumulated other comprehensive income to earnings during the next twelve months.

Also on June 24, 2008, the Company entered into a cross currency swap denominated in Euro with an aggregate notional value of $27.3 million. The notional value decreased ratably each month over the term of the agreement and expired on March 31, 2009. The fair value of the swap agreement, based on third-party quotes, was an asset of $1.0 million at December 31, 2008. The swap agreement was designated as a cash flow hedge, and therefore changes in its fair value were recorded as an adjustment to other comprehensive income. There was no ineffectiveness related to this arrangement.

As of December 31, 2009, the Company had no open commodity futures contracts. As of December 31, 2008, the Company had copper and nickel futures contracts with notional values of $3.6 million. The fair value of the contracts, based on third-party quotes, was a liability of $2.1 million as of December 31, 2008, and is recorded in "Other accrued liabilities" on the accompanying consolidated balance sheets. The Company did not electe hedge accounting for these contracts, and therefore changes in their fair value were recognized in earnings. For the years ended December 31, 2009, 2008 and 2007, the consolidated statements of operations include $2.0 million, $(1.7) million and $(0.1) million, respectively, of unrealized gains (losses) as a result of changes in the fair value of these contracts. Realized gains (losses) on these contracts of $(1.0) million, $(0.4) million and $0.1 million were recognized in the years ended December 31, 2009, 2008, and 2007, respectively.

As of December 31, 2009 and 2008, the Company had foreign currency contracts with notional values of $10.5 million and $16.5 million, respectively. The fair values of the contracts was a liability of $0.1 million at December 31, 2009 and an asset of $0.7 million at December 31, 2008, and are recorded in "Other accrued liabilities" and in "Other current assets", respectively, on the consolidated balance sheets. The Company has not elected hedge accounting for these contracts; therefore, changes in the fair value are recognized as a component of selling, general and administrative expense. For the years ended December 31, 2009, 2008 and 2007, the consolidated statements of operations include $(0.7) million, $0.3 million and $0.2 million, respectively, of unrealized gains (losses) as a result of changes in the fair value of these contracts. Realized gains (losses) on these contracts of $0.9 million, $(0.3) million and $0.5 million were recognized in the years ended December 31, 2009, 2008, and 2007, respectively.

On July 1, 2005, the Company entered into an interest rate collar with an aggregate notional value of $90 million, whereby the Company exchanged its LIBOR based variable rate interest for a ceiling of 4.75% and a floor of approximately 3.40%. The LIBOR-based interest can vary between the ceiling and floor based on market conditions. The Company did not elect hedge accounting for the collar agreement, and therefore changes in the fair value were recognized in income as a component of interest expense. The collar agreement expired on July 1, 2008.

16. Concentration of Credit Risk

In addition to interest rate swaps, financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of trade accounts receivable.

The Company performs credit evaluations of its customers prior to delivery or commencement of services and normally does not require collateral. Letters of credit are occasionally required for international customers when the Company deems necessary. The Company maintains an allowance for potential credit losses and losses have historically been within management's expectations.

The Company may be exposed to credit-related losses in the event of non-performance by counterparties to financial instruments. Counterparties to the Company's financial instruments represent, in general, international financial institutions or well-established financial institutions.

No one customer accounted for 10% or more of the Company's sales in 2009, 2008 or 2007 or accounts receivable at December 31, 2009 or 2008.

17. Related Party Transactions

During 2008 and 2007, the Company paid a management fee of $0.5 million, and $1.0 million, respectively, to Colfax Towers, a party related by common ownership, recorded in selling, general and administrative expenses. This arrangement was discontinued following the Company's IPO in May 2008.

18. Operations by Geographical Area

The Company's operations have been aggregated into a single reportable operating segment for the design, production and distribution of fluid handling products. The operations of the Company on a geographic basis are as follows:

	Year ended December 31,		
	2009	**2008**	**2007**
Net sales by origin:			
United States	$ 177,373	$ 189,924	$ 173,713
Foreign locations:			
Germany	180,917	239,723	190,693
Other	166,734	175,207	141,899
Total foreign locations	347,651	414,930	332,592
Total net sales	$ 525,024	$ 604,854	$ 506,305
Net sales by product:			
Pumps, including aftermarket parts and service	$ 443,073	$ 529,300	$ 441,692
Systems, including installation service	69,339	58,231	48,355
Valves	10,081	10,094	9,537
Other	2,531	7,229	6,721
Total net sales	$ 525,024	$ 604,854	$ 506,305

	December 31,	
	2009	**2008**
Long-lived assets:		
United States	24,785	26,257
Foreign locations:		
Germany	48,232	48,598
Other	19,073	17,235
Total foreign locations	67,305	65,833
Total long-lived assets	$ 92,090	$ 92,090

19. Commitments and Contingencies

Asbestos Liabilities and Insurance Assets

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

The subsidiaries settle asbestos claims for amounts management considers reasonable given the facts and circumstances of each claim. The annual average settlement payment per asbestos claimant has fluctuated during the past several years. Management expects such fluctuations to continue in the future based upon, among other things, the number and type of claims settled in a particular period and the jurisdictions in which such claims arise. To date, the majority of settled claims have been dismissed for no payment.

Of the 25,295 pending claims, approximately 4,400 of such claims have been brought in various federal and state courts in Mississippi; approximately 3,100 of such claims have been brought in the Supreme Court of New York County, New York; approximately 200 of such claims have been brought in the Superior Court, Middlesex County, New Jersey; and approximately 1,000 claims have been filed in state courts in Michigan and the U.S. District Court, Eastern and Western Districts of Michigan. The remaining pending claims have been filed in state and federal courts in Alabama, California, Kentucky, Louisiana, Pennsylvania, Rhode Island, Texas, Virginia, the U.S. Virgin Islands and Washington.

Claims activity related to asbestos is as follows(1):

	Year ended December 31,		
	2009	**2008**	**2007**
Claims unresolved at the beginning of the period	35,357	37,554	50,020
Claims filed(2)	3,323	4,729	6,861
Claims resolved(3)	(13,385)	(6,926)	(19,327)
	25,295	35,357	37,554
Average cost of resolved claims(4)	$ 11,106	$ 5,378	$ 5,232

(1) Excludes claims filed by one legal firm that have been "administratively dismissed."

(2) Claims filed include all asbestos claims for which notification has been received or a file has been opened.

(3) Claims resolved include asbestos claims that have been settled or dismissed or that are in the process of being settled or dismissed based upon agreements or understandings in place with counsel for the claimants.

(4) Average cost of settlement to resolve claims in whole dollars. These amounts exclude claims in Mississippi for which the majority of claims have historically been without merit and have been resolved for no payment. These amounts exclude any potential insurance recoveries.

The Company has projected each subsidiary's future asbestos-related liability costs with regard to pending and future unasserted claims based upon the Nicholson methodology. The Nicholson methodology is the standard approach used by most experts and has been accepted by numerous courts. It is the Company's policy to record a liability for asbestos-related liability costs for the longest period of time that it can reasonably estimate.

The Company believes that it can reasonably estimate the asbestos-related liability for pending and future claims that will be resolved in the next 15 years and has recorded that liability as its best estimate. While it is reasonably possible that the subsidiaries will incur costs after this period, the Company does not believe the reasonably possible loss or range of reasonably possible loss is estimable at the current time. Accordingly, no accrual has been recorded for any costs which may be paid after the next 15 years. Defense costs associated with asbestos-related liabilities as well as costs incurred related to litigation against the subsidiaries' insurers are expensed as incurred.

During the third quarter of 2009, an analysis of claims data including filing and dismissal rates, alleged disease mix, filing jurisdiction, as well as settlement values resulted in the determination that the Company should revise its rolling 15-year estimate of asbestos-related liability for pending and future claims. As a result, the Company recorded an $11.6 million pretax charge in the third quarter of 2009, which was comprised of an increase to its asbestos-related liabilities of $111.3 million offset by expected insurance recoveries of $99.7 million.

Each subsidiary has separate, substantial insurance coverage resulting from the independent corporate history of each entity. In its evaluation of the insurance asset, in addition to the criteria listed above, the Company used differing insurance allocation methodologies for each subsidiary based upon the applicable law pertaining to the affected subsidiary.

For one of the subsidiaries, on October 14, 2009, the Delaware Court of Chancery ruled that asbestos-related costs should be allocated among excess insurers using an "all sums" allocation (which allows an insured to collect all sums paid in connection with a claim from any insurer whose policy is triggered, up to the policy's applicable limits) and that the subsidiary has rights to excess insurance policies purchased by a former owner of the business. Based upon this ruling mandating an ''all sums'' allocation, as well as the language of the underlying insurance policies and the determination that defense costs are outside policy limits, the Company as of October 2, 2009, increased its future expected recovery percentage from 67% to 90% of asbestos-related costs following the exhaustion in the future of its primary and umbrella layers of insurance and recorded a pretax gain of $17.3 million. The subsidiary expects to be responsible for approximately 10% of all future asbestos-related costs.

In November 2008, the subsidiary entered into a settlement agreement with the primary and umbrella carrier governing all aspects of the carrier's past and future handling of the asbestos related bodily injury claims against the subsidiary. As a result of this agreement, during the third quarter of 2008, the Company increased its insurance asset by $7.0 million attributable to resolution of a dispute concerning certain pre-1966 insurance policies and recorded a corresponding pretax gain. The additional insurance will be allocated by the carrier to cover any gaps in coverage up to $7.0 million resulting from exhaustion of umbrella policies and/or the failure of any excess carrier to pay amounts incurred in connection with asbestos claims. The Company reimbursed the primary insurer for $7.6 million in deductibles and retrospective premiums in the fourth quarter of 2008 and has no further liability to the insurer under these provisions of the primary policies.

Presently, this subsidiary is having all of its liability and defense costs covered in full by its primary and umbrella insurance carrier; however, this coverage is expected to exhaust in the first quarter of 2010. No cost sharing or allocation agreement is currently in place with the Company's excess insurers; however, certain excess insurers have stated that they will abide by the Delaware Chancery Court's recent coverage rulings, including its ruling that the subsidiary may seek insurance coverage from the Company's excess insurers on and ''all sums'' basis and that they will defend and/or indemnify the subsidiary against asbestos claims, subject to their reservation of rights.

In 2003, the other subsidiary brought legal action against a large number of its insurers and its former parent to resolve a variety of disputes concerning insurance for asbestos-related bodily injury claims asserted against it. Although none of these insurance companies contested coverage, they disputed the timing, reasonableness and allocation of payments. For this subsidiary, it was determined by court ruling in the fourth quarter of 2007, that the allocation methodology mandated by the New Jersey courts will apply. Further court rulings in December of 2009, clarified the allocation calculation related to amounts currently due from insurers as well as amounts the Company expects to be reimbursed for asbestos-related costs incurred in future periods. As a result, in the fourth quarter of 2009, the Company increased its receivable for past costs by $11.9 million and decreased its insurance asset for future costs by $9.8 million and recorded a pretax gain of $2.1 million. The subsidiary expects to responsible for approximately 14% of all future asbestos-related costs.

The Company has established reserves of $443.8 million and $357.3 million as of December 31, 2009 and December 31, 2008, respectively, for the probable and reasonably estimable asbestos-related liability cost it believes the subsidiaries will pay through the next 15 years. It has also established recoverables of $389.4 million and $304.0 million as of December 31, 2009 and December 31, 2008, respectively, for the insurance recoveries that are deemed probable during the same time period. Net of these recoverables, the expected cash outlay on a non-discounted basis for asbestos-related bodily injury claims over the next 15 years was $54.3 million and $53.3 million as of December 31, 2009 and December 31, 2008, respectively. In addition, the Company has recorded a receivable for liability and defense costs previously paid in the amount of $45.9 million and $36.4 million as of December 31, 2009 and December 31, 2008, respectively, for which insurance recovery is deemed probable. The Company has recorded the reserves for the asbestos liabilities as ''Accrued asbestos liability'' and ''Long-term asbestos liability'' and the related insurance recoveries as ''Asbestos insurance asset'' and ''Long-term asbestos insurance asset''. The receivable for previously paid liability and defense costs is recorded in ''Asbestos insurance receivable'' and ''Long-term asbestos insurance receivable'' in the accompanying consolidated balance sheets.

The income related to these liabilities and legal defense was $2.2 million, net of estimated insurance recoveries, for the year ended December 31, 2009 compared to $4.8 million and $63.9 million for the years ended December 31, 2008 and 2007, respectively. Legal costs related to the subsidiaries' action against their asbestos insurers were $11.7 million for the year ended December

31, 2009 compared to $17.2 million and $13.6 million for the years ended December 31, 2008 and 2007, respectively.

Management's analyses are based on currently known facts and a number of assumptions. However, projecting future events, such as new claims to be filed each year, the average cost of resolving each claim, coverage issues among layers of insurers, the method in which losses will be allocated to the various insurance policies, interpretation of the effect on coverage of various policy terms and limits and their interrelationships, the continuing solvency of various insurance companies, the amount of remaining insurance available, as well as the numerous uncertainties inherent in asbestos litigation could cause the actual liabilities and insurance recoveries to be higher or lower than those projected or recorded which could materially affect our financial condition, results of operations or cash flow.

General Litigation

On June 3, 1997, one of our subsidiaries was served with a complaint in a case brought by Litton Industries, Inc. (''Litton'') in the Superior Court of New Jersey which alleges damages in excess of $10.0 million incurred as a result of losses under a government contract bid transferred in connection with the sale of its former Electro-Optical Systems business. In the third quarter of 2004, this case was tried and the jury rendered a verdict of $2.1 million for the plaintiffs. After appeals by both parties, the Supreme Court of New Jersey upheld the plaintiffs' right to a refund of their attorney's fees and costs of trial, but remanded the issue to the trial court to reconsider the amount of fees using a proportionality analysis of the relationship between the fee requested and the damages recovered. The date for the new trial on additional claims allowed by the Appellate Division of the New Jersey Superior Court and the recalculation of attorney's fees has not been set. The subsidiary intends to continue to defend this matter vigorously. At December 31, 2009, the Company's consolidated balance sheet includes a liability, reflected in ''Other liabilities'', related to this matter of $9.5 million.

In April 1999, the Company's Imo Industries subsidiary resolved through a settlement the matter of Young v. Imo Industries Inc. that was pending in the United States District Court for the District of Massachusetts. This matter had been brought on behalf of a class of retirees of one of the subsidiary's divisions relating to retiree health care obligations. On June 15, 2005, a motion was filed seeking an order that certain of the features of the plan as implemented by the Company were in violation of the settlement agreement. On December 16, 2008, the parties executed a Memorandum of Understanding, memorializing the principal terms of a new settlement agreement that resolved the litigation in its entirety. A final settlement agreement was executed by the parties and approved by the court in the fourth quarter of 2009. At December 31, 2009, the Company's consolidated balance reflected an accumulated post retirement benefit obligation of $2.4 million related to this matter, of which $0.6 million was paid in January 2010.

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

Guarantees

At December 31, 2009, there were $14.4 million of letters of credit outstanding. Additionally, at December 31, 2009, we had issued $12.9 million of bank guarantees securing primarily customer prepayments, performance, and product warranties in our European and Asian operations.

Minimum Lease Obligations

The Company has the following minimum rental obligations under non-cancelable operating leases for certain property, plant and equipment. The remaining lease terms range from 1 to 5 years.

Year ended December 31,	
2010	$ 3,873
2011	2,428
2012	1,719
2013	1,087
2014	519
Thereafter	240
Total	$ 9,966

Net rental expense under operating leases was approximately $4.8 million, $5.1 million, and $4.6 million in 2009, 2008 and 2007, respectively.

20. Quarterly Results for 2009 and 2008 (Unaudited)

The summarized interim financial data presented below for 2009 and 2008 gives effect to the restatement of the Company's consolidated financial statements as discussed in Note 2.

	First Quarter			Second Quarter		
	As Previously Reported	Adjustment	As Restated	As Previously Reported	Adjustment	As Restated
2009						
Net sales	$ 136,323		$ 136,323	$ 129,185		$ 129,185
Cost of sales	88,308		88,308	84,630		84,630
Goss profit	48,015		48,015	44,555		44,555
Selling,and administrative expenses	30,18	(322)	29,865	28,586	(193)	28,393
Restructuring and other related charges	—			486		486
Research and development expenses	1,407		1,407	1,680		1,680
Asbestos liability and defense costs	1,645		1,645	1,482		1,482
Asbestos coverage litigation expenses	2966		2,966	4,027		4027
Operating income	11,810	322	12,132	8,294	193	8,487
Interest expense	1,846		1,846	1,786		1,786
Income before income taxes	9,964	322	10,286	6,508	193	6,701
Provision for income taxes	3,103	118	3,221	2,142	83	2,225
Net income available to common shareholders	$ 6,861	$ 204	$ 7,065	$ 4,366	$ 110	$ 4,476
Net income per share – basic and diluted	$ 0.16	$ —	$ 0.16	$ 0.10	$ —	$ 0.10

	Third Quarter			Fourth Quarter		
	As Previously Reported	Adjustment	As Restated	As Previously Reported	Adjustment	As Restated
2009						
Net sales	$ 128,545		$ 128,545	$ 130,971		$ 130,971
Cost of sales	82,339		82,339	83,960		83,960
Gross profit	46,206		46,206	47,011		47,011
Selling, general and administrative expenses	28,136	(258)	27,878	27,426	(398)	27,028
Restructuring and other related charges	9,608		9,608	7,420		7,420
Research and development expenses	1,523		1,523	1,320		1,320
Asbestos liability and defense income	(4,303)		(4,303)	(1,017)		(1,017)
Asbestos coverage litigation expenses	1,845		1,845	2,904		2,904
Operating income	9,397	258	9 655	8,958	398	9,356
Interest expense	1,834		1,834	1,746		1,746
Income before income taxes	7,563	258	7,821	7,212	398	7,610
Provision for income taxes	2,188	103	2,291	2092	(1,208)	884
Net income available to common shareholders	$ 5,375	$ 155	$ 5530	$ 5,120	$ 1,606	$ 6,726
Net income per share – basic	0.12	0.01	0.13	0.12	0.04	0.16
Net income per share – diluted	0.12	0.01	0.13	0.12	0.04	$ 0.15

	First Quarter			Second Quarter		
	As Previously Reported	Adjustment	As Restated	As Previously Reported	Adjustment	As Restated
2008						
Net sales	$ 130,651		$ 130,651	$ 161,431		$ 161,431
Cost of sales	82,473		82,473	104,654		104,654
Gross profit	48,178		48,178	56,777		56,777
Selling, general and administrative expenses	28,507	(330)	28,177	35,776	(331)	35,445
Initial public offering related costs	—		—	57,017		57,017
Research and development expenses	1,381		1,381	1,571		1,571
Asbestos liability and defense costs income	278		278	(715)		(715)
Asbestos coverage litigation expenses	3,139		3,139	3,970		3,970
Operating income	14,873	330	15,203	(40,842)	331	(40,511)
Interest expense	4,497		4,497	3,236		3,236
Income before income taxes	10,376	330	10,706	(44,078)		(43,747)
Provision for income taxes	3,578	102	3,680	(12,679)	88	(12,591)
Net income (loss)	6,798	228	7,026	(31,399)	243	(31,156)
Dividends on preferred stock	—		—	(3,492)		(3,492)
Net income (loss) available to common shareholders	$ 6,798	$ 228	$ 7,026	$ (34,891)	$ 243	$ (34,648)
Net income (loss) per share – basic and diluted	$ 0.31	$ 0.01	$ 0.32	$ (1.01)	$ 0.01	$ (1.00)

	Third Quarter			Fourth Quarter		
	As Previously Reported	Adjustment	As Restated	As Reported	Previously Adjustment	As Restated
2008						
Net sales	$ 153,461		$ 153,461	$ 159,311		$ 159,311
Cost of sales	98,983		98,983	101,557		101,557
Gross profit	54,478		54,478	57,74		57,754
Selling, general and administrative expenses	33,233	(330)	32,903	27,718	(138)	27,580
Research and development expenses	1,478		1,478	1,426		1,426
Asbestos liability and defense income	(6,312)		(6,312)	1,978		1,978
Asbestos coverage litigation expenses	5,148		5,148	4,905		4,905
Operating income	20,931	330	21,261	21,727	138	21,865
Interest expense	1,951		1,951	2,138		2,138
Income before income taxes	18,980	330	19,310	19,589	138	19,727
Provision for income taxes	5,329	173	5,502	9,210	(336)	8,874
Net income available to common shareholders	$ 13,651	$ 157	$ 13,808	$ 10,379	$ 474	$ 10,853
Net income per share – basic	$ 0.31	$ —	$ 0.31	$ 0.24	$ 0.01	$ 0.25

(1) Second quarter 2008 results include $57.0 million of non-recurring costs associated with our IPO.

21. Subsequent Event

The board of directors of the Company appointed Clay H. Kiefaber as the Company's President and Chief Executive Officer effective January 9, 2010. Mr. Kiefaber succeeds John A. Young, who resigned as President and Chief Executive Officer and as a director of the Company, effective January 9, 2010.

In connection with Mr. Young's resignation, the Company and Mr. Young entered into a separation agreement on January 9, 2010, which provided Mr. Young with certain termination benefits, including cash payments totaling $1.6 million, health coverage for a period of one year and accelerated vesting of share-based payments. In the first quarter of 2010, the Company expects to recognize restructuring and other related charges totaling $2.1 million for these benefits.

In connection with Mr. Kiefaber's appointment, the board of directors approved a grant to him of 102,124 stock options and 40,850 performance restricted stock units, effective on January 11, 2010 (the ''Grant Date'') pursuant to the terms of the 2008 Plan. The stock options vest in three equal annual installments beginning with the first anniversary of the Grant Date (subject to Mr. Kiefaber's continued employment with the Company on each such anniversary) and will have a per share exercise price of $12.27, the closing price of the Company's common stock on the Grant Date. The performance restricted stock units will be earned if the Company has cumulative adjusted earnings per share equal to at least 110% of the adjusted earnings per share for the 2009 fiscal year for any four consecutive fiscal quarters beginning with the first fiscal quarter of 2010 and ending with the last fiscal quarter of 2013, and, if earned, will vest in two equal installments upon the fourth and fifth anniversaries of the Grant Date, subject to Mr. Kiefaber's continued employment with the Company on each such anniversary. The fair value of these awards totaled $1.1 million, which is expected to be recognized over a period of approximately 3.4 years.

PART 9: CHARTER FINANCIAL INFORMATION

The following documents which Charter has filed with the FSA, and are available as described in *Relevant Documentation and Incorporation by Reference*, contain information about Charter which is relevant to the Acquisition:

- Charter's interim results for the six months ended June 30, 2011;
- Charter's Annual Report 2010;
- Charter's Annual Report 2009; and
- Charter's Annual Report 2008.

The table below sets out the sections of the above documents which contain information incorporated by reference into, and forming part of, this document. Only information in the parts of the above documents identified in the list below is incorporated into and forms part of this document. Information in other parts of the above documents is either covered elsewhere in this document or is not relevant to a Charter Shareholder's or potential investor's assessment of the assets and liabilities, financial position, profit and losses and prospects of Colfax or the rights attaching to the New Colfax Common Shares.

Information incorporated by reference into this document	Reference document	Page number in reference document
For the six months ended June 30, 2011		
Consolidated income statement for the six months ended June 30, 2011	Charter's Interim Results Announcement	16
Consolidated statement of comprehensive income for the six months ended June 30, 2011	Charter's Interim Results Announcement	17
Consolidated statement of changes in equity for the six months ended June 30, 2011	Charter's Interim Results Announcement	18
Consolidated balance sheet at June 30, 2011	Charter's Interim Results Announcement	19
Consolidated cash flow statement for the six months ended June 30, 2011	Charter's Interim Results Announcement	20
Notes to the interim financial statements	Charter's Interim Results Announcement	21 to 30
Independent review report to Charter International plc	Charter's Interim Results Announcement	31

Information incorporated by reference into this document	Reference document	Page number in reference document
For the financial year ended December 31, 2010		
Independent Auditors' report to the members of Charter International plc	Charter's Annual Report 2010	59
Consolidated income statement for the year ended December 31 2010	Charter's Annual Report 2010	60
Consolidated statement of comprehensive income for the year ended December 31, 2010	Charter's Annual Report 2010	61
Consolidated statement of changes in equity for the year ended December 31, 2010	Charter's Annual Report 2010	62
Consolidated balance sheet at December 31, 2010	Charter's Annual Report 2010	63
Consolidated cash flow statement for the year ended December 31, 2010	Charter's Annual Report 2010	64
Notes to the consolidated financial statements	Charter's Annual Report 2010	65 to 105

Information incorporated by reference into this document	Reference document	Page number in reference document
For the financial year ended December 31, 2009		
Independent Auditors' report to the members of Charter International plc	Charter's Annual Report 2009	62
Consolidated income statement for the year ended December 31, 2009	Charter's Annual Report 2009	64
Consolidated statement of comprehensive income for the year ended December 31, 2009	Charter's Annual Report 2009	65
Consolidated statement of changes in equity for the year ended December 31, 2009	Charter's Annual Report 2009	66
Consolidated balance sheet at December 31, 2009	Charter's Annual Report 2009	67
Consolidated cash flow statement for the year ended December 31, 2009	Charter's Annual Report 2009	68
Notes to the consolidated financial statements for the year ended December 31, 2009	Charter's Annual Report 2009	69 to 108

Information incorporated by reference into this document	Reference document	Page number in reference document
For the financial year ended December 31, 2008		
Independent Auditors' report to the members of Charter International plc	Charter's Annual Report 2008	56
Consolidated income statement for the year ended December 31, 2008	Charter's Annual Report 2008	58
Consolidated balance sheet at December 31, 2008	Charter's Annual Report 2008	59
Consolidated cash flow statement for the year ended December 31, 2008	Charter's Annual Report 2008	60
Consolidated statement of recognised income and expense for the year ended December 31, 2008	Charter's Annual Report 2008	61
Notes to the consolidated financial statements for the year ended December 31, 2008	Charter's Annual Report 2008	62 to 98

PART 10: UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE COLFAX GROUP

PART A: UNAUDITED PRO FORMA FINANCIAL INFORMATION

The unaudited pro forma financial information for Colfax has been prepared to show the effect on the net assets of Colfax at July 1, 2011 as if the Acquisition had occurred at that date. This information is prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and it does not represent Colfax's actual financial position or results. The unaudited pro forma balance sheet has been prepared on the basis set out in the notes below.

(Thousands) (Unaudited)	Colfax(1)	Adjustments(6) Charter(2)	Adjustments(6) Acquisition(3)(4)(5)	Pro Forma
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 64,215	$ 132,705	$ (16,820)(4)	$ 180,100
Trade receivables, net	103,314	790,929	—	894,243
Inventories, net	78,556	576,930	—	655,486
Deferred income taxes, net	6,565	36,309	—	42,874
Asbestos insurance asset	33,269	—	—	33,269
Asbestos insurance receivable	37,477	—	—	37,477
Prepaid expenses	9,799	48,037	—	57,836
Other current assets	9,274	128,527	(748)(4)(iv)	137,053
Total current assets	342,469	1,713,438	(17,568)	2,038,339
Deferred income taxes, net	52,121	113,105	(10,604)(3)	154,622
Property, plant and equipment, net	94,423	517,807	—	612,230
Goodwill	189,046	187,972	1,570,011(3)	1,947,029
Intangible assets, net	36,064	104,750	—	140,814
Long-term asbestos insurance asset	329,454	—	—	329,454
Long-term asbestos insurance receivable	7,063	—	—	7,063
Other assets	12,945	102,501	36,127(4)(iii)	151,573
Total assets	$ 1,063,585	$ 2,739,573	$ 1,577,966	$ 5,381,124
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Current portion of long-term debt and capital leases	$ 10,000	$ 52,536	$ 27,464(4)(iii)	$ 90,000
Accounts payable	57,334	401,811	—	459,145
Accrued asbestos liability	37,098	964	—	38,062
Accrued payroll	19,987	35,185	—	55,172
Advance payments from customers	22,189	77,277	—	99,466
Accrued taxes	7,462	101,055	—	108,517
Accrued termination benefits	1,137	—	—	1,137
Other accrued liabilities	50,026	321,159	(941)(4)(iv)	370,244
Total current liabilities	205,233	989,987	26,523	1,221,743
Long-term debt, less current portion	70,500	341,242	1,271,258(4)(iii)	1,683,000
Long-term asbestos liability	381,801	1,607	—	383,408
Pension and accrued post-retirement benefits	112,552	255,449	—	368,001
Deferred income tax liability	16,706	70,851	—	87,557
Other liabilities	22,497	39,359	—	61,856
Total liabilities	809,289	1,698,495	1,297,781	3,805,565
Equity:				
Preferred stock	—	—	334,050(5)	334,050
Common stock	44	5,302	(5,261)(5)	85
Additional paid-in capital	411,686	2,571	936,419(5)	1,350,676
(Accumulated deficit) Retained earnings	(43,113)	1,632,306	(1,672,143)(5)	(82,950)
Accumulated other comprehensive loss	(114,321)	(686,179)	687,120(5)	(113,380)
Total Colfax Corporation equity	254,296	954,000	280,185	1,488,481
Noncontrolling interest	—	87,078	—	87,078
Total Equity	254,296	1,041,078	280,185	1,575,559
Total liabilities and equity	$ 1,063,585	$ 2,739,573	$ 1,577,966	$ 5,381,124

Notes

(1) The consolidated net assets of Colfax as at July 1, 2011, have been extracted, without material adjustment, from the Colfax unaudited condensed consolidated financial information for the six months period ended July 1, 2011 which are included in *Part A* of *Part 8: Colfax Financial Information*.

(2) The consolidated net assets of Charter as at June 30, 2011 have been extracted on the basis described below from the Charter interim results for the six months ended June 30, 2011 which are incorporated by reference in this document. Certain adjustments have been made to accord with Colfax accounting presentation adopted in accordance with US GAAP and the resultant balance sheet converted from pounds sterling into US dollars.

Set out below is a reconciliation of the consolidated net assets of Charter as at June 30, 2011 from IFRS to US GAAP:

(Thousands) (Unaudited)	Charter (i)	US GAAP (ii) Adjustments	US GAAP (iii) Reclassifications	Charter (US GAAP)	Charter (iv) (US GAAP)
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	£ 89,800	£ —	£ (7,200)[(iii)(a)]	£ 82,600	$ 132,705
Trade receivables, net	595,900	—	(103,600)[(iii)(b)]	492,300	790,929
Inventories, net	359,100	—	—	359,100	576,930
Deferred income taxes, net	—	(1,300)[(ii)(f)]	23,900[(iii)(c)]	22,600	36,309
Asbestos insurance asset	—	—	—	—	—
Asbestos insurance receivable	—	—	—	—	—
Prepaid expenses	—	—	29,900[(iii)(b)]	29,900	48,037
Other current assets	17,300	(2,000)[(ii)(e)]	64,700[(iii)(g)]	80,000	128,527
Total current assets	1,062,100	(3,300)	7,700	1,066,500	1,713,438
Deferred income taxes, net	95,500	(1,200)[(ii)(f)]	(23,900)[(iii)(c)]	70,400	113,105
Property, plant and equipment, net	318,300	(17,200)[(ii)]	21,200[(iii)(e)]	322,300	517,807
Goodwill	117,000	—	—	117,000	187,972
Intangible assets, net	105,100	(18,700)[(ii)]	(21,200)[(iii)(e)]	65,200	104,750
Long-term asbestos insurance asset	—	—	—	—	—
Long-term asbestos insurance receivable	—	—	—	—	—
Other assets	48,900	(1,300)[(ii)(f)]	16,200[(iii)(b)]	63,800	102,501
Total assets	£ 1,746,900	£ (41,700)	£ —	£ 1,705,200	$ 2,739,573
LIABILITIES AND SHAREHOLDERS' EQUITY					
CURRENT LIABILITIES:					
Current portion of long-term debt and capital leases	£ 32,700	£ —	£ —	£ 32,700	$ 52,536
Accounts payable	500,700	—	(250,600)[(iii)(d)]	250,100	401,811
Accrued asbestos liability	—	—	600[(iii)(f)]	600	964
Accrued payroll	—	—	21,900[(iii)(d)]	21,900	35,185
Advance payments from customers	—	—	48,100[(iii)(d)]	48,100	77,277
Accrued taxes	15,800	18,400[(ii)]	28,700[(iii)(d)]	62,900	101,055
Accrued termination benefits	—	—	—	—	—
Other accrued liabilities	42,700	(4,400)[(ii)(f)]	161,600[(iii)(g)]	199,900	321,159
Total current liabilities	591,900	14,000	10,300	616,200	989,987
Long-term debt, less current portion	212,400	—	—	212,400	341,242
Long-term asbestos liability	—	(1,900)[(ii)]	2,900[(iii)(f)]	1,000	1,607
Pension and accrued post-retirement benefits	159,000	—	—	159,000	255,449
Deferred income tax liability	51,600	2,800[(ii)]	(10,300)[(iii)(c)]	44,100	70,851
Other liabilities	30,700	(3,300)[(ii)(f)]	(2,900)[(iii)(f)]	24,500	39,359
Total liabilities	1,045,600	11,600	—	1,057,200	1,698,495
Equity:					
Preferred stock	—	—	—	—	—
Common stock	3,300	—	—	3,300	5,302
Additional paid-in capital	1,600	—	—	1,600	2,571
(Accumulated deficit) Retained earnings	1,076,500	(60,500)[(ii)]	—	1,016,000	1,632,306
Accumulated other comprehensive loss	(434,300)	7,200[(ii)]	—	(427,100)	(686,179)
Total Colfax Corporation equity	647,100	(53,300)	—	593,800	954,000
Noncontrolling interest	54,200	—	—	54,200	87,078
Total Equity	701,300	(53,300)	—	648,000	1,041,078
Total liabilities and equity	£ 1,746,900	£ (41,700)	£ —	£ 1,705,200	$ 2,739,573

Notes

(i) The consolidated net assets of Charter as at June 30, 2011 have been extracted from the Charter interim results for six month ended June 30, 2011 which are incorporated by reference in this document. However, certain financial statement line items that are disclosed in Charter's balance sheet are not separately presented on Colfax's balance sheet. Therefore, in extracting the consolidated net assets disclosed above, certain balance sheet line items were grouped so that their presentation would be consistent with Colfax. The groupings were made prior to the presentation above and are as follows:

(Thousands)		
Non-Current Assets:		
Investments in associates and joint ventures	£	(21,700)
Retirement benefit assets		(26,900)
Derivative financial instruments		(300)
Other assets		48,900
Current Assets:		
Derivative financial instruments		(4,000)
Current income tax receivables		(6,500)
Assets held for sale		(6,800)
Other current assets		17,300
Current Liabilities:		
Derivative financial instruments		(3,000)
Provisions for other liabilities and charges		(39,700)
Other accrued liabilities		42,700
Non-Current Liabilities:		
Provisions for other liabilities and charges		(20,400)
Derivative financial instruments		(300)
Other payables		(10,000)
Other liabilities		30,700

(ii) Because Colfax reports under US GAAP and Charter reports under IFRS, adjustments have been made to present the net assets of Charter in accordance with the US GAAP policies of Colfax. No account has been taken of any purchase price adjustments to Charter's net assets at June 30, 2011 as any such purchase price adjustments cannot be accurately and reliably calculated at this point in time. Accordingly, the entire excess over the net book value of Charter's net assets (after taking account of the US GAAP adjustments) has been allocated to goodwill as part of the Acquisition's adjustments described in note (3) below. The adjustments to present net assets in accordance with US GAAP include the following:

(Millions)		**Accrued Taxes**		**Deferred income tax liability**		**Other**		**Retained Earnings Impact**
Write-off of capitalized development costs	£	–	£	2.9	£	(18.7)[(a)]	£	15.8
Reversal of PP&E re-valuation		—		1.8		(17.2)[(b)]		15.4
Provision for uncertain tax provision		(19.0)		(8.0)		—		27.0[(c)]
Pension amortization expense		—		—		(7.2)[(d)]		7.2
Reduction of legal provisions		—		—		1.9[(e)]		(1.9)
Reversal of accrued future defense costs		—		0.5[(f)]		1.9		(2.4)[(f)]
Other		0.6		—		—		(0.6)[(g)]
Total	£	(18.4)	£	(2.8)[(h)]	£	(39.3)	£	60.5

Notes

(a) Under IFRS, costs associated with capitalization of intangible assets are classified into research phase costs, which are always expensed, and development phase costs, which are capitalized provided they meet specific criteria. Under US GAAP, research and development costs are expensed as incurred. Only under limited circumstances may development costs be capitalized, such as costs for development of internal use software. An adjustment has been recorded to reverse £18.7 million in product development costs, as well as the related deferred taxes of £2.9 million, which have been capitalized under IFRS.

(b) Upon initial transition to IFRS, Charter elected to record certain assets at their ''fair value as deemed cost'' at the date of transition as permitted by IFRS. Under US GAAP, revaluation of fixed assets is not permitted. Accordingly, at June 30, 2011, an amount of £17.2 million has been reversed from property, plant and equipment, as well as the related deferred tax impact of £1.8 million, with a corresponding reduction to retained earnings.

(c) Under US GAAP, an uncertain tax position is measured based on a cumulative probability model, whereby the largest amount of tax benefit/cost that is more likely than not of being realized upon ultimate settlement is the amount recorded. The cumulative probability approach is not permitted under IFRS and instead an expected value or single best estimate of the most likely outcome is used. An adjustment of £27 million has been reflected to align the measurement of uncertain tax positions as required by US GAAP.

(d) Under IFRS, actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized by Charter in full in the period in which they occur directly within equity, in the statement of comprehensive income. Under this IFRS policy option, amounts are not subsequently recognized in the income statement. US GAAP requires that actuarial gains or losses are either recognized in full in the income statement or are deferred using the ''corridor approach'' (e.g., deferred in accumulated other comprehensive income (AOCI) on the balance sheet in order to reflect the funded status of defined benefit plans, and amortized as a component of net periodic benefits expense over the remaining life expectancy of the plan participants) or any systematic method that results in faster recognition than the corridor approach. An adjustment of £7.2 million has been recorded at June 30, 2011 to reclassify Charter's actuarial gains and losses from retained earnings under IFRS to accumulated other comprehensive loss under US GAAP.

(e) In determining the amount of provision for a liability that is uncertain in timing or amount of settlement, IFRS requires recognition of the best estimate of the amount that would be required to settle an obligation, and where a range of equally possible outcomes exists, the midpoint estimate is accrued. Under US GAAP, when no amount within a range is a better estimate than any other amount, the low end of the range is accrued. An adjustment has been recorded at June 30, 2011 to reverse a £1.9 million legal provision recorded by Charter under IFRS which would have been recorded at the low end of the range under US GAAP (i.e., nil).

(f) It is Colfax's policy to not record future legal defense costs under US GAAP and accordingly provisions recorded by Charter for such costs have been reversed. The following summarizes the adjustment arising as a result of this policy difference under US GAAP (in millions):

Other accrued liabilities	$ 4.4	
Other liabilities	3.3	
Other assets	(1.3)	
Other current assets	(2.0)	
Reduction in future legal defense costs		4.4
Deferred income taxes, net (current)	(1.3)	
Deferred income taxes, net (long term)	(1.2)	
Deferred income tax liability	0.5	
		(2.0)
Increase in retained earnings		$ 2.4

(g) Other adjustment of £0.6 million related to accrued taxes for stock-based compensation.

(h) The tax impact of the adjustments was calculated using the Charter tax rate on a discrete basis dependent on the taxing jurisdiction.

(iii) Certain reclassifications have been made to conform to US GAAP presentation and the accounting policies of Colfax.

	(Thousands)
(a) *Amounts held in cash and cash deposits, which are inconsistent with Colfax policy under US GAAP:*	
Cash and cash equivalents	£(7,200)
Other current assets	7,200(i)
(b) *Non-trade and long-term receivables, reclassified consistent with Colfax policy under US GAAP:*	
Accounts receivable	(103,600)
Prepaid expenses	29,900
Other current assets	57,500(i)
Other assets	16,200
(c) *Reclassification of non-current deferred income taxes, consistent with Colfax policy under US GAAP:*	
Deferred income taxes, net (current assets)	23,900
Deferred income taxes, net (non-current assets)	(23,900)
Other accrued liabilities	10,300(ii)
Deferred income tax liability	(10,300)
(d) *Presentation of accrued payroll, advance payments from customers, accrued taxes and other accrued liabilities to separate financial statement line items, consistent with Colfax policy under US GAAP:*	
Accounts payable	(250,600)
Accrued payroll	21,900
Advance payments from customers	48,100
Accrued taxes	28,700
Other accrued liabilities	151,900(ii)
(e) *Reclassification of capitalized software to fixed assets, consistent with Colfax policy under US GAAP:*	
Property, plant and equipment, net	21,200
Intangible assets, net	(21,200)
(f) *Presentation of asbestos liability to separate financial statement line items, consistent with Colfax policy under US GAAP:*	
Accrued asbestos liability	600
Other accrued liabilities	(600)(ii)
Long-term asbestos liability	2,900
Other liabilities	(2,900)
(g) *Subtotal of financial statement line items impacted by multiple adjustments detailed above:*	
Other current assets (sum of (i)'s)	64,700
Other accrued liabilities (sum of (ii)'s)	161,600

(iv) Converted from pounds sterling into US dollars at a rate of $1.6066:£1, being the closing rate on July 1, 2011.

(3) The estimated purchase price, excess purchase price over net assets acquired and adjustment to Goodwill are as follows (in millions, except exchange ratio and share price):

Charter shares outstanding as of September 12, 2011		167.9(i)
Exchange ratio		0.1241(i)
Total Colfax shares to be issued		20.8
Colfax closing share price on September 9, 2011	$	23.04
Total value of Colfax shares to be issued	$	480.0(i)
Total cash consideration paid at 730 pence per Charter share	$	1,968.8(i)
Total purchase price	$	2,448.8
Add: Total Debt assumed	$	393.8
Less: Total Cash acquired		(132.7)
Purchase price, net	$	2,709.9
Assets acquired, net of cash acquired	$	2,606.9
Deferred tax adjustment		(10.6)(ii)
Noncontrolling interest		(87.1)
		2,509.2
Liabilities acquired		(1,698.5)
Less debt assumed		393.8
Total transaction expenses - Charter		(64.6)
Net assets acquired	$	(1,369.3)
Goodwill adjustment	$	1,570.0

No adjustment has been made to state Charter's assets and liabilities at fair value.

Notes

(i) Under the terms of the Acquisition, Charter Shareholders will be entitled to receive 730 pence in cash and 0.1241 newly issued shares of Colfax Common Stock in exchange for each share of Charter's ordinary share capital representing a 100% acquisition. The cash portion of the purchase price was converted at the July 1, 2011 period end rate of $1.6066:£1, which differs from the exchange rate used elsewhere in this document.

The ordinary stock portion of the purchase price was calculated using a price of $23.04 for each share of Colfax Common Stock based on the closing share price of Colfax Common Stock on the NYSE on September 9, 2011, the closing price on the last business day prior to the announcement of the Acquisition. The actual purchase price will be determined based upon the stock price at the date the New Colfax Common Shares are transferred.

(ii) Deferred tax adjustment represents Charter's historical deferred tax assets of $10.6 million that Colfax will be unable to utilize in certain taxing jurisdictions due to the change in control.

(4) As discussed more fully in *Part 6: Colfax Operating and Financial Review – Liquidity and Capital Resources – Financing of the Acquisition, Part 14: Additional Information – 3. Share Capital* and *Part 14: Additional Information – 12. Material Contracts*, the 730 pence per share portion of the offer is expected to be funded through newly issued shares of Colfax Common Stock, the issuance of Series A Preferred Stock and new debt pursuant to the Credit Agreement. The proceeds will be offset by the redemption of the existing debt of both companies.

The related proceeds reflected in the unaudited pro forma consolidated financial statements of Colfax for the six months ended July 1, 2011 are as follows (in millions):

Issuance of Colfax Common Stock to BDT Investor, net	$	334.1(i)
Issuance of Colfax Common Stock under other additional Purchase Agreements		125.0
Total proceeds from the issuance of Colfax Common Stock		459.1
Issuance of Series A Preferred Stock, net		334.0(ii)
Term Loans, net of original issue discount and origination fees		1,736.3(iii)
Total sources of funding	$	2,529.4
Cash payment to Charter shareholders		1,968.8
Total Colfax Debt outstanding at July 1, 2011		80.5(iv)
Total Charter Debt outstanding at June 30, 2011		393.8
Total transaction fees and expenses – Colfax and Charter		103.1(v)
Cash acquisition adjustment	$	(16.8)

Notes

(i) The proceeds from the issuance of Colfax Common Stock to BDT Investor are net of approximately $6.0 million of fees directly related to the issuance of these shares.

(ii) The proceeds from the issuance of Series A Preferred Stock are net of approximately $6.0 million of fees directly related to the issuance of these shares. In addition, an adjustment is included to record the 6% per annum cash dividends related to the Series A Preferred Stock.

(iii) Colfax has entered into the Deutsche Bank Credit Agreement which provides term loans totaling $1.8 billion and a revolving credit facility of $300 million. No amounts are expected to be drawn upon the revolving credit facility included in the Deutsche Bank Credit Agreement for the closing of the Acquisition. The amount presented in this table is net of $36.7 million and $27.0 million of deferred financing fees and original issue discount, respectively. The total of the current portion and non-current Debt presented in the pro forma financial statements is net of the $27.0 million of original issue discount and the $36.7 million of deferred financing fees is included in other assets. Other assets of $36.1 million in the pro forma financial statements is net of $0.6 of deferred financing fees (see (iv) below). The following represents a reconciliation from the debt in the table above to the pro forma financial statements (in millions):

Proceeds from term loans	$ 1,800
less: original issue discount	(27.0)
	1,773
Repayment of Colfax debt	(80.5)
Repayment of Charter debt	(393.8)
	1,298.7
Current portion of debt acquisition adjustment	27.5
Noncurrent portion of debt acquisition adjustment	1,271.2

(iv) The Acquisition Adjustments reflect the elimination of approximately $1.4 million of total deferred financing fees (of which $0.7 million is included in other current assets and $0.6 million is included in other assets) associated with Colfax's debt outstanding as of July 1, 2011, as well as the termination of a related interest rate swap liability of $0.9 million, which also impacted on accumulated other Comprehensive loss.

(v) Acquisition-related transaction costs incurred by Colfax that are not directly related to the issuance of the debt or equity detailed above are estimated to be $37.5 million. These fees include advisory, legal, audit, valuation and other professional fees and are reflected in the Acquisition Adjustments as a reduction in Cash and (Accumulated deficit) retained earnings. An additional $64.6 million is estimated to be incurred by Charter and are reflected in note (3) above. Colfax expects that it may be required to fund existing obligations of Charter, including pension obligations; however, no adjustment has been made for these amounts as they are not definitive in amount at this time.

(5) The impact to Total equity can be summarized as follows:

(Thousands)	A	B	C	D	E	F	Adjustments to Equity
Preferred stock	—	334,050	—	—	—	—	334,050
Common stock	(5,302)	—	20	21	—	—	(5,261)
Additional paid-in capital	(2,571)	—	459,030	479,960	—	—	936,419
(Accumulated deficit) Retained earnings	(1,632,306)	—	—	—	(38,896)[(i)]	(941)	(1,672,143)
Accumulated other comprehensive loss	686,179	—	—	—	—	941	687,120
	(954,000)	334,050	459,050	479,981	(38,896)	—	280,185

(A) Adjustment to eliminate the historical equity balances of Charter
(B) Issuance of Preferred stock to BDT Capital
(C) Issuance of Common stock for cash consideration
(D) Issuance of Common stock in exchange for ordinary shares of Charter
(E) Fees and expenses of Colfax related to the acquisition
(F) Termination of the interest rate swap for Colfax in connection with the refinancing of long-term debt

Notes
(i) Represents $37.5 million of acquisition-related transaction costs (discussed in Note 4(v) above) and the elimination of $1.4 million of deferred financing fees (discussed in 4(iv) above).

(6) No adjustments have been made to the unaudited pro forma balance sheet to reflect the trading results of Colfax since July 1, 2011 or Charter since June 30, 2011.

Effect on earnings

If the Acquisition had occurred at the beginning of the six months ended July 1, 2011 the impact on earnings would have been to increase after tax earnings of Colfax by the net profit of Charter adjusted to reflect the adoption of the Colfax Group's accounting policies and to decrease the after tax earnings of Colfax by (a) the amortization of identifiable intangible assets recognized as part of the purchase price allocation; (b) incremental interest expense relating to additional financing less the associated tax credit; (c) transaction fees and expenses; and (d) net income statement impact of other fair value adjustments in purchase accounting.

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October 18, 2011

The Directors
Colfax Corporation
8170 Maple Lawn Boulevard
Suite 180
Fulton, MD 20759

Dear Sirs:

We report on the pro forma financial information (the ''Pro Forma Financial Information'') set out in Part 10 of the prospectus dated October 18, 2011 (the ''Prospectus''), which has been prepared on the basis described in Part 10 of the Prospectus, for illustrative purposes only, to provide information about how the transaction might have affected the financial information presented on the basis of the accounting policies adopted by Colfax Corporation (the ''Company'') in preparing the unaudited financial statements for the six month period ended July 1, 2011. This report is required by item 20.2 of Annex I of Commission Regulation (EC) No 809/2004 and is given for the purpose of complying with that item and for no other purpose.

Save for any responsibility arising under Prospectus Rule 5.5.3R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of Annex I to Commission Regulation (EC) No 809/2004, consenting to its inclusion in the Prospectus.

Responsibilities

It is the responsibility of the Directors of the Company to prepare the Pro Forma Financial Information in accordance with item 20.2 of Annex I of Commission Regulation (EC) No 809/2004.

It is our responsibility to form an opinion, as required by item 7 of Annex II of the Commission Regulation (EC) No 809/2004, as to the proper compilation of the Pro Forma Financial Information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro Forma Financial Information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue. The unaudited condensed financial statements of Charter International plc as at June 30, 2011 were reported on by PricewaterhouseCoopers LLP.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro Forma Financial Information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America or other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

- the Pro Forma Financial Information has been properly compiled on the basis stated; and
- such basis is consistent with the accounting policies of the Company.

Declaration

For the purposes of Prospectus Rule 5.5.3R (2)(f) we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2 of Annex I of Commission Regulation (EC) No 809/2004.

Yours faithfully,

Ernst + Young LLP

PART 11: TAXATION

United Kingdom Taxation

General

The following statements are only a general guide to the principal UK tax consequences of holding and disposing of New Colfax Common Shares (including where represented by Colfax CDIs) and do not constitute legal or tax advice. They are based on UK tax legislation and published practice of HMRC in force and effect at the date of this document, both of which are subject to change, possibly with retrospective effect.

These statements relate solely to New UK Colfax Shareholders who are the absolute beneficial owners of New Colfax Common Shares (including where represented by Colfax CDIs) and who are beneficially entitled to the dividends thereon in circumstances where the dividends paid are regarded for UK tax purposes as that person's own income (and not the income of some other person), who hold their New Colfax Common Shares as an investment and not as trading stock and who have not (and are not deemed to have) acquired their New Colfax Common Shares by reason of an office or employment.

The statements below are not exhaustive and may not apply to certain classes of New UK Colfax Shareholders such as (but not limited to) dealers in securities, broker dealers, insurance companies, collective investment schemes, persons who hold the New Colfax Common Shares as part of hedging or conversion transactions, persons connected with Colfax, or persons who control or hold (either alone or together with one or more associated or connected persons) directly or indirectly, 10% or more of the shares and/or voting power of Colfax.

The statements below in respect of UK stamp duty reserve tax also assume that Colfax is a body corporate not incorporated in the UK, that the central management and control of Colfax is not exercised in the UK, that the New Colfax Common Shares are not registered in a register kept in the UK, that the Colfax CDIs are registered in a register kept in the UK, that New Colfax Common Shares are not paired with shares issued by a body corporate incorporated in the UK, and that the New Colfax Common Shares are listed on a recognised stock exchange within the meaning of section 1137 of the Corporation Tax Act 2010. The Directors have confirmed that they believe this will be, and will continue to be, the case.

IF NEW UK COLFAX SHAREHOLDERS OR POTENTIAL INVESTORS ARE IN ANY DOUBT AS TO THEIR TAX POSITION OR IF NEW UK COLFAX SHAREHOLDERS OR POTENTIAL INVESTORS ARE OR MAY BE SUBJECT TO TAX IN A JURISDICTION OTHER THAN THE UK SUCH PERSONS SHOULD CONSULT THEIR OWN PROFESSIONAL ADVISERS.

Dividends – UK Withholding Tax

Colfax is not required to withhold UK tax from dividends paid on the New Colfax Common Shares.

(As regards US withholding tax, New UK Colfax Shareholders and potential investors should see *Part 11: Taxation – US Taxation*).

Dividends – UK Corporation Tax and UK Income Tax

General

A New UK Colfax Shareholder who receives a dividend on the New Colfax Common Shares may be subject to UK corporation or UK income tax (as the case may be) on that dividend.

As described in *Part 11: Taxation – US Taxation*, US tax will generally be required to be withheld from dividends paid on New Colfax Common Shares. The normal rate of tax to be withheld is 30% of the gross amount of the dividend. This rate may, however, be reduced under an applicable double tax treaty. The rate of withholding on dividends for New UK Colfax Shareholders who are entitled to claim (and who make a valid claim for) the benefit of the US-UK Double Tax Treaty is generally 15%.

If a New UK Colfax Shareholder receives a dividend on New Colfax Common Shares and US tax is withheld from the payment of the dividend which is not recoverable from the US tax authorities, credit for such US tax may be available for set-off against a liability to UK corporation tax or UK income tax on the dividend. The amount of such credit will normally be equal to the lesser of the amount of such tax withheld and the liability to UK tax on the dividend. Such credit will not normally be available for set-off against a New UK Colfax Shareholder's liability to UK tax other than on the dividend and, to the extent that such credit is not set off against UK tax on the dividend, the credit will be lost.

Individuals

New UK Colfax Shareholders who are individuals will generally be subject to UK income tax on the gross amount of any dividend on the New Colfax Common Shares. Such individuals should generally be entitled to a non-payable tax credit equal to one ninth of that amount. For such New UK Colfax Shareholders as are eligible for this tax credit, the credit will have the effect of reducing the effective rate of UK income tax on the gross amount of the dividend to zero (for individuals taxable at the dividend ordinary rate), 25% (for individuals taxable at the dividend upper rate) and approximately 36.1% (for individuals taxable at the dividend additional rate) subject, in the latter cases, to any credit for US tax withheld (as described above).

Special rules may apply to individuals who are resident but not domiciled in the UK for UK tax purposes.

Companies

New UK Colfax Shareholders who are within the charge to UK corporation tax will prima facie be subject to UK corporation tax on any dividends on the New Colfax Common Shares unless certain conditions for exemption are satisfied. The exemption is of wide application and such New UK Colfax Shareholders will therefore generally not be subject to UK corporation tax on the dividend.

Disposal of New Colfax Common Shares or Colfax CDIs – UK Corporation Tax and UK Capital Gains Tax

A disposal or deemed disposal of New Colfax Common Shares (including where represented by Colfax CDIs) by a New UK Colfax Shareholder may, depending on the New UK Colfax Shareholder's particular circumstances and subject to any available exemption or relief, give rise to a chargeable gain or allowable loss for the purposes of UK corporation tax on chargeable gains or UK capital gains tax (as the case may be).

An individual New UK Colfax Shareholder who for a period of less than five years either has ceased to be resident and ordinarily resident for UK tax purposes in the UK or has become resident in a territory outside the UK for the purposes of double taxation relief arrangements and who disposes of the New Colfax Common Shares during that period, may be liable on his or her return to the UK to UK capital gains tax on any chargeable gain realized on such disposal. Double taxation relief arrangements do not normally apply to prevent such an individual from being subject to UK capital gains tax in such circumstances.

Special rules may apply to individuals who are resident but not domiciled in the UK for UK tax purposes.

UK Stamp Duty and UK Stamp Duty Reserve Tax

No UK stamp duty will be payable in respect of a paperless transfer of the Colfax CDIs or of the New Colfax Common Shares in dematerialized form.

In practice, UK stamp duty will not generally need to be paid on an instrument transferring New Colfax Common Shares. In particular, no UK stamp duty will be payable on an instrument transferring New Colfax Common Shares if such instrument is executed and retained outside the UK and does not relate to any property situated in the UK or to any other matter or thing done or to be done in the UK (which may include, without limitation, the involvement of UK bank accounts in payment mechanics).

No UK stamp duty reserve tax will arise in respect of an agreement to transfer New Colfax Common Shares or Colfax CDIs.

US Taxation

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, YOU ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF UNITED STATES FEDERAL INCOME TAX ISSUES IN THIS DOCUMENT IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY YOU FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON YOU UNDER THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE ''CODE''); (B) SUCH DISCUSSION IS INCLUDED HEREIN BY COLFAX IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING

OF CIRCULAR 230) OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) YOU SHOULD SEEK ADVICE BASED ON YOUR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following is a general discussion of the material United States federal income tax considerations applicable to a non-US holder (as defined below) with respect to the ownership and disposition of New Colfax Common Shares and Colfax CDIs. This discussion assumes that a non-US holder holds New Colfax Common Shares or Colfax CDIs as a capital asset. This discussion is for general information only and is not tax advice. As used in this discussion, the term ''non-US holder'' means a beneficial owner of New Colfax Common Shares or Colfax CDIs that is, for United States federal income tax purposes, neither a partnership (or an entity classified as a partnership for United States federal income tax purposes) nor any of the following:

- an individual who is a citizen or resident of the United States;
- a corporation, or other entity treated as a corporation for US federal income tax purposes, created or organized in or under the laws of the United States or any political subdivision thereof;
- an estate whose income is includible in gross income for United States federal income tax purposes regardless of its source; or
- a trust, in general, if (a) a United States court is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust, or (b) the trust has a valid election in effect under applicable United States Treasury Regulations to be treated as a United States person.

If an entity classified as a partnership for United States federal income tax purposes holds New Colfax Common Shares or Colfax CDIs, the tax treatment of a partner in such partnership generally depends on the status of the partner and the activities of the partnership. If you are a partnership holding New Colfax Common Shares or Colfax CDIs, or a partner in such a partnership, you should consult your tax advisers.

This discussion does not address all aspects of United States federal income taxation that may be relevant to particular non-US holders in light of their individual circumstances or the US federal income tax consequences applicable to non-US holders that are subject to special rules, such as controlled foreign corporations, passive foreign investment companies, corporations that accumulate earnings to avoid United States federal income tax, financial institutions, insurance companies, tax-exempt organizations, United States expatriates, broker-dealers and traders in securities, non-US holders that hold New Colfax Common Shares or Colfax CDIs as part of a ''straddle,'' ''hedge,'' ''conversion transaction'' or other integrated investment.

The discussion is based on provisions of the Code, applicable United States Treasury Regulations promulgated thereunder and administrative and judicial interpretations thereof, all as in effect on the date hereof, and all of which are subject to change, possibly on a retroactive basis. Any changes could alter the tax consequences to non-US holders described in this document. This discussion does not describe any United States state or local income or other tax consequences of holding and disposing of New Colfax Common Shares or Colfax CDIs.

For United States federal income tax purposes, non-US holders of Colfax CDIs generally should be treated as owners of the New Colfax Common Shares represented by the Colfax CDIs. Accordingly, the United States federal income tax consequences discussed below apply equally to non-US holders of Colfax CDIs or the underlying New Colfax Common Shares.

EACH NON-US HOLDER IS URGED TO CONSULT ITS TAX ADVISER REGARDING THE UNITED STATES FEDERAL, STATE, LOCAL, AND NON-UNITED STATES INCOME AND OTHER TAX CONSEQUENCES OF ACQUIRING, HOLDING AND DISPOSING OF NEW COLFAX COMMON SHARES OR COLFAX CDIs.

Distributions on New Colfax Common Shares

Distributions on New Colfax Common Shares (including New Colfax Common Shares underlying Colfax CDIs) generally will constitute dividends for United States federal income tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under United States federal income tax principles. If a distribution exceeds our current and accumulated earnings and profits as determined under United States federal income tax principles, the excess will be treated first as a tax-free return of your adjusted tax basis in the New Colfax Common Shares or

Colfax CDIs and thereafter as capital gain, subject to the tax treatment described below at *Part 11: Taxation – US taxation – Sale, Exchange or Other Disposition of New Colfax Common Shares or Colfax CDIs*.

The gross amount of dividends paid to a non-US holder of New Colfax Common Shares or Colfax CDIs ordinarily will be subject to withholding of United States federal income tax at a rate of 30%, or at a lower rate if an applicable income tax treaty so provides and we have received proper certification as to the application of that treaty.

If you are a non-US holder and conduct a trade or business within the United States, you generally will be subject to United States federal income tax at ordinary United States federal income tax rates (on a net income basis) on dividends that are effectively connected with the conduct of such trade or business or, if certain tax treaties apply, on dividends that are attributable to your permanent establishment in the United States, and such dividends will not be subject to the withholding described above. In the case of such holder that is a non-United States corporation, you may also be subject to a 30% ''branch profits tax'' unless you qualify for a lower rate under an applicable United States income tax treaty.

Generally, to claim the benefit of any applicable United States tax treaty or an exemption from withholding because the income is effectively connected with the conduct of a trade or business in the United States, you must provide a properly executed IRS Form W-8BEN for treaty benefits or IRS Form W-8ECI for effectively connected income (or such successor form as the IRS designates), before the distributions are made. These forms must be periodically updated. If you are a non-US holder, you may obtain a refund of any excess amounts withheld by timely filing an appropriate claim for refund with the IRS. Non-US holders should consult their tax advisers regarding their entitlement to benefits under an applicable income tax treaty and the specific manner of claiming the benefits of the treaty.

Sale, Exchange or Other Disposition of New Colfax Common Shares or Colfax CDIs

A non-US holder generally will not be subject to United States federal income tax on gain recognized on a disposition of New Colfax Common Shares or Colfax CDIs unless:

- the non-US holder is an individual who is present in the United States for 183 days or more during the taxable year of the disposition and meets certain other conditions;
- the gain is effectively connected with the non-US holder's conduct of trade or business in the United States and, in some instances if an income tax treaty applies, is attributable to a permanent establishment or fixed base maintained by the non-US holder in the United States; or
- we are or have been a ''United States real property holding corporation'' for United States Federal income tax purposes at any time during the shorter of the five-year period ending on the date of disposition and the period that the non-US holder held the New Colfax Common Shares or Colfax CDIs.

We have determined that we are not, and we believe we will not become, a United States real property holding corporation.

An individual non-US holder described in the first bullet point immediately above is subject to United States federal income tax on the non-US holder's gains (including gain from the sale of New Colfax Common Shares or Colfax CDIs, net of applicable United States source losses incurred on sales or exchanges of other capital assets during the year) at a flat rate of 30%. Other non-US holders who may be subject to United States federal income tax on the disposition of New Colfax Common Shares or Colfax CDIs will be subject to United States federal income tax on the disposition in the same manner in which citizens or residents of the United States would be subject to United States federal income tax.

Information Reporting and Backup Withholding

You generally will be required to comply with certain certification procedures to establish that you are not a United States person in order to avoid backup withholding with respect to dividends or the proceeds of a disposition of New Colfax Common Shares or Colfax CDIs. In addition, we are required to annually report to the Internal Revenue Service and you the amount of any dividends paid to you, regardless of whether we actually withheld any tax. Copies of the information returns reporting such dividends and the amount withheld may also be made available to the tax authorities in the country in which you reside under the provisions of an applicable income tax treaty. Any amounts withheld under the backup withholding rules generally will be allowed as a refund or credit against your US federal income tax liability, provided that certain required information is provided on a timely basis to the Internal Revenue Service.

Recently Enacted Legislation

Recently enacted legislation will require withholding at a rate of 30% on dividends in respect of, and gross proceeds from the sale of, New Colfax Common Shares or Colfax CDIs held by or through certain foreign financial institutions (including investment funds) beginning after December 31, 2013, in the case of dividends, and beginning after December 31, 2014, in the case of such gross proceeds, unless such institution enters into an agreement with the Secretary of the Treasury to report, on an annual basis, information with respect to shares in the institution held by certain United States persons and by certain non-US entities that are wholly- or partially-owned by United States persons. Accordingly, the entity through which New Colfax Common Shares or Colfax CDIs are held will affect the determination of whether such withholding is required. Similarly, dividends in respect of, and gross proceeds from the sale of, New Colfax Common Shares or Colfax CDIs held by certain investors that are non-financial non-US entities will be subject to withholding at a rate of 30%, beginning after December 31, 2013, in the case of dividends, and beginning after December 31, 2014, in the case of such gross proceeds, unless such entity either (i) certifies to us that such entity does not have any ''substantial United States owners'' or (ii) provides certain information regarding the entity's ''substantial United States owners,'' which we will in turn provide to the Secretary of the Treasury. **Non-US holders are encouraged to consult with their tax advisors regarding the possible implications of the legislation on their investment in New Colfax Common Shares or Colfax CDIs.**

PART 12: SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN IFRS AND US GAAP

The consolidated financial information on Colfax contained in Part 8: *Colfax Financial Information* is prepared and presented in accordance with US GAAP. The consolidated financial information on Charter referred to in Part 9: *Charter Financial Information,* which has been incorporated in this document by reference, is prepared and presented in accordance with IFRS. Certain differences exist between IFRS and US GAAP which might be material to the financial information included in this document.

Colfax has prepared a summary of significant differences between IFRS and US GAAP that it believes may be material. Neither Colfax nor Charter has prepared a reconciliation of their respective consolidated financial statements and related footnote disclosures between IFRS and US GAAP. Accordingly, no assurance is provided that the following summary of significant differences between IFRS and US GAAP is complete.

Had Colfax or Charter undertaken any such reconciliation, other accounting and disclosure differences may have come to Colfax's attention that are not identified below. Accordingly, Colfax can provide no assurance that the identified differences in the summary below represent all principal differences relating to the accounting principles applied by Colfax and Charter. The following summary of significant differences between IFRS and US GAAP does not include all differences that exist between IFRS and US GAAP and is not intended to provide a comprehensive listing of all such differences specifically related to Colfax, Charter or the industry in which each operates.

The differences highlighted below reflect only those differences in accounting policies in force at the time of the preparation of the US GAAP and the IFRS consolidated financial statements. No attempt has been made to identify future differences between IFRS and US GAAP that may be the result of prescribed changes in accounting standards, transactions or events that may occur in the future which could have a significant impact on Colfax and/or Charter. Regulatory bodies that promulgate IFRS and US GAAP have significant ongoing projects that could affect future comparisons between IFRS and US GAAP. Future developments or changes in either IFRS or US GAAP may give rise to additional differences between IFRS and US GAAP which could have a significant impact on Colfax, Charter and/or the Combined Group.

In making an investment decision, investors must rely on their own examination of Colfax, Charter, the terms of the Acquisition and the financial information. Potential investors should consult their own professional advisers for an understanding of the differences between IFRS and US GAAP, and how these differences might affect the financial information in this document.

Development costs

US GAAP

Development costs are expensed as incurred. Development costs related to computer software developed for external use are capitalized once technological feasibility is established in accordance with specific criteria. In the case of software developed for internal use, only those costs incurred during the application development stage may be capitalized.

IFRS

Development costs are capitalized when technical and economic feasibility of a project can be demonstrated in accordance with specific criteria. Some of the stated criteria include: demonstrating technical feasibility, intent to complete the asset, and liability to sell the asset in the future, as well as others. There is no separate guidance addressing computer software development costs.

Pensions

US GAAP

Under US GAAP, actuarial gains and losses on pensions may be recognized in the income statement as they occur or deferred through either a corridor approach or other rational approach applied consistently from period to period. Under US GAAP, deferred actuarial gains and losses are amortized over the remaining service period of active employees and over the remaining life expectancy of inactive employees.

IFRS

Actuarial gains and losses may be recognized in the income statement as they occur or deferred through a corridor approach applied consistently from period to period. Companies can elect to recognize immediately in other comprehensive income. Gains or losses immediately recognized in other comprehensive income are not subsequently recognized in the income statements

Under IFRS deferred actuarial gains and losses are amortized over the remaining service period (that is, immediately for inactive employees).

Taxes

US GAAP

Under US GAAP, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to the difference between the carrying amounts of existing assets and liabilities and their respective tax basis. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under US GAAP, deferred tax assets are recognized in full, but valuation allowance reduces the asset to the amount that is more likely than not to be realized.

IFRS

Under IFRS, deferred income tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized. Deferred income tax liabilities are provided in full on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts. Deferred income tax assets and liabilities are calculated at the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Property, plant and equipment – revaluation

US GAAP

Under US GAAP, revaluation of properties is not permitted.

IFRS

As permitted by IFRS 1 "*First time Adoption of International Financial Reporting Standards*" (IFRS 1), preparers of accounts may elect to use the deemed cost option whereby this revalued amount is used as deemed cost on the date of transition. Certain properties of Charter were revalued in previous years and treated as deemed cost on transition to IFRS 1.

Restructuring costs, warranty and litigation

Both US GAAP and IFRS require recognition of a loss based on the probability of occurrence, although the definition of probability is different under US GAAP (in which probable is interpreted as "likely") and IFRS (in which probably is interpreted as "more likely than not").

US GAAP

Under US GAAP (ASC 420), once management has committed to a detailed exit plan, each type of cost is examined to determine when recognized. Involuntary employee termination costs are recognized over the future service period, or immediately if there is none. Other costs are expensed when incurred. Under US GAAP, the most likely outcome within the range is accrued. When no one outcome is more likely than the others, the minimum amount in the range of outcomes is accrued.

IFRS

Under IFRS, once management has "demonstrably committed" (that is a legal or constructive obligation has been incurred) to a detailed exit plan, the general provisions of IAS 37 apply. Costs typically are recognized earlier than under US GAAP because IAS 37 focuses on the exit plan as a whole rather than individual cost components of the plan. Under IFRS, best estimate of obligation should be accrued. The best estimate is typically expected value, although mid-point in the range may also be used.

PART 13: PROFIT FORECAST

PART A: PROFIT FORECAST FOR THE COLFAX GROUP FOR THE YEAR ENDING DECEMBER 31, 2011

The profit forecast below includes forward-looking statements about our expected results and operations. Charter Shareholders and potential investors should read Important Information – Forward-looking statements for a discussion of the risks and uncertainties related to those statements and should also read Risk Factors for a discussion of certain factors that may affect the business, results of operations or financial condition of the Colfax Group or the Combined Group.

Colfax made the following public statement on July 29, 2011 within its second quarter earnings release: ''*we have re-evaluated our guidance for full year 2011 and are currently expecting organic sales growth for full year 2011 of 9% to 11% in comparison to 2010, up from our previous guidance of 6% to 8%. Additionally, we anticipate adjusted earnings per share to be within the range of $1.20 to $1.26 for full year 2011 compared to our previous expectation of $1.12 to $1.22.*''.

Adjusted earnings per share is defined as net earnings attributable to Colfax, before asbestos liability and defense costs, asbestos coverage litigation expenses, and restructuring and other related charges to the extent such costs impact the periods presented, divided by the weighted average diluted number of shares of Colfax Common Stock during the periods presented. The weighted average diluted number of shares of Colfax Common Stock is calculated as the weighted average number of shares in issue during the periods presented after adding back the incremental number of shares assumed from conversions, and the net impact of assumed share repurchases and shares to be issued under the long term incentive plan.

In addition, Colfax included the following table in its earnings release for the six months ended July 1, 2011.

Colfax Corporation
Projected Adjusted 2011 Net Income Per Share
(Unaudited)

	EPS(1)	Range $
Projected net income per share	0.87	0.93
Restructuring and other related charges	0.12	0.12
Asbestos coverage litigation	0.12	0.12
Asbestos liability and defense costs	0.09	0.09
Projected adjusted net income per share – fully diluted	1.20	1.26

(1) Earnings per share

The table above and the statement regarding adjusted earnings per share for the year ending December 31, 2011 constitute a profit forecast for the purposes of the Prospectus Directive Regulation (EC) 809/2004.

Basis of preparation

The Profit Forecast has been prepared on a basis consistent with the accounting policies adopted by Colfax which are in accordance with US GAAP and are in accordance with those adopted in the preparation of the interim financial statements for the six months ended July 1, 2011 and those expected to be adopted in the financial statements for the year ending December 31, 2011.

The Profit Forecast is based on the interim unaudited condensed consolidated financial statements for the six months ended July 1, 2011 and a forecast for the six months ending December 31, 2011 and on the basis that the Acquisition does not complete before December 31, 2011 and excludes any costs related to the Acquisition.

Assumptions

The Colfax Directors prepared the Profit Forecast on the basis of the following assumptions:

Factors outside the influence or control of the Colfax Directors

- there will not be any changes in general trading conditions, economic conditions, competitive environment or levels of demand, in the countries in which Colfax operates or trades which would materially affect Colfax's business;
- there will be no material cancellations in respect of orders currently placed with Colfax;
- there will be no business interruptions that materially affect Colfax, its major suppliers or major customers by reason of technological faults, natural disasters, industrial disruption, civil disturbance or government action;
- there will be no material change in legislation (including taxation) or regulatory requirements impacting Colfax's operations or its accounting policies;
- the estimated effective tax rate remains constant. This rate assumes that the nature (jurisdiction and character) of Colfax's annual income would remain consistent through December 31, 2011;
- there will be no material exchange rate fluctuations;

Factors within the influence or control of the Colfax Directors

- there will be no material change in the current management team or operational strategy of Colfax, nor of the ownership or control of the business; and
- the estimated effective tax rate remains constant. This excludes the impact of certain one-time items, such as changes in valuation allowances and tax reserves.

PART B: REPORT ON PROFIT FORECAST

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The Directors
Colfax Corporation
8170 Maple Blvd. Suite 180
Fulton, MD20579
USA

18 October 2011

Dear Sirs

We report on the profit forecast comprising earnings per share ("EPS") and adjusted earnings per share ("AEPS") of Colfax Corporation (the "Company") and its subsidiaries (together the "Group") for the year ending December 31, 2011 (the "Profit Forecast"). The Profit Forecast, and the material assumptions upon which it is based, are set out on pages 224 and 225 of the prospectus issued by the Company dated October 18, 2011 (the "Prospectus"). This report is required by item 13.2. of Annex I of Commission Regulation (EC) No 809/2004 and is given for the purpose of complying with that item and for no other purpose.

Save for any responsibility arising under Prospectus Rule 5.5.3R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of Annex I to Commission Regulation (EC) No 809/2004, consenting to its inclusion in the Prospectus.

Responsibilities

It is the responsibility of the Directors of the Company to prepare the Profit Forecast in accordance with the requirements of Commission Regulation (EC) No 809/2004.

It is our responsibility to form an opinion as required by Commission Regulation (EC) No 809/2004 as to the proper compilation of the Profit Forecast and to report that opinion to you.

Basis of preparation of the Profit Forecast

The Profit Forecast has been prepared on the basis stated on page 224 of the Prospectus and is based on the unaudited interim financial results for the six months ended July 1, 2011, and a forecast to December 31, 2011. The Profit Forecast is required to be presented on a basis consistent with the accounting policies of the Group.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included evaluating the basis on which the historical financial information included in the Profit Forecast has been prepared and considering whether the Profit Forecast has been accurately computed based upon the disclosed assumptions and the accounting policies of the Group. Whilst the assumptions upon which the Profit Forecast is based are solely the responsibility of the Directors, we considered whether anything came to our attention to indicate that any of the assumptions adopted by the Directors which, in our opinion, are necessary for a proper understanding of the Profit Forecast have not been disclosed and whether any material assumption made by the Directors appears to us to be unrealistic.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Profit Forecast has been properly compiled on the basis stated.

Since the Profit Forecast and the assumptions on which it is based relate to the future and may therefore be affected by unforeseen events, we can express no opinion as to whether the actual results reported will correspond to those shown in the Profit Forecast and differences may be material.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America or other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion, the Profit Forecast has been properly compiled on the basis stated and the basis of accounting used is consistent with the accounting policies of the Group.

Declaration

For the purposes of Prospectus Rule 5.5.3R (2)(f) we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2 of Annex I of Commission Regulation (EC) No 809/2004.

Yours faithfully

Ernst + Young LLP

PART 14: ADDITIONAL INFORMATION

1. Responsibility

Colfax and the Colfax Directors (whose names appear in *Part 4: Colfax Directors, Senior Managers, Employees and Corporate Governance*) accept responsibility for the information contained in this document. To the best of the knowledge of Colfax and the Colfax Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and contains no omission likely to affect its import.

2. Incorporation

Colfax Corporation was initially incorporated under the name of Constellation Pumps Corporation, and the date of filing of Colfax's original certificate of incorporation with the Secretary of State of the State of Delaware was February 25, 1998. On May 13, 2008, the name registered on the certificate of incorporation was changed to Colfax Corporation.

Colfax's registered office in Delaware is at 2711 Centerville Road, Suite 400, in the City of Wilmington, Delaware 19808. Colfax's principal corporate office is at 8170 Maple Lawn Boulevard, Suite 180, Fulton, Maryland (telephone number: +1 301 323 9000).

The principal legislation under which Colfax Corporation operates is the DGCL.

The liability of Colfax's stockholders is limited. Under the DGCL a stockholder of a corporation is not personally liable for the acts of the corporation, save that a stockholder may become personally liable by reason of his or her own acts.

3. Share Capital

As of the date of this document, Colfax has one class of shares in issue, having a par value of $0.01 per share, namely its shares of Colfax Common Stock.

As of the date of this document, Colfax is authorized to issue 210,000,000 shares, consisting of 200,000,000 shares of Colfax Common Stock and 10,000,000 shares of preferred stock. Colfax's existing authorized and issued fully paid up share capital as of October 14, 2011 (being the latest practicable date prior to publication of this document) was 43,602,712 shares of Colfax Common Stock.

Prior to the closing of the Acquisition, a special meeting of stockholders of Colfax will be held to consider and vote upon *inter alia* an amendment and restatement of Colfax's Certificate of Incorporation to increase the number of shares of authorized capital stock of Colfax.

Colfax's authorized and issued fully paid up share capital, upon completion of the Acquisition and pursuant to the Amended and Restated Certificate of Incorporation contemplated under the Purchase Agreement, is expected to be:

Type of shares	Authorized share capital	Issued share capital(1)
Shares of Colfax Common Stock	400,000,000	84,617,474
Shares of preferred stock	20,000,000	13,877,552

(1) Assuming (a) the special meeting of stockholders of Colfax to be held prior to the closing of the Acquisition approves the relevant increase in the number of shares of authorized capital stock of Colfax; (b) the following subscriptions of Colfax Shares are completed in full: (i) the subscription for 13,877,552 shares of Series A Preferred Stock and 14,756,945 shares of Colfax Common Stock by the BDT Investor; (ii) the subscription for 2,170,139 shares of Colfax Common Stock by Mitchell P. Rales; (iii) the subscription for 2,170,139 shares of Colfax Common Stock by Steven M. Rales; and (iv) the subscription for 1,085,070 shares of Colfax Common Stock by Markel; (c) the completion of the issuance of 20,832,469 New Colfax Common Shares as part consideration for the Acquisition; and (d) none of the shares of Series A Preferred Stock are converted into shares of Colfax Common Stock.

The following changes to Colfax's issued share capital have occurred since the beginning of 2008.

Colfax Common Stock

Stock Split

On April 21, 2008, the Colfax Board approved a restatement of capital accounts of the Company through an amendment of the Company's certificate of incorporation, which increased the number of authorized shares of Colfax Common Stock from 100,000 to 200,000,000, to provide for a stock split to convert each share of Colfax Common Stock issued and outstanding into 13,436.22841 shares of Colfax Common Stock. The consolidated financial statements give retroactive effect as though the stock split occurred for all periods presented.

Issuance of Colfax Common Stock

On May 13, 2008, Colfax completed its initial public offering of 21,562,500 shares of Colfax Common Stock at a per share price of $18.00. Of the 21,562,500 shares sold in the offering, 11,852,232 shares were new shares issued and sold by Colfax and 9,710,268 shares were existing shares sold by certain selling stockholders.

In 2010 and 2009, 194,999 and 18,078 shares of Colfax Common Stock, respectively, were issued in connection with stock option exercises and employee share-based payment arrangements that vested during the year.

On May 3, 2011, Colfax registered an additional 150,000 shares of Colfax Common Stock, par value $0.001 per share, that may be purchased in the open market and subsequently issued pursuant to the Colfax 401(k) savings plan plus.

Preferred Stock

On May 13, 2008, pursuant to its Certificate of Incorporation, Colfax's preferred stock was automatically converted into shares of Colfax Common Stock upon the closing of its initial public offering. The conversion ratio was determined by dividing the original issue price of the preferred shares by the issue price of the Colfax Common Stock in its initial public offering on such date.

In connection with the transactions contemplated by the BDT Purchase Agreement, discussed in further detail below at *Part 14: Additional Information – 12. Material Contracts*, the Colfax Board will create a new class of stock, Series A Preferred Stock, par value $0.001, pursuant to the authority conferred upon the Colfax Board in accordance with Colfax's Certificate of Incorporation and Bylaws. All 13,877,552 shares of the Series A Preferred Stock will be issued to the BDT Investor.

Repurchases of Colfax Common Stock

On November 5, 2008, the Colfax Board authorized the repurchase from time to time of up to $10 million of its Colfax Common Stock in each of 2008 and 2009 on the open market or in privately negotiated transactions. In the fourth quarter of 2008, Colfax purchased 795,000 shares of its Colfax Common Stock for approximately $5.7 million. There were no such repurchases in 2009 or 2010.

Purchase Agreements

In connection with the Acquisition, Colfax has agreed pursuant to the BDT Purchase Agreement to sell to the BDT Investor (i) 14,756,945 newly-issued shares of Colfax Common Stock, and (ii) 13,877,552 shares of newly created Series A perpetual convertible preferred stock, for an aggregate of $680 million (representing $24.50 per share of Series A Preferred Stock and $23.04 per share of Colfax Common Stock). In addition, Colfax has agreed to sell to each of Mr. Mitchell P. Rales and Mr. Steven M. Rales 2,170,139 newly-issued shares of Colfax Common Stock for an aggregate payment of $50 million by each of them, representing a purchase price of $23.04 per share of Colfax Common Stock. Finally, Colfax agreed to sell to Markel 1,085,070 newly-issued shares of Colfax Common Stock for an aggregate payment of $25 million, representing a purchase price of $23.04 per share of Colfax Common Stock.

General

Save as disclosed in this document:

(a) none of Colfax's share or loan capital is under option or is the subject of an agreement, conditional or unconditional, to be put under option and there is no current intention to issue any of the authorized and unissued shares other than as disclosed in this *Part 14: Additional Information – 3. Share Capital;*

(b) there are no acquisition rights and/or obligations over authorized and unissued shares or an undertaking to increase Colfax capital; and

(c) none of Colfax's share or loan capital has been issued for cash or other consideration within the period from January 1, 2008 to the date of this document and no such issue is proposed.

The shares of Colfax Common Stock are in registered form and may be held in certificated form. Shares of Colfax Common Stock are currently traded in the United States on the NYSE under the symbol ''CFX''. Colfax Common Stock is not (and it is not currently intended that the New Colfax Common Shares will be) listed on the Official List or traded on the London Stock Exchange. The ISIN number of the New Colfax Common Shares will be US1940141062.

Colfax Common Stock has been created under the DGCL. Colfax Common Stock will be issued under the authority granted at Colfax's special meetings and will be issued pursuant to a resolution of the Colfax Board prior to the Acquisition.

Pursuant to the Purchase Agreements, Colfax will enter into registration rights agreements with each of the BDT Investor, Mitchell P. Rales, Steven M. Rales and Markel, pursuant to which they will each have certain registration rights in relation to their shares. Subject to certain terms and conditions of the registration rights agreements, each of the BDT Investor, Mitchell P. Rales, Steven M. Rales and Markel will have the right require Colfax to prepare, file and use its reasonable best efforts to cause to become effective a registration statement in relation to the sale of their respective shares. For further information see *Part 14: Additional Information – 12. Material Contracts*.

Prior to the closing of the Acquisition and in order to issue the New Colfax Common Shares a special meeting of stockholders of Colfax will be held to consider and vote upon *inter alia* the proposals listed below:

(a) to approve the issuance of Colfax Common Stock and Series A Preferred Stock to the BDT Investor, in accordance with the terms of the BDT Purchase Agreement with the BDT Investor, in order to raise a portion of the funds required to complete the Acquisition;

(b) to approve the issuance of Colfax Common Stock to Mitchell P. Rales, Steven M. Rales and Markel in accordance with the terms of the relevant Purchase Agreements with Mitchell P. Rales, Steven M. Rales and Markel, in order to raise a portion of the funds required to complete the Acquisition;

(c) to approve the issuance of up to 20,832,469 New Colfax Common Shares as part consideration in the Acquisition;

(d) to approve an amendment and restatement of Colfax's Certificate of Incorporation to:

  (i) increase the number of shares of authorized capital stock of Colfax; and

  (ii) make other changes to the Certificate of Incorporation to set forth certain rights of the BDT Investor to be granted in connection with the investment by the BDT Investor, including provisions that require the approval of the BDT Investor in order for Colfax to take certain corporate actions and to provide the BDT Investor with the right to nominate up to two members of the Colfax Board depending on its beneficial ownership of Colfax securities from time to time.

4. Summary of Certificate of Incorporation, Bylaws and Related Legal Provisions

The following is a brief summary of certain material provisions of Colfax's Amended and Restated Certificate of Incorporation and Bylaws, as they are expected to be upon the closing of the Acquisition assuming that the proposals at the special meeting of stockholders of Colfax to be held prior to the closing of the Acquisition are approved. For further information see *Part 14: Additional Information – 3. Share Capital*.

Objects

Colfax's purpose, as stated in Colfax's Amended Restated Certificate of Incorporation, is to engage in any lawful act or activity for which corporations may be organized under the DGCL.

Directors

Role and authority

Colfax's business and affairs are managed by or under the direction of the Colfax Board. The Colfax Board may exercise all such powers of Colfax and do all such lawful acts and things, subject to any limitation set forth in the Amended and Restated Certificate of Incorporation or as otherwise may be provided in the DGCL.

Number, appointment and retirement of directors

Colfax is required to have at least three directors and not more than eleven directors. The BDT Investor will have the right to exclusively nominate for election up to two directors to the Colfax Board depending on the percentage of Colfax Common Stock the BDT Investor and certain permitted transferees under the BDT Purchase Agreement beneficially own from time to time. Specifically, the Amended and Restated Certificate of Incorporation provides that:

(a) where the BDT Investor and its permitted transferees beneficially own, in the aggregate, more than 20% of the outstanding Colfax Common Stock (as calculated in accordance with the terms of the Amended and Restated Certificate of Incorporation), (i) the Colfax Board will consist of 11 directors, (ii) the BDT Investor will have the exclusive right to nominate two members of the Colfax Board, and (iii) the BDT Investor will be entitled to select one of its nominees, once elected, to serve on the audit committee of the Colfax Board and one of its nominees, once elected, to serve on the compensation committee of the Colfax Board, subject to applicable law and the rules of the NYSE; and

(b) where the BDT Investor and its permitted transferees beneficially own, in the aggregate, equal to or less than 20% but more than 10% of the outstanding Colfax Common Stock (as calculated in accordance with the terms of the Amended and Restated Certificate of Incorporation), (i) the Colfax Board will consist of 10 directors, (ii) the BDT Investor will have the exclusive right to nominate one member of the Colfax Board, and (iii) the BDT Investor will be entitled to select its nominee, once elected, to serve on the audit committee and compensation committee of the Colfax Board, subject to applicable law and the rules of the NYSE.

A director of Colfax holds office until the annual meeting at which his or her term expires and until his or her successor is elected and qualified, subject, however, to prior death, resignation, retirement, disqualification or removal from office.

Term

All directors serve for a term ending at the annual meeting following the annual meeting at which the director was elected.

Filling of vacancies

Subject to the rights of any Series A Preferred Stock then outstanding, if there is a newly created directorship resulting from an increase in the authorized number of directors, or if the office of any director becomes vacant by reason of death, resignation, retirement, disqualification, removal or other cause, the Colfax Board, provided that a quorum is then in office and present, or a majority of the directors then in office if less than a quorum is then in office, or the sole remaining director, may elect a successor for the unexpired term and until his or her successor is elected and qualified.

Liability

No director of Colfax is liable to Colfax or its stockholders for monetary damages for breach of fiduciary duty as a director, provided that the liability of a director is not released or limited (a) for any breach of the director's duty of loyalty to Colfax or its stockholders; (b) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; (c) under Section 174 of the DGCL; or (d) for any transaction from which the director derived an improper personal benefit.

Board Meetings

Quorum

A number of directors comprising a majority of the Colfax Board constitutes a quorum for the transaction of business.

Amendment of Bylaws

Subject to the rights of the BDT Investor (as described below under *Rights of Certain Holders*), in furtherance and not in limitation of the powers conferred by the DGCL, the Colfax Board is expressly authorized and empowered to adopt, amend and repeal the bylaws of Colfax.

Indemnification of Agents

Colfax may indemnify any person who is involved in any threatened, pending or completed action or proceeding by reason of the fact that the person is or was Colfax's agent, against any expenses incurred by him or her in connection with such proceeding, to the fullest extent authorized by the DGCL, provided that Colfax may indemnify any such person seeking indemnification in connection with a proceeding initiated by such person only if such proceeding was authorized by the Colfax Board.

Rights Attaching to Colfax Common Stock

Voting Rights

Subject to the rights of the holders of any series of preferred stock (including the Series A Preferred Stock), the holders of shares of Colfax Common Stock are entitled to one vote per share held on all matters submitted to a vote at a meeting of stockholders. Each stockholder may exercise its vote either in person or by proxy.

Dividends

Subject to any preferences to which holders of shares of preferred stock (including the Series A Preferred Stock) may be entitled, the holders of outstanding shares of Colfax Common Stock are entitled to receive ratably the dividends, if any, as may be declared from time to time by the Colfax Board out of funds legally available therefor.

Dissolution and winding up

In the event of any dissolution, liquidation, or winding up of Colfax, the holders of outstanding shares of Colfax Common Stock are entitled to share ratably in all of Colfax's assets which are legally available for distribution to stockholders, subject to the prior rights on liquidation of creditors and to preferences to which holders of shares of preferred stock (including the Series A Preferred Stock) may be entitled.

Rights of Certain Holders

So long as the BDT Investor and its permitted transferees collectively own beneficially, in the aggregate, at least 50% of the Series A Preferred Shares issued pursuant to the BDT Purchase Agreement, the written consent of the BDT Investor will be required in order for Colfax to take certain corporate actions, including:

- the incurrence of certain indebtedness (excluding certain permitted indebtedness and preferred stock) if the ratio of such indebtedness to EBITDA (as defined in the Deutsche Bank Credit Agreement as in effect as of September 12, 2011) exceeds certain specified ratios, measured by reference to the last twelve-month period for which financial information is reported by Colfax (pro forma for acquisitions during such period);
- the issuance of any shares of preferred stock;
- any change to the Colfax's dividend policy or the declaration or payment of any dividend or distribution on any Colfax stock ranking subordinate or junior to the Series A Preferred Stock with respect to the payment of dividends and distributions (including the Colfax Common Stock) under certain circumstances;
- any voluntary liquidation, dissolution or winding up of Colfax;
- any change in Colfax's independent auditor;
- the election of anyone other than Mr. Mitchell P. Rales as Chairman of the Colfax Board;
- any acquisition of another entity or assets for a purchase price exceeding 30% of Colfax's equity market capitalization;
- any merger, consolidation, reclassification, joint venture or strategic partnership or similar transaction, or any disposition of any assets (excluding sale/leaseback transactions and other financing transactions in the ordinary course of business) of Colfax if the value of the resulting entity, level of investment by Colfax or value of the assets disposed, as applicable, exceeds 30% of Colfax's equity market capitalization;
- any amendments to Colfax's organizational or governing documents, including the Amended and Restated Certificate of Incorporation and the Amended and Restated Bylaws; and

- any change in the size of the Colfax Board from the number provided for in the Amended and Restated Certificate of Incorporation (upon its approval).

Rights attaching to the Series A Preferred Stock

Below is a summary of the material terms of the Series A Preferred Stock:

Voting Rights

Each share of Series A Preferred Stock entitles its holder to vote on all matters submitted to the holders of the Colfax Common Stock, voting together as a single class. Each share of Series A Preferred Stock entitles its holder to cast the number of votes equal to the number of votes which could be cast by a holder of the shares of Colfax Common Stock into which such holder's share of Series A Preferred Stock is convertible as of the record date of the relevant vote. In addition, the affirmative vote or consent of more than 50% of the shares of Series A Preferred Stock, voting separately as a class, is required to approve:

(a) any amendment of Colfax's Amended and Restated Certificate of Incorporation or the Certificate of Designations;

(b) any document which amends or supplements Colfax's Amended and Restated Certificate of Incorporation or the Certificate of Designations; or

(c) any other action for which a vote of the Series A Preferred Stock, voting separately as a class, is required by law.

Conversion; Redemption

Pursuant to the Certificate of Designations, the Series A Preferred Stock is convertible, in whole or in part, at the option of the holders thereof at any time after the date on which the shares of Series A Preferred Stock are issued into fully paid and nonassessable shares of Colfax Common Stock at a conversion rate determined by dividing the liquidation preference (defined as $24.50, subject to customary anti-dilution adjustments) by a number equal to 114% of the liquidation preference, subject to adjustment as set forth in the form of Certificate of Designations. The Series A Preferred Stock is also convertible, in whole or in part, at the option of Colfax on or after the third anniversary of the issuance of the shares of Series A Preferred Stock into shares of Colfax Common Stock at the conversion rate determined as set forth above if, among other things:

(a) for the preceding thirty trading days, the closing price of Colfax Common Stock on the NYSE exceeds 133% of the applicable conversion price, calculated by dividing the liquidation preference by the then-applicable conversion rate; and

(b) Colfax has declared and paid or set apart for payment all accrued but unpaid dividends on the Series A Preferred Stock.

In the event of conversion of only part of the outstanding shares of the Series A Preferred Stock, the shares to be redeemed shall be selected *pro rata* from each holder. Colfax is required to reserve a sufficient number of its authorized Colfax Common Stock for the purpose of effecting the conversion of all outstanding Series A Preferred Stock.

In addition, Colfax has the option to redeem all (but not less than all) of the outstanding Series A Preferred Stock under certain circumstances in return for a cash payment equal, on a per share basis, to the greater of (i) the liquidation preference and (ii) the US dollar amount equal to the liquidation preference divided by the conversion rate described above.

Preferred Dividend and Liquidation Rights; Ranking

Under the terms of the Series A Preferred Stock set forth on the form of Certificate of Designations, holders are entitled to receive cumulative cash dividends, payable quarterly, at a per annum rate of 6% of the liquidation preference (defined as $24.50, subject to customary anti-dilution adjustments), provided that the dividend rate shall be increased to a per annum rate of 8% if Colfax fails to pay the full amount of any dividend required to be paid on such shares until the date that full payment is made. Neither Colfax nor its subsidiaries may declare or pay any dividends or other distributions in respect of Colfax Common Stock or other class of Junior Stock, unless all accrued but unpaid dividends have been declared and paid (or sums have been set apart for payment) on the Series A Preferred Stock. If any dividend or distribution in respect of Colfax Common Stock or other class of Junior Stock is made, the Series A Preferred Stock will share proportionately in such dividends (i) if such Junior Stock is Colfax Common Stock or convertible into Colfax Common Stock, in accordance with the number of shares of Colfax Common Stock issuable upon conversion of the Series A Preferred Stock calculated as of the record date for such dividend or distribution or (ii) if such Junior Stock is not Colfax Common Stock or convertible into Colfax Common Stock, as otherwise determined in good faith by the Colfax Board to be equitable under the circumstances.

Holders are also entitled, upon liquidation, dissolution or winding-up of Colfax, to receive payment out of the assets of Colfax legally available equal to the greater of (i) the liquidation preference or (ii) the amount such holder would have received had each share of Series A Preferred Stock been converted into Colfax Common Stock immediately prior to the liquidation, dissolution or winding-up before any distribution is made to the holders of Colfax Common Stock or other Junior Stock. Prior to the conversion or redemption or retirement and cancellation of all shares of the Series A Preferred Stock, Colfax may not issue any capital stock ranking equal or senior to the Series A Preferred Stock with respect to the payment of dividends or distributions, or authorize any additional shares of Series A Preferred Stock.

Pre-emptive Rights

For a period of 24 months following the issuance of the Series A Preferred Stock, holders of such stock are entitled to pre-emptive rights to subscribe for additional shares of Colfax Common Stock in the event Colfax wishes to make a dilutive issuance of any shares to any person of capital stock or securities convertible into or exchangeable for capital stock of Colfax at a price less than the liquidation preference (which is $24.50, subject to customary anti-dilution adjustments). If such a dilutive issuance occurs on or prior to the date that is 270 days after the issuance of the Series A Preferred Stock, then holders of such stock are entitled to subscribe for a number of new shares of Colfax Common Stock equal to the proportion of the outstanding Colfax Common Stock beneficially owned by the holder and certain permitted transferees (on a fully-diluted basis as calculated in accordance with the Certificate of Designations) at the same price and on the same terms and conditions as the issuance. If such a dilutive issuance occurs after such date, but within the 24 month period following the issuance of the Series A Preferred Stock, then holders of such stock are entitled to subscribe for a number of new shares of Colfax Common Stock that is double the proportion of Colfax's outstanding Colfax Common Stock beneficially owned by the holder and certain permitted transferees (on a fully-diluted basis as calculated in accordance with the Certificate of Designations) at the same price and on the same terms and conditions as the dilutive issuance.

The foregoing pre-emption rights do not apply to (i) issuances pursuant to any employee, director or consultant benefit plan, (ii) the issuance of Colfax Common Stock pursuant to any option, warrant, right or exercisable, exchangeable or convertible security outstanding as of the date of issuance of the Series A Preferred Stock, (iii) a sub-division of the outstanding shares of Colfax Common Stock into a larger number of shares of Colfax Common Stock and (iv) the issuance of capital stock as consideration for a merger, acquisition, joint venture, strategic alliance, or similar non-financing transaction.

Rights attaching to Colfax CDIs

The registered holder of the New Colfax Common Shares represented by Colfax CDIs will be Cede & Co, a nominee of DTC. The custodian of those New Colfax Common Shares will be CREST International Nominees Limited, who will hold them through the DTC system as nominee for CREST Depositary Limited. CREST Depositary Limited will hold those New Colfax Common Shares on trust (as bare trustee under English law) for the Uncertificated Holders and for the CSN (as the CREST member acting as corporate sponsored nominee for the Certificated Holders) to whom it will issue Colfax CDIs.

Accordingly, the holders of Colfax CDIs will only be able to exercise rights relating to the underlying New Colfax Common Shares in accordance with the arrangements described below.

In order to allow the holders of Colfax CDIs to exercise rights relating to the underlying New Colfax Common Shares, Colfax will enter into arrangements pursuant to which holders of Colfax CDIs (including Certificated Holders who hold their Colfax CDIs through the CSN Facility) will be able to:

(a) receive notices of general shareholder meetings of Colfax;

(b) give directions as to voting at general shareholder meetings of Colfax; and

(c) have made available to them and be sent, at their request, copies of the annual report and accounts of Colfax and all other documents issued by Colfax to shareholders of Colfax generally.

Holders of Colfax CDIs will otherwise be treated in the same manner as if they were registered holders of the New Colfax Common Shares underlying their Colfax CDIs, in each case in accordance with applicable law and, so far as is possible, in accordance with CREST arrangements.

Under an agreement for the provision of the CDI register, Euroclear will make a copy of the register of the names and addresses of Colfax CDI holders available to Colfax (and/or its voting agent) to enable Colfax (or its voting agent) to: (a) send out notices of shareholder meetings and proxy forms to its CDI holders; and (b) produce a definitive list of CDI holders as at the record date for the meeting.

In addition, Cede & Co and Euroclear have omnibus proxy arrangements pursuant to which CREST International Nominees Limited (the custodian of the New Colfax Common Shares underlying the Colfax CDIs) will be able to grant each Colfax CDI holder the right to vote in respect of such holder's underlying New Colfax Common Shares. As a result, the custodian and the depository step out of the voting arrangements and simply pass on any voting rights they have, by virtue of holding the underlying New Colfax Common Share, to the Colfax CDI holders.

Under the terms of the CSN Facility, the CSN will provide Certificated Holders whose Colfax CDIs are held through the CSN Facility the option to give the CSN voting instructions and the CSN will reflect those instructions in the proxy granted to it by Euroclear.

Holders of Colfax CDIs (including Certificated Holders whose Colfax CDIs are held through the CSN Facility) are entitled to attend Colfax shareholder meetings in person as a result of their beneficial interest in the New Colfax Common Shares. If a Certificated Holder whose Colfax CDIs are held through the CSN Facility wishes to attend, speak and vote in person at a Colfax shareholder meeting, the CSN will provide that holder with a letter of representation in respect of that holder's Colfax CDIs and such letter will enable the Certificated Holder to attend, speak and vote at the shareholder meeting on behalf of the CSN in respect of that holder's underlying interest in the New Colfax Common Shares.

Dividends paid on the New Colfax Common Shares will be paid to holders of Colfax CDIs in the currency in which the relevant holder has elected through CREST to receive such payments. The CSN will, so long as CREST continues to provide such services, elect to receive payments in sterling and, accordingly, dividends paid to Certificated Holders in respect of Colfax CDIs held through the CSN Facility will be paid in sterling. The CSN will distribute any such dividends to the Certificated Holders in accordance with the terms of the CSN Facility.

Alteration of Amended and Restated Certificate of Incorporation and Rights

Colfax may amend, alter, change or repeal any provision and all rights, preferences, and privileges of any nature conferred upon stockholders, directors, or any other persons contained in the Amended and Restated Certificate of Incorporation as authorized by the laws of the State of Delaware at the time in force. So long as the BDT Investor and its permitted transferees beneficially own at least 10% of Colfax's outstanding Colfax Common Stock (on a fully-diluted basis), the written consent of the BDT Investor is required to alter, amend or repeal the provisions of the Amended and Restated Certificate of Incorporation described above which set forth the authorized number of directors and the BDT Investor's nomination rights in respect of members of the Colfax Board.

Stockholders' Meetings

Notice

Stockholders must receive written notice of every meeting of stockholders not less than ten nor more than sixty days before the date of the meeting.

Annual General Meetings

Annual meetings of stockholders are held on such date and at such time as are designated from time to time by the Colfax Board, the Chairperson, the Chief Executive Officer or the President of Colfax.

Special Meetings and Stockholder Action

Subject to the rights of any holders of the preferred stock, (i) only the chairman of the Colfax Board or a majority of the Colfax Board is permitted to call a special meeting of stockholders; (ii) the business permitted to be conducted at a special meeting of stockholders is limited to matters properly brought before the meeting by or at the direction of the Colfax Board; and (iii) stockholder action may be taken only at a duly called and convened annual meeting or special meeting of stockholders and may not be taken by written consent.

Quorum

Unless a larger number is required by law, the presence in person or represented by proxy of the holders of a majority of Colfax's outstanding shares entitled to vote at a meeting of stockholders shall constitute a quorum, except that where a separate vote by a class or series is required, the presence in person or represented by proxy of the holders of a majority of outstanding shares of such class or series shall constitute a quorum.

5. Other directorships

In addition to their directorships of Colfax (in the case of the Colfax Directors), the Colfax Directors and the Senior Managers hold or have held the following directorships (except directorships of subsidiaries of Colfax), and are or were members of the following partnerships, administrative, management or supervisory bodies, within the past five years:

Directors

Name	Current directorship/ partnership	Previous directorship/ partnership
Mitchell P. Rales	Danaher Corporation Equity Group Holdings, L.L.C. Equity Group Holdings II LLC Equity Group Holdings III LLC Joust Group, L.L.C. Joust Capital II, LLC Colfax Capital Corporation Janalia Corporation ASM Realty, Inc. Capital Yield Corporation Glenstone Foundation MPR Family Foundation Glenstone Farm LLC Oakwood Atlanta Ravensworth Associates II SB Waterview II LLC MPRDHR LLC MPRDHR II LLC MPRDHR III LLC Swedish Fish LLC SCI Waterview LLC SB Waterview I LLC	Colfax Towers, Inc.
Clay H. Kiefaber	—	—
Patrick W. Allender	Brady Corporation Diebold Incorporated Allender Consulting Allender Consulting LLC Allender Family Foundation Board of Visitors and Governors of Washington College	—
Joseph O. Bunting III	Equity Group Holdings, L.L.C. Equity Group Holdings II LLC	Colfax Towers, Inc.

Name	Current directorship/ partnership	Previous directorship/ partnership
	Equity Group Holdings III LLC Joust Group, L.L.C. Joust Capital LLC Joust Capital II, L.L.C. Colfax Capital Corporation Janalia Corporation ASM Realty, Inc. Capital Yield Corporation Forest Glen Corporation Indian Paintbrush Productions LLC Glenstone Farm LLC MPRDHR LLC MPRDHR II LLC MPRDHR III LLC SMRDHR LLC SMRDHR II LLC SMRDHR III LLC Piera LLC Twin Holdings LLC TwinFlags LLC IP Development LLC JeffBrothers Investments LLC JeffBrothers Productions LLC Chocolate Milk Pictures LLC Right of Way LLC Bulletproof Tiger LLC Moonrise LLC 1660 Productions LLC Swedish Fish LLC SCI Waterview LLC SB Waterview I LLC Cookie Jar LLC	
Thomas S. Gayner	The Washington Post Company The Davis Funds Markel-Gayner Asset Management The Community Foundation of Richmond, Virginia	Markel Corporation
Rhonda L. Jordan	Healthy Weight Commitment Foundation GenYouth Foundation Off the Street Club	International Dairy Foods Association Innovation Center, Dairy Management Inc.
A. Clayton Perfall	Archway Marketing Services Holdings, Inc. Comstock Homebuilding Companies St. Stephen's and St. Agnes Schools St. Stephen's and St. Agnes Schools Foundation Mason School of Business Foundation	inVentiv Health, Inc. AHL Services Inc. Union Street Acquisition Corp. Affinity Direct, LLC Campus Direct, Inc.
Steven E. Simms	Apex Tools The Boys' Latin School	—

Name	Current directorship/ partnership	Previous directorship/ partnership
Rajiv Vinnakota	The SEED Foundation The SEED School of Washington, D.C., Inc. The SEED School of Maryland, Inc.	Princeton University

Senior Managers

Name	Current directorship/ partnership	Previous directorship/ partnership
C. Scott Brannan	—	Aronson & Company
William E. Roller	Sistemas Centrales de Lubricacion S.A. de C.V. United Way of Union County	—
Daniel A. Pryor	—	The Carlyle Group Veyance Technologies Inc. John Maneely Company HD Supply Inc.
A. Lynne Puckett	Baltimore Outreach Services	Hogan Lovells LLP American Shakespeare Center
William F. Rothenbach	—	Old Mutual Financial Life Insurance Company
Steve Wittig	—	—

Within the period of five years preceding the date of this document none of the Colfax Directors or the Senior Managers:

(a) has had any convictions in relation to fraudulent offences;

(b) has been a director or senior manager (who is relevant to establishing that a company has the appropriate expertise and experience for the management of that company) of any company at the time of any bankruptcy, receivership or liquidation of such company; or

(c) has received any official public incrimination and/or sanction by any statutory or regulatory authorities (including designated professional bodies) or has been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of a company.

None of the members of the Colfax Directors or the Senior Managers has any potential conflicts of interests between their duties to Colfax and their private interests or other duties.

6. Directors' and other interests

The table below sets out the interests of the Colfax Directors and the Senior Managers in Colfax Common Stock at the close of business on October 14, 2011 (being the latest practicable date prior to publication of this document) and immediately following completion of the Acquisition.

Beneficial Owner	October 14, 2011 (the latest practicable date prior to publication of this document) Number of Colfax Shares	% of voting rights in respect of issued share capital	Immediately following completion of the Acquisition[1][2] Number of Colfax Shares	% of voting rights in respect of issued share capital
Directors				
Mitchell P. Rales[3][4]	9,145,610	21.0	11,315,749	11.7
Clay H. Kiefaber[5]	94,920	0.2	94,920	0.1
Patrick W. Allender[6]	222,307	0.5	222,307	0.2
Joseph O. Bunting III[7]	202,894	0.5	202,894	0.2
Thomas S. Gayner[8]	19,860	*	19,860	*
Rhonda L. Jordan[9]	43,408	*	43,408	*
A. Clayton Perfall[10]	4,280	*	4,280	*
Steven E. Simms[11]	305	*	305	*
Rajiv Vinnakota[12]	12,090	*	12,090	*
Senior Managers[13]				
C. Scott Brannan[14]	31,995	*	31,995	*
William E. Roller[15]	97,635	0.2	97,635	0.1
Daniel A. Pryor	2,048	*	2,048	*
A. Lynne Puckett[16]	20,535	*	20,535	*
William F. Rothenbach	—	—	—	—
Steven Wittig	3,211	*	3,211	*
Total	9,901,098	22.7	12,071,237	12.5

* Represents beneficial ownership of less than 0.1%

(1) Assuming (a) the special meeting of stockholders of Colfax to be held prior to the closing of the Acquisition approves the relevant increase in the number of shares of authorized capital stock of Colfax; (b) the following subscriptions of Colfax Shares are completed in full: (i) the subscription for 13,877,552 shares of Series A Preferred Stock and 14,756,945 shares of Colfax Common Stock by the BDT Investor; (ii) the subscription for 2,170,139 shares of Colfax Common Stock by Mitchell P. Rales; (iii) the subscription for 2,170,139 shares of Colfax Common Stock by Steven M. Rales; and (iv) the subscription for 1,085,070 shares of Colfax Common Stock by Markel; (c) the completion of the issuance of 20,832,469 New Colfax Common Shares as part consideration for the Acquisition; and (d) none of the shares of Series A Preferred Stock are converted into shares of Colfax Common Stock.

(2) The total voting rights attributable to the Colfax Shares comprise 84,617,474 votes in respect of shares of Colfax Common Stock and 12,173,291 votes in respect of the 13,877,552 shares of Series A Preferred Stock. The voting rights attributable to the Series A Preferred Stock are calculated on the assumption that the conversion price for the conversion of the Series A Preferred Stock to Colfax Common Stock will be $27.93. Such conversion price is subject to adjustment in certain circumstances. For further information on the voting rights and conversion price applicable to the Series A Preferred Stock, see *Part 14: Additional Information – 4. Summary of Certificate of Incorporation, Bylaws and Related Legal Provisions – Rights attaching to the Series A Preferred Stock*.

(3) The total number of shares of Colfax Common Stock beneficially owned by Mitchell P. Rales is 9,145,610. 9,126,222 shares are held directly by Mitchell P. Rales and 19,388 are held by Capital Yield Corporation, of which Mitchell P. Rales and Steven M. Rales are the sole stockholders.

(4) See *Section 14: Additional Information – 12. Material Contracts* for information about proposed future purchases of Colfax Shares by Mitchell P. Rales.

(5) Includes (i) 12,090 restricted stock units or DSUs that have vested or will vest within 60 days of October 14, 2011 (being the latest practicable date prior to publication of this document), (ii) 65,688 shares that Mr Kiefaber has the right to acquire upon the exercise of options that have vested or will vest within 60 days of October 14, 2011 (being the latest practicable date prior to publication of this document); and (iii) 10,482 restricted stock units or DSUs received for service on the Colfax Board prior to Mr Kiefaber's appointment as an executive officer of the Company.

(6) Includes (i) 12,090 restricted stock units or DSUs that have vested or will vest within 60 days of October 14, 2011 (being the latest practicable date prior to publication of this document); (ii) 9,991 DSUs received in lieu of annual cash retainers and committee chairperson retainers; and (iii) 199,259 shares owned by the John W. Allender Trust, of which Mr. Allender is trustee. Mr. Allender disclaims beneficial ownership of all shares held by the John W. Allender Trust except to the extent of his pecuniary interest therein.

(7) Includes 12,090 restricted stock units or DSUs that have vested or will vest within 60 days of October 14, 2011 (being the latest practicable date prior to publication of this document).

(8) Includes (i) 12,090 restricted stock units or DSUs that have vested or will vest within 60 days of October 14, 2011 (being the latest practicable date prior to publication of this document); and (ii) 7,770 DSUs received in lieu of annual cash retainers and committee chairperson retainers.

(9) Includes (i) 10,238 restricted stock units or DSUs that have vested or will vest within 60 days of October 14, 2011 (being the latest practicable date prior to publication of this document) ; and (ii) 8,170 DSUs received in lieu of annual cash retainers and committee chairperson retainers.

(10) Includes (i) 1,852 restricted stock units or DSUs that have vested or will vest within 60 days of October 14, 2011 (being the latest practicable date prior to publication of this document); and (ii) 2,428 DSUs received in lieu of annual cash retainers and committee chairperson retainers.

(11) Includes 305 DSUs received in lieu of annual cash retainers and committee chairperson retainers.

(12) Includes 12,090 restricted stock units or DSUs that have vested or will vest within 60 days of October 14, 2011 (being the latest practicable date prior to publication of this document).

(13) Beneficial ownership for Senior Managers does not reflect PRSUs that have been earned but not yet vested due to additional service-based vesting conditions. However, these PRSUs, when earned via certification of the applicable performance criteria by the Compensation Committee, are reflected in Table 1 of Form 4s filed by each Senior Manager. This transaction is shown in the Form 4 as an acquisition of Colfax Common Stock pursuant to SEC guidance regarding Section 16 reporting for grants of restricted stock awards.

(14) Includes (i) 19,905 shares that Mr. Brannan has the right to acquire upon the exercise of options that have vested or will vest within 60 days of October 14, 2011 (being the latest practicable date prior to publication of this document); and (ii) 12,090 restricted stock units or DSUs received for service on the Colfax Board prior to Mr Brannan's appointment as an executive officer of Colfax.

(15) Includes 48,719 shares that Mr. Roller has the right to acquire upon the exercise of options that have vested or will vest within 60 days of October 14, 2011 (being the latest practicable date prior to publication of this document).

(16) Includes 19,424 shares that Ms. Puckett has the right to acquire upon the exercise of options that have vested or will vest within 60 days of October 14, 2011 (being the latest practicable date prior to publication of this document).

Except as set out in this *Part 14: Additional Information,* following the Acquisition, no Colfax Director or Senior Manager will have any interest in Colfax Common Stock or the share capital of any of Colfax's subsidiaries.

So far as Colfax is aware, the following persons hold directly or indirectly 5% or more of Colfax's voting rights (calculated exclusive of voting rights attached to treasury shares) or will do so immediately following completion of the Acquisition:

	October 14, 2011 (the latest practicable date prior to publication of this document)		Immediately following completion of the Acquisition(1)(2)	
Beneficial Owner	**Number of Colfax Shares**	**% of voting rights in respect of issued share capital**	**Number of Colfax Shares**	**% of voting rights in respect of enlarged issued share capital**
Mitchell P. Rales(3) 2099 Pennsylvania Avenue N.W., 12th Floor Washington, D.C. 20006 United States	9,145,610	21.0	11,315,749	11.7
Steven M. Rales(3) 2099 Pennsylvania Avenue N.W., 12th Floor Washington, D.C. 20006 United States	9,145,610	21.0	11,315,749	11.7
T. Rowe Price Associates, Inc 100 E. Pratt Street Baltimore, MD 21202 United States	3,319,980(4)	7.6	3,319,980(4)	3.4
Keeley Asset Management Corp 401 South LaSalle Street Chicago, IL 60605 United States	2,754,090(5)	6.3	2,754,090(5)	2.8

Beneficial Owner	October 14, 2011 (the latest practicable date prior to publication of this document)		Immediately following completion of the Acquisition[(1)(2)]	
	Number of Colfax Shares	% of voting rights in respect of issued share capital	Number of Colfax Shares	% of voting rights in respect of enlarged issued share capital
Keeley Small Cap Value Fund 401 South LaSalle Street Chicago, IL 60605 United States	2,298,890[(5)]	5.3	2,298,890[(5)]	2.4
FMR LLC 82 Devonshire Street Boston, MA 02109 United States	2,177,250[(6)]	5.0	2,177,250[(6)]	2.3
BDT CF Acquisition Vehicle, LLC 401 N. Michigan Ave Chicago, IL 60611 United States	—	—	28,634,497[(7)]	27.8[(8)]

(1) Assuming (a) the special meeting of stockholders of Colfax to be held prior to the closing of the Acquisition approves the relevant increase in the number of shares of authorized capital stock of Colfax; (b) the following subscriptions of Colfax Shares are completed in full: (i) the subscription for 13,877,552 shares of Series A Preferred Stock and 14,756,945 shares of Colfax Common Stock by the BDT Investor; (ii) the subscription for 2,170,139 shares of Colfax Common Stock by Mitchell P. Rales; (iii) the subscription for 2,170,139 shares of Colfax Common Stock by Steven M. Rales; and (iv) the subscription for 1,085,070 shares of Colfax Common Stock by Markel; (c) the completion of the issuance of 20,832,469 New Colfax Common Shares as part consideration for the Acquisition; and (d) none of the shares of Series A Preferred Stock are converted into shares of Colfax Common Stock.

(2) The total voting rights attributable to the Colfax Shares comprise 84,617,474 votes in respect of shares of Colfax Common Stock and 12,173,291 votes in respect of the 13,877,552 shares of Series A Preferred Stock. The voting rights attributable to the Series A Preferred Stock are calculated on the assumption that the conversion price for the conversion of the Series A Preferred Stock to Colfax Common Stock will be $27.93. Such conversion price is subject to adjustment in certain circumstances. For further information on the voting rights and conversion price applicable to the Series A Preferred Stock, see *Part 14: Additional Information – 4. Summary of Certificate of Incorporation, Bylaws and Related Legal Provisions – Rights attaching to the Series A Preferred Stock*.

(3) The total number of shares of Colfax Common Stock beneficially owned by Mitchell P. Rales is 9,145,610. The total number of shares of Colfax Common Stock beneficially owned by Steven M. Rales is 9,145,610. Each of Mitchell P. Rales and Steven M. Rales holds 9,126,222 shares of Colfax Common Stock directly. In respect of each of Mitchell P. Rales and Steven M. Rales, 19,388 shares of Colfax Common Stock are held by Capital Yield Corporation, of which Mitchell P. Rales and Steven M. Rales are the sole stockholders.

(4) Beneficial ownership amount and nature of ownership as reported on Amendment No. 1 to Schedule 13G filed with the SEC on February 10, 2011 by T. Rowe Price Associates, Inc. (Price Associates). These securities are owned by various individual and institutional investors which Price Associates serves as investment adviser with power to direct investments and/or sole power to vote the securities. For the purposes of the reporting requirements of the Securities Exchange Act of 1934, Price Associates is deemed to be a beneficial owner of such securities; however, Price Associates expressly disclaims that it is, in fact, the beneficial owner of such securities.

(5) Beneficial ownership amount and nature of ownership as reported on Amendment No. 2 to Schedule 13G filed with the SEC on February 7, 2011 on the behalf of Keeley Asset Management Corp. and Keeley Funds, Inc. Keeley Small Cap Value Fund is a series of Keeley Funds, Inc. Keeley Asset Management Corp. and Keeley Small Cap Value Fund share beneficial ownership over the 2,298,890 shares reported as beneficially owned by Keeley Small Cap Value Fund and these shares are included in the amounts shown as beneficially owned by both entities.

(6) Beneficial ownership amount and nature of ownership as reported on Schedule 13G filed with the SEC on February 11, 2011 on behalf of FMR LLC and its direct and indirect subsidiaries.

(7) Comprising 14,756,945 shares of Colfax Common Stock and 13,877,552 shares of Series A Preferred Stock.

(8) Comprising 14,756,945 votes attributable to shares of Colfax Common Stock and 12,173,291 votes attributable to 13,877,551 shares of Series A Preferred Stock. The voting rights attributable to the Series A Preferred Stock are calculated on the assumption that the conversion price for the conversion of the Series A Preferred Stock to Colfax Common Stock will be $27.93. Such conversion price is subject to adjustment in certain circumstances. For further information on the voting rights and conversion price applicable to the Series A Preferred Stock, see *Part 14: Additional Information – 4. Summary of Certificate of Incorporation, Bylaws and Related Legal Provisions – Rights attaching to the Series A Preferred Stock.*

Except as set out in this *Part 14: Additional Information*, Colfax is not aware of any person who holds, or who immediately following completion of the Acquisition will hold, as shareholder, directly or indirectly, 5% or more of Colfax's voting rights.

None of the Colfax Stockholders referred to in *Part 14: Additional Information – 6. Directors' and other interests* has different voting rights from any other holder of Colfax Common Stock in respect of any Colfax Common Stock held by them. For further information on the voting rights applicable to holders of Series A Preferred Stock see *Part 14: Additional Information – 4. Summary of Certificate of Incorporation, Bylaws and Related Legal Provisions.*

Colfax is not aware of any person who immediately following completion of the Acquisition directly or indirectly, jointly or severally, will own or could exercise control over Colfax.

Except as set out in this *Part 14: Additional Information*, there are no arrangements known to Colfax, the operation of which may at a subsequent date result in a change of control of Colfax.

7. Directors' service agreements and letters of appointment

Employment Agreement with Clay Kiefaber

On March 24, 2011, Colfax entered into a new employment agreement with Mr. Kiefaber, which superseded in its entirety a prior employment agreement with Mr. Kiefaber dated January 9, 2010. Under the employment agreement, Mr. Kiefaber's term of employment with Colfax runs until December 31, 2013 and will automatically extend for one-year periods thereafter unless the Colfax Board or Mr. Kiefaber elects not to extend the term by providing the other party with written notice. Mr. Kiefaber's base salary is set at $525,000 and may not be reduced below the amount previously in effect without his written agreement. In addition, Mr. Kiefaber is entitled to participate in our annual cash incentive program with a target amount equal to 75% of his base salary then in effect. Each of the base salary amount and annual cash incentive target are equal to the levels previously provided in Mr. Kiefaber's prior employment agreement.

In the event that Mr. Kiefaber's employment agreement is terminated by Colfax without "cause" or he resigns for "good reason," he will be entitled to:

(a) a lump sum payment equal to one times his base salary then in effect and his target annual incentive compensation for the year of termination (or, if greater, the average of the two highest actual annual incentive payments made to him during the last three years); and

(b) a lump sum payment equal to his *pro rata* annual incentive compensation for the year of termination, subject to the performance criteria having been met for that year under the annual bonus plan.

In the event Mr. Kiefaber's employment agreement is terminated by Colfax without "cause" or for "good reason" within three months prior to a "change in control event," or within two years after a "change in control," he will be entitled to:

(a) a lump sum payment equal to two times his base salary in effect and his target annual incentive compensation for the year of termination (or, if greater, the average of the two highest actual incentive payments made to him during the last three years);

(b) a lump sum payment equal to his *pro rata* annual incentive compensation for the year of termination; and

(c) immediate vesting of all equity awards, with any performance objectives applicable to performance-based equity awards deemed to have been met at the greater of:

    (i) the target level at the date of termination; or

    (ii) actual performance at the date of termination.

Mr. Kiefaber's right to these severance payments is conditioned on his execution of a waiver and release agreement in favor of Colfax.

A reduction of Mr. Kiefaber's base salary, the setting of an annual target incentive opportunity or payment of an earned annual cash incentive in an amount materially less or not in conformity with the amount set forth in the employment agreement no longer constitutes "good reason". The assignment to Mr. Kiefaber of duties materially inconsistent with his or her position or any alteration of his duties, responsibilities and authorities now only constitutes good reason upon or following a change in control, and then only if such adjustments or assignments are not the result of the conclusion by a significantly larger successor entity and its board of directors that Mr. Kiefaber's role needs to be altered.

Directors' compensation program for Non-Executive Directors

Our Non-Executive Directors do not enter into service agreements. However, details of the compensation program for Non-Executive Directors are described below.

Pursuant to the current directors' compensation program for Non-Executive Directors, Non-Executive Directors receive an initial equity grant of 5,556 restricted stock units upon their joining the Colfax Board that are delivered upon the termination of service on the Board, an annual cash retainer of $35,000, and an annual equity award of $60,000 in restricted stock units, which is awarded in connection with our annual meeting of stockholders and which vests in three equal installments on the first three anniversaries of the date of the grant. In addition, the Chair of the Audit Committee receives an annual retainer of $15,000, and the Chair of the Compensation Committee and the Nominating and Corporate Governance Committee each receive annual retainers of $10,000.

The non-executive chairman of the Colfax Board is entitled to receive an annual cash retainer of $1 and does not receive any other cash fees or the initial or annual equity awards described above.

In addition, the Colfax Board has adopted a director deferred compensation plan which permits Non-Executive Directors to receive, at their discretion, DSUs, in lieu of their annual cash retainers and committee chairperson retainers. A Non-Executive Director who elects to receive DSUs receives a number of units determined by dividing the cash fees earned during, and deferred for, the quarter by the closing price of Colfax Common Stock on the date of the grant, which is the last trading day of the quarter. A Non-Executive Director also may convert restricted stock unit grants to DSUs under the plan. DSUs granted to our directors convert to shares of Colfax Common Stock after termination of service from the Colfax Board, based upon a schedule elected by the director in advance. In the event that a director elects to receive DSUs, the director will receive dividend equivalent rights on such DSUs to the extent dividends are issued on Colfax Common Stock. Dividend equivalents are deemed reinvested in additional DSUs (or fractions thereof).

General

The Colfax Board has also approved a stock ownership policy for the Colfax Directors. Each Colfax Director is required to have ownership of Colfax Common Stock (including shares issued upon exercise of stock options and shares underlying restricted stock units) equal to five times the annual cash retainer within five years of joining the Board. If the initial and annual restricted stock unit grants are retained, it is anticipated that a Colfax Director will be in compliance with this requirement within two years of joining the Board.

We also reimburse all of the Colfax Directors for travel and other necessary business expenses incurred in the performance of their services for us and extend coverage to them under our directors' and officers' indemnity insurance policies.

8. Share option schemes

Colfax Corporation 2008 Omnibus Incentive Plan

Colfax adopted the 2008 Plan on April 21, 2008. The 2008 Plan provides the compensation committee of the board of directors discretion in creating employee equity incentives. Awards under the 2008 Plan may be made in the form of stock options, stock appreciation rights, restricted stock, restricted stock units, dividend equivalent rights, performance shares, performance units, and other stock-based awards.

Colfax measures and recognizes compensation expense relating to share-based payments based on the fair value of the instruments issued. Stock-based compensation expense is recognized as a component of "Selling, general and administrative expenses" in the consolidated statements of operations as payroll costs of the employees receiving the awards are recorded in the same line item. Stock-based compensation expense related to the departure of Colfax's former President and Chief Executive Officer in January 2010 was recognized as a component of "Restructuring and other related charges". In the years ended December 31, 2010, 2009 and 2008, $3.1 million, $2.6 million and $1.3 million, respectively, of compensation cost and deferred tax benefits of approximately $1.1 million, $0.9 million and $0.4 million, respectively, were recognized.

Compensation expense for 2010 included $0.6 million related to the former President and Chief Executive Officer's departure. Compensation expense recognized for the former President and Chief Executive Officer reflects the accelerated vesting of certain stock options and performance-based restricted stock units on January 9, 2010. Additional compensation cost of $0.4 million was recognized for the accelerated vesting and extended exercise terms related to the departures of Colfax's former Chief Financial Officer and General Counsel. At December 31, 2010, Colfax had $5.6 million of unrecognized compensation expense related to stock-based awards that will be recognized over a weighted-average period of approximately 2.0 years. The intrinsic value of awards exercised or converted was $1.2 million and $0.1 million in 2010 and 2009, respectively. There were no awards exercised or converted in 2008. At December 31, 2010, Colfax had issued stock-based awards that are described below in *Part 14: Additional Information – 8. Share Option Schemes – Grants of Awards in 2010 – Outstanding Equity Awards at Fiscal Year-End*.

Stock Options

Under the 2008 Plan, Colfax may grant options to purchase Colfax Common Stock, with a maximum term of 10 years at a purchase price equal to the market value of the Colfax Common Stock on the date of grant. In the case of an incentive stock option granted to a 10% stockholder, Colfax may grant options to purchase Colfax Common Stock with a maximum term of five years, at a purchase price equal to 110% of the market value of the Colfax Common Stock on the date of grant. One-third of the options granted pursuant to the 2008 Plan vest on each anniversary of the grant date and the options expire after seven years.

Stock-based compensation expense for stock option awards was based on the grant-date fair value using the Black-Scholes option pricing model. We recognize compensation expense for stock option awards on a ratable basis over the requisite service period of the entire award. The following table shows the weighted-average assumptions we used to calculate fair value of stock option awards using the Black-Scholes option pricing model, as well as the weighted-average fair value of options granted during the years ended December 31, 2010 and 2009.

	Year Ended December 31,		
	2010	**2009**	**2008**
Weighted-average assumptions used in Black-Scholes model:			
Expected period that options will be outstanding *(in years)*	4.50	4.50	4.50
Interest rate (based on US Treasury yields at time of grant)	2.38	1.87	3.08
Volatility	52.22	32.50	32.35
Dividend yield	—	—	—
Weighted-average fair value of options granted	$ 5.63	$ 2.24	$ 5.75

Expected volatility is estimated based on the historical volatility of comparable public companies. Colfax uses historical data to estimate employee termination within the valuation model. Separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. Since Colfax has limited option exercise history, it has elected to estimate the expected life of an award based upon the SEC-approved "simplified method" noted under the provisions of Staff Accounting Bulletin No. 107 with the continued use of this method extended under the provisions of Staff Accounting Bulletin No. 110.

Stock option activity for the years ended December 31, 2010, 2009 and 2008 is as follows:

	Shares	Weighted-Average Exercise Price	Remaining Contractual Term	Aggregate Intrinsic Value
		($)	(Years)	($)
Outstanding at January 1, 2008	—	—		
Granted	531,999	17.94		
Exercised	—	—		
Forfeited	(17,008)	18.00		
Outstanding at December 31, 2008	514,991	17.93		
Granted	844,165	7.44		
Exercised	—	—		
Forfeited	(91,523)	11.70		
Outstanding at December 31, 2009	1,267,633	11.40		
Granted	756,471	12.48		
Exercised	(152,490)	7.48		
Forfeited	(295,125)	10.71		
Expired	(35,833)	15.94		
Outstanding at December 31, 2010	1,540,656	12.34	5.47	9,380
Vested or expected to vest at December 31, 2010	1,146,682	13.06	5.11	6,162
Exercisable at December 31, 2010	478,052	13.82	4.72	2,214

The aggregate intrinsic value is based on the difference between Colfax's closing stock price at the balance sheet date and the exercise price of the stock option, multiplied by the number of in-the-money options. The amount of intrinsic value will change based on the fair value of Colfax's stock.

Performance-Based Awards

Under the 2008 Plan, the compensation committee may award performance-based restricted stock units (PRSUs) and restricted stock units (RSUs) whose vesting is contingent upon meeting various performance goals. The vesting of the stock units is determined based on whether Colfax achieves the applicable performance criterion established by the compensation committee of the board of directors. If the performance criteria are satisfied, the units are subject to additional time vesting requirements, by which units will vest fully in two equal installments on the fourth and fifth anniversary of the grant date, provided the individual remains an employee during this period.

The fair value of each grant of performance-based restricted stock or restricted stock units is equal to the market value of a share of Colfax Common Stock on the date of grant and the compensation expense is recognized when it is expected that the performance goals will be achieved. The performance criterion for the PRSUs granted in 2008 was achieved; however, the performance criterion for those granted in 2009 was not achieved and accordingly, no compensation expense for the 2009 grants was recognized. The performance criterion for PRSUs granted in 2010 was achieved, except for those granted to the Chief Executive Officer as part of his initial employment agreement in January. The PRSUs granted to the Chief Executive Officer are subject to separate criterion that may be achieved through 2013.

Other Restricted Stock and Restricted Stock Units

Under the 2008 Plan, the compensation committee may award non-performance based restricted stock and restricted stock units to selected executives, key employees and outside directors. The compensation committee determines the terms and conditions of each award including the restriction period and other criteria applicable to the awards.

The employee RSUs vest either 100% at the first anniversary of the grant date or 50% at the first anniversary and 50% at the second anniversary of the grant date. The majority of the director RSUs granted to date vest in three equal installments on each anniversary of the grant date over a three year period. Directors can also elect to defer their annual board fees into RSUs with immediate vesting. Delivery of the shares underlying these director restricted stock units is deferred until termination of the director's service on the Colfax Board. The fair value of each restricted stock unit is equal to the market value of a share of Colfax Common Stock on the date of grant.

The following table summarizes Colfax's PRSU and RSU and activity for the years ended December 31, 2010, 2009 and 2008:

	PRSUs		PRSUs	
Nonvested shares	**Shares**	**Weighted-Average Grant Date Fair Value**	**Shares**	**Weighted-Average Grant Date Fair Value**
		($)		**($)**
Nonvested at January 1, 2008	—	—	—	—
Granted	125,041	17.89	73,305	18.00
Vested	—	—	—	—
Forfeited	(694)	18.00	(1,116)	18.00
Nonvested at December 31, 2008	124,347	17.89	72,189	18.00
Granted	337,716	7.44	69,610	8.35
Vested	—	—	(48,871)	15.72
Forfeited	(31,566)	10.69	—	—
Nonvested at December 31, 2009	430,497	10.22	92,928	11.97
Granted	263,454	12.10	44,693	12.88
Vested	(25,000)	18.00	(53,828)	13.69
Forfeited	(385,456)	8.72	—	—
Nonvested at December 31, 2010	283,495	13.33	83,793	11.35

The fair value of shares vested was $1.0 million and $0.4 million in 2010 and 2009, respectively. No shares vested during 2008.

Grants of Awards in 2010

The following table sets forth information with respect to grants of equity incentive plan-based awards to our Executive Director and Senior Managers during 2010:

			Estimated Future Payouts Under Equity Incentive Plan Awards[1]			All Other Option Awards: Number of Securities Underlying Options[2]	Exercise or Base Price of Securities Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards ($)[3]
Name	**Award Type**	**Grant Date**	**Threshold**	**Target**	**Maximum**			
Clay H. Kiefaber	PRSUs	1/11/2010	—	40,850	—			501,230
	Stock Options	1/11/2010				102,124	12.27	568,831
	PRSUs	3/29/2010	—	37,975	—			450,004
	Stock Options	3/29/2010				94,937	11.85	510,761
C. Scott Brannan	PRSUs	10/18/2010	—	4,777	—			74,999
	Stock Options	10/18/2010				59,713	15.70	409,631
William E. Roller	PRSUs	3/29/2010	—	8,439	—			100,002
	Stock Options	3/29/2010				21,097	11.85	113,502
	PRSUs	4/22/2010	—	6,472	—			87,501
	Stock Options	4/22/2010				16,180	13.52	99,183
A. Lynne Puckett	PRSUs	9/27/2010	—	4,316	—	58,270		62,496
	Stock Options	9/27/2010					14.48	368,849

(1) Amounts represent potential shares issued under performance-based share awards. The PRSUs may be earned at the end of the one-year performance period upon certification by the Compensation Committee that the performance metric had been met and are then subject to an additional service-based vesting period, pursuant to which vesting occurs in equal amounts on the fourth and fifth anniversaries of the grant date pending continued service with Colfax. The performance metric was met for 2010 and as such these shares were earned upon certification by the Compensation Committee on February 24, 2011.

(2) Amounts represent stock option awards that vest ratably over three years, beginning on the first anniversary of the grant date, based on continued service.

(3) The amounts shown in this column represent the full grant date fair value of grants made to each named executive officer, as computed in accordance with FASB ASC Topic 718. PRSUs are valued based upon the probable outcome of the performance conditions associated with these awards as of the grant date and such calculation is consistent with the estimate of aggregate compensation cost recognized over the service period determined as of the grant date under FASB ASC Topic 718, excluding the effect of estimated forfeitures.

Outstanding Equity Awards at Fiscal Year-End

The following table shows, as of December 31, 2010, the number of outstanding stock options, performance-based restricted stock awards and, for Messrs. Kiefaber and Brannan, director restricted stock units or DSUs held by the Senior Managers:

	Option Awards				Stock Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Options Exercise Price ($)	Option Expiration Date[(1)]	Number of Shares or Units of Stock That Have Not Vested (#)[(2)]	Market Value of Shares or Units of Stock That Have Not Vested ($)[(3)]	Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)[(4)]	Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)[(5)]
Clay H. Kiefaber	—	102,124	12.27	1/11/17				
	—	94,937	11.85	3/29/17				
					6,778	124,783	78,825	1,451,168
C. Scott Brannan	—	59,713	15.70	10/18/17	11,601	213,574		
					—	—	4,777	87,945
William E. Roller	9,260	4,659	18.00	5/7/15				
	11,201	22,402	7.44	3/13/16				
	—	21,097	11.85	3/29/17				
	—	16,180	13.52	4/22/17				
					5,556	102,286	—	—
					—	—	14,911	274,512
A. Lynne Puckett	—	58,270	14.48	9/27/17				
					—	—	4,316	79,458

(1) The vesting date of unvested stock option awards is set forth beside each option expiration date in the following chart. Note that the vesting date provided reflects when the options fully vest. Stock option awards vest ratably over three years beginning on the first anniversary of the grant date.

Option Grant Date	Option Expiration Date	Option Vesting Date
5/7/08	05/7/15	5/7/11
3/13/09	3/13/16	3/13/12
1/11/10	1/11/17	1/11/13
3/29/10	3/29/17	3/29/13
4/22/10	4/22/17	4/22/13
9/27/10	9/27/17	9/27/13
10/18/10	10/18/17	10/18/13

(2) For Mr. Roller, these amounts reflect PRSUs granted in 2008 that were earned on August 25, 2009 upon certification by the Compensation Committee that the performance metric had been met. They are subject to an additional service-based vesting period, pursuant to which vesting will occur in equal amounts on the fourth and fifth anniversaries of the grant date.

For Messrs. Kiefaber and Brannan, these amounts represent unvested director restricted stock units (for Mr. Kiefaber) and DSUs (for Mr. Brannan) received for service on our Board prior to their appointment as executive officers of Colfax.

(3) The amounts shown in this column represent the market value of the director restricted stock units, DSUs or PRSUs based on the Colfax Common Stock price on December 31, 2010, which was $18.41 per share, multiplied by the number of units, respectively, for each unvested director or performance stock award.

(4) The amounts shown in this column reflect PRSUs that are earned at the end of a one-year performance period upon certification by the Compensation Committee that the performance metric had been met. These PRSUs are then subject to an additional service based vesting period, pursuant to which vesting will occur in equal amounts on the fourth and fifth anniversaries of the grant date contingent on continued employment with Colfax. For the awards reflected in this column, which were granted in 2010, the performance metric was met and these PRSUs were then earned upon certification by the Compensation Committee on February 24, 2011. Awards made in 2009 are not reflected in this table as the performance metric was not met for these awards and as such no shares will ever be issued pursuant to their terms.

(5) The amounts shown in this column represent the market value of the PRSUs based on the Colfax Common Stock price on December 31, 2010, which was $18.41 per share, multiplied by the number of units, respectively, for each unvested and unearned performance stock award.

For further information on share option schemes for Non-Executive Directors, see *Part 4: Colfax Directors, Senior Managers, Employees and Corporate Governance – Compensation*.

9. Subsidiaries

Colfax is the holding company of the Colfax Group.

The table below sets out each of the significant subsidiaries of the Colfax Group together with its country of incorporation or residence and percentage interest held by the Colfax Group:

Company Name	Country of incorporation or residence	Percentage held by Colfax Group
CLFX LLC	Delaware	100
IMO Holdings Inc.	Delaware	100
CLFX Sub Holding LLC	Delaware	100
Constellation Pumps Corporation	Delaware	100
Roscoe Property LLC	Delaware	100
Fairmount Automation, Inc.	Pennsylvania	100
Portland Valve LLC	Delaware	100
CLFX Sub Ltd.	United Kingdom	100
Lubrication Systems Company of Texas LLC	Texas	100
IMO Industries, Inc.	Delaware	100
Imovest Inc.	Delaware	100
Warren Pumps LLC	Delaware	100
INCOM Transportation, Inc.	Delaware	100
IMO Industries (Canada) Inc.	Canada	100
IMO AB	Sweden	100
Imo Gresham Pumps (India) Ltd.	India	100
CPC International LLC	Delaware	100
Allweiler Group GmbH	Germany	100
Allweiler International AG	Switzerland	100
Colfax Pumpen GmbH	Germany	100
PD-Technik Ingenieurburo GmbH	Germany	100
Houttuin B.V.	Netherlands	100
Allweiler AG	Germany	100
Allweiler Belgium S.A.	Belgium	100
Colfax-Imo Pompes SAS	France	100
Colfax Pompe S.p.A	Italy	100
Allweiler A/S	Norway	100
Allweiler Finland Oy Ab	Finland	100
Rapid Allweiler Pump & Co. Pty.	South Africa	35
Allweiler Al-Farid Pumps Co.	Egypt	28
Tushaco Pumps Private Limited	India	100
Colfax (Wuxi) Pump Company Ltd.	China	100
VHC Inc.	Texas	100
Baird Corporation	Massachusetts	100
VARO Technology Center, Inc.	Texas	100
Applied Optics Center Corporation	Massachusetts	100
Turbobdel Inc.	Texas	100
Kei Laser, Inc.	Maryland	100
Optic-Electric International, Inc.	Texas	100
ITT and Varo, a joint venture	Texas	50
Labtest Equipment Company	California	100
VARO Technology Center Joint Venture	Texas	50
Tripower Venture	Texas	50
Bombas IMO De Venezuela C.V.	Venezuela	100
Boston Gear Limited	United Kingdom	100
Boston Gear Industries of Canada, Inc.	Canada	100
Baird Atomic Ltd.	United Kingdom	100
Sistemas Centrales De Lubracion, SA de CV	Mexico	44
Lubrication Systems (Beijing) Company, Ltd.	China	100
Baric Holdings Limited	United Kingdom	100
Baric Systems Limited	United Kingdom	100
Baric Products Limited	United Kingdom	100

Company Name	Country of incorporation or residence	Percentage held by Colfax Group
Baric Engineering Limited	United Kingdom	100
Hamilton Brimer Limited	United Kingdom	100
Ashington Fabrication Company Ltd.	United Kingdom	100
Colfax UK Finance Ltd	United Kingdom	100
Colfax UK Holdings Ltd	United Kingdom	100
CLFX Netherlands Finance C.V.	Netherlands	100
Colfax Netherlands Holdings B.V.	Netherlands	100
Rosscor Holding B.V.	Netherlands	100
Rosscor International B.V.	Netherlands	100
Rosscor Asia PTE. Ltd.	Singapore	60
Rosscor Malaysia SDN. BHD.	Malaysia	60
Rosscor Engineered Systems B.V.	Netherlands	100
SES International B.V.	Netherlands	100
Molskate Machinery Hengelo B.V.	Netherlands	100
Van Dam International B.V.	Netherlands	24.5
Van Dam Machine GmbH Vertrueb Deutschland	Germany	100

10. Working capital

Colfax is of the opinion that, taking into account the bank facilities available and its existing cash resources, the Colfax Group has sufficient working capital for its present requirements, that is, for at least the 12 months following the date of publication of this document.

11. Significant change

There has been no significant change in the financial or trading position of the Colfax Group which has occurred since July 1, 2011, the end of the last financial period for which interim financial information has been published.

There has been no significant change in the financial or trading position of the Charter Group which has occurred since June 30, 2011, the end of the last financial period for which interim financial information has been published.

12. Material contracts

Colfax

The following contracts (not being contracts entered into in the ordinary course of business) (i) have been entered into by members of the Colfax Group within the two years immediately preceding the date of this document which are or may be material or (ii) contain any provision under which a member of the Colfax Group has an obligation or entitlement which is material to the Colfax Group as at the date of this document.

Implementation Agreement

On September 12, 2011, Colfax entered into an Implementation Agreement with Charter under which Bidco will acquire the entire issued share capital of Charter for cash and newly-issued shares of Colfax Common Stock. The Acquisition is intended to be implemented by way of a court-sanctioned scheme of arrangement or, if Bidco elects, by way of a takeover offer under Article 125 of the Companies (Jersey) Law 1991. The Scheme, which will be subject to the conditions set out in the Implementation Agreement, will require the sanction of the Royal Court of Jersey.

Under the terms of the Acquisition, Charter shareholders will be entitled to receive 730 pence in cash and 0.1241 New Colfax Common Shares in exchange for each Charter Share. The Acquisition values Charter's fully diluted share capital at approximately £1,528 million, being 910 pence per Charter share on a fully diluted basis (based on the closing price of $23.04 per share of Colfax Common Stock on September 9, 2011, being the last business day before the Acquisition was announced).

Colfax will be providing a ''mix and match facility'' in connection with the Acquisition, under which Charter's shareholders (other than certain Overseas Shareholders) may elect to vary the proportions in which they receive cash and New Colfax Common Shares under the Acquisition, subject to equal and opposite elections made by other Charter shareholders. However, the total number of shares of New Colfax Common Shares to be issued and the maximum amount of cash to be paid in connection with the Acquisition will not be varied as a result of the elections under the mix and match facility. Colfax will also be providing a ''loan note alternative'' option whereby Charter shareholders (other than certain Overseas Shareholders and US persons or persons resident in the US) may elect to receive unsecured floating rate loan notes of Bidco instead of some or all of the cash consideration to which they would otherwise be entitled in exchange for their Charter Shares. Under this alternative, Charter shareholders may elect to receive £1 nominal value of Loan Notes for every £1 in cash consideration to which they would otherwise be entitled. The Loan Notes will bear interest from the date of issue to the relevant holder of the Loan Notes at a rate per annum equal to the higher of: (a) 0.50% below LIBOR; and (b) zero. The Loan Notes will be payable semi-annually and be redeemable at par (together with accrued interest less any tax required by law to be withheld or deducted therefrom) for cash by the note holders or Bidco under certain circumstances. No Loan Notes will be issued unless valid elections have been received in respect of at least £2 million in nominal value of Loan Notes.

Charter has agreed that its board of directors will unanimously recommend to Charter's shareholders to vote in favor of the Acquisition at the general meeting of Charter shareholders to be convened to consider the Acquisition and the meeting of Charter shareholders to be convened by the order of the Royal Court of Jersey for purposes of approving the Scheme. Should Bidco elect to implement the Acquisition by way of a takeover offer rather than a Scheme, Charter's board of directors have agreed to unanimously recommend to Charter's shareholders to accept the Offer. The Charter directors have further agreed not to withdraw, qualify or adversely modify their recommendation. However, the foregoing obligations do not apply if the board of directors of Charter have determined, acting in their good faith discretion, after consultation with their legal and financial advisors, that their recommendation should not be given or should be withdrawn, qualified or adversely modified in order to comply with their legal duties. The Implementation Agreement requires Colfax to hold a stockholders meeting to approve the capital raising transactions contemplated by the securities purchase agreements entered into with each of BDT CF Acquisition Vehicle, LLC, Mitchell P. Rales, Steven P. Rales and Markel Corporation to finance part of the Acquisition. For further information see below in – *BDT Purchase Agreement, MPR Purchase Agreement, SMR Purchase Agreement* and *Markel Purchase Agreement.*

The Implementation Agreement contains conditions to each party's obligations customary for transactions such as the Acquisition. In addition, the Scheme is conditional upon (i) approval of the Acquisition and related matters by the stockholders of Charter at a general meeting and at a meeting of Charter shareholders to be convened by the order of the Royal Court of Jersey for purposes of approving the Scheme and (ii) sanctioning of the Scheme by the Royal Court of Jersey. The Acquisition is also conditioned upon approval of the capital raising transactions contemplated by the securities purchase agreements entered into with each of the Investors (as described below – *BDT Purchase Agreement, MPR Purchase Agreement, SMR Purchase Agreement* and *Markel Purchase Agreement*).

Charter has agreed to pay a break fee of £15,275,000 to Bidco in circumstances where a competing offer is announced before the Acquisition lapses or is withdrawn and such competing offer or another third party offer becomes wholly unconditional or effective or is otherwise consummated. In addition, Charter has agreed to pay a break fee of £7,638,000 to Bidco in certain other circumstances, including where the board of directors of Charter recommends a competing offer, withdraws, qualifies or adversely modifies its unanimous recommendation of the Acquisition, takes steps to implement a competing offer or makes certain changes in respect of the timing of the Acquisition and as a result the Scheme is reasonably expected not to become effective March 30, 2012.

BDT Purchase Agreement

On September 12, 2011, in connection with the financing of the proposed Acquisition of Charter, Colfax entered into the BDT Purchase Agreement with the BDT Investor (as well as BDT Capital Partners Fund I, L.P., BDT Capital Partners Fund I-A, L.P., Mitchell P. Rales, Chairman of Colfax's board, and his brother, Steven M. Rales, for the limited purposes as described below). Pursuant to the BDT Purchase Agreement, Colfax has agreed to sell to the BDT Investor (i) 14,756,945 newly-issued shares of Colfax Common Stock, and (ii) 13,877,552 shares of Series A Preferred Stock, for an aggregate of $680 million (representing $24.50 per share of Series A Preferred Stock and

$23.04 per share of Colfax Common Stock). For further information on the Series A Preferred Stock, see *Part 14: Additional Information – 4. Summary of Certificate of Incorporation, Bylaws and Related Legal Provisions.*

The BDT Purchase Agreement requires Colfax to present and recommend at a special meeting of Colfax Shareholders a proposal to approve the issuance of the BDT Shares to the BDT Investor and the amendment and restatement of Colfax's certificate of incorporation, which will provide the BDT Investor with a consent right in respect of certain corporate actions (including the election of anyone other than Mitchell P. Rales as Chairman of Colfax's Board) for so long as the BDT Investor beneficially owns at least 50% of the Series A Preferred Stock to be issued under the BDT Purchase Agreement. The Amended and Restated Certificate of Incorporation will also provide the BDT Investor the right to nominate up to two members of Colfax's board of directors depending on its beneficial ownership in Colfax Common Stock on a converted and fully-diluted basis from time to time. The BDT Purchase Agreement also includes a number of covenants from Colfax in connection with the acquisition of Charter.

Consummation of the transactions contemplated by the BDT Purchase Agreement is conditional upon, among other things, (i) approval by Colfax's Shareholders of the transactions contemplated by the BDT Purchase Agreement and the amendment and restatement of Colfax's certificate of incorporation, (ii) filing of the Amended and Restated Certificate of Incorporation and the Certificate of Designations with the Secretary of the State of Delaware, (iii) sanctioning of the Scheme by the Royal Court of Jersey (or in the case of a takeover offer, such offer becoming unconditional) and (iv) the Deutsche Bank Credit Agreement (described below) being in full force and effect.

The parties have also agreed to enter into a registration rights agreement at closing, pursuant to which Colfax will file a registration statement covering the resale of Colfax Common Stock issued to the BDT Investor at closing or upon conversion of the Series A Preferred Stock and the BDT Investor will have demand registration rights and piggyback registration rights under certain circumstances. In addition, the BDT Purchase Agreement provides the BDT Investor with tag-along sale rights in the event of certain sales of Colfax Shares by either or both of Mitchell P. Rales or Steven M. Rales, both of which are signatories to the BDT Purchase Agreement solely for purposes of such provisions.

The BDT Purchase Agreement contains customary representations and warranties from Colfax and the BDT Investor relating to a number of matters, including, for example, corporate organization, good standing, and authorization, compliance with legal requirements and non-contravention with organizational documents or other agreements. In addition, the BDT Investor has agreed not to make any proposal for the acquisition of voting stock in Colfax or in respect of certain business combinations or other extraordinary transactions involving Colfax, or to seek to call a special meeting of the stockholders of Colfax or its subsidiaries or participate in any solicitation of proxies in respect of Colfax's voting stock until its beneficial ownership falls below 5% of Colfax's outstanding common stock (including securities convertible into common stock) or the BDT Investor ceases to have the right to nominate at least one director to the Colfax Board under the Amended and Restated Certificate of Incorporation.

BDT & Company, as broker-dealer, will receive a 1.75% placement fee for the $680 million placement of Colfax Common Stock and the Series A Preferred Stock to the BDT Investor.

MPR Purchase Agreement

On September 12, 2011, Colfax entered into a securities purchase agreement with Mitchell P. Rales, Chairman of the Colfax Board, pursuant to which Colfax agreed to sell to Mitchell P. Rales 2,170,139 newly-issued shares of Colfax Common Stock for an aggregate of $50 million, representing a purchase price of $23.04 per share of Colfax Common Stock. Subject to the conditions to closing set forth in the MPR Purchase Agreement, the closing of the sale and purchase of the MPR Shares will occur on the date falling six business days after Colfax's acquisition of Charter becomes wholly unconditional or effective in accordance with the terms of the Implementation Agreement.

Consummation of the transactions contemplated by the MPR Purchase Agreement is conditional upon, among other things, (i) approval by Colfax's stockholders of the issuance of the MPR Shares and the amendment and restatement of Colfax's certificate of incorporation and (ii) filing of the Amended and Restated Certificate of Incorporation and the Certificate of Designations for the designation of the Series A Preferred Stock to be issued to the BDT Investor pursuant to the BDT Purchase Agreement with the Secretary of the State of Delaware. The parties have also agreed to enter into a registration rights agreement at closing, pursuant to which Colfax will file a registration statement covering the resale of Colfax Common Stock issued to Mitchell P. Rales under the MPR Purchase Agreement and Mitchell P. Rales will have demand registration rights and piggyback registration rights under certain circumstances.

SMR Purchase Agreement

On September 12, 2011, Colfax entered into a securities purchase agreement with Steven M. Rales, pursuant to which Colfax agreed to sell to Steven M. Rales 2,170,139 newly-issued shares of Colfax Common Stock for an aggregate of $50 million, representing a purchase price of $23.04 per share of Colfax Common Stock. Subject to the conditions to closing set forth in the SMR Purchase Agreement, the closing of the sale and purchase of the SMR Shares will occur on the date falling six business days after Colfax's acquisition of Charter becomes wholly unconditional or effective in accordance with the terms of the Implementation Agreement.

Consummation of the transactions contemplated by the SMR Purchase Agreement is conditional upon, among other things, (i) approval by Colfax's stockholders of the issuance of the SMR Shares and the amendment and restatement of Colfax's certificate of incorporation and (ii) filing of the Amended and Restated Certificate of Incorporation and the Certificate of Designations for the designation of the Series A Preferred Stock to be issued to the BDT Investor pursuant to the BDT Purchase Agreement with the Secretary of the State of Delaware. The parties have also agreed to enter into a registration rights agreement at closing, pursuant to which Colfax will file a registration statement covering the resale of Colfax Common Stock issued to Steven M. Rales under the SMR Purchase Agreement and Steven M. Rales will have demand registration rights and piggyback registration rights under certain circumstances.

Markel Purchase Agreement

On September 12, 2011, Colfax entered into a securities purchase agreement with Markel Corporation, a Virginia corporation. Tom Gayner, a member of Colfax's board of directors is the Executive Vice President and Chief Investment Officer of Markel. Pursuant to the Markel Purchase Agreement, Colfax agreed to sell to Markel 1,085,070 newly-issued shares of Colfax Common Stock for an aggregate of $25 million, representing a purchase price of $23.04 per share of Colfax Common Stock. Subject to the conditions to closing set forth in the Markel Purchase Agreement, the closing of the sale and purchase of the Markel Shares will occur on the date falling six business days after Colfax's acquisition of Charter becomes wholly unconditional or effective in accordance with the terms of the Implementation Agreement.

Consummation of the transactions contemplated by the Markel Purchase Agreement is conditional upon, among other things, (i) approval by Colfax's stockholders of the issuance of the Markel Shares and the amendment and restatement of Colfax's certificate of incorporation and (ii) filing of the Amended and Restated Certificate of Incorporation and the Certificate of Designations for the designation of the Series A Preferred Stock to be issued to the BDT Investor pursuant to the BDT Purchase Agreement with the Secretary of the State of Delaware. The parties have also agreed to enter into a registration rights agreement at closing, pursuant to which Colfax will file a registration statement covering the resale of Colfax Common Stock issued to Markel and Markel will have demand registration rights and piggyback registration rights under certain circumstances.

Deutsche Bank Credit Agreement

On September 12, 2011, Colfax entered into a credit agreement among Colfax, Bidco, certain subsidiaries of Colfax identified therein, Deutsche Bank AG New York Branch, as administrative agent, collateral agent, swing line lender and L/C issuer, Deutsche Bank Securities Inc. and HSBC Securities (USA) Inc. as joint lead arrangers and book managers, and the lenders identified therein.

The initial credit extensions under the credit agreement are subject to certain conditions precedent. The Acquisition is subject to a number of Conditions. If all the Conditions are met or waived, Colfax is required to proceed with the Acquisition. Upon satisfaction or waiver of all of the Conditions, all of the preconditions to the Deutsche Bank Credit Agreement will have been met. Accordingly, upon the Acquisition becoming unconditional and Colfax being required to proceed with the Acquisition, the funds will be available under the Deutsche Bank Credit Agreement. If all the Conditions are not met or waived, Colfax is not required to proceed with the Acquisition. If the Acquisition lapses, the preconditions to the Deutsche Bank Credit Agreement will not have been met and the Deutsche Bank Credit Agreement will terminate.

The proceeds of the term loans will be used (i) to satisfy a portion of the consideration required for the Acquisition, (ii) to refinance any indebtedness under the BOA Credit Agreement, and (iii) to fund any fees and expenses incurred in relation to the Acquisition. The credit agreement has three tranches of term loans: (i) a $200 million term A-1 facility, to be borrowed by Colfax, (ii) a $700 million term A-2 facility, to be borrowed by Bidco, and (iii) a $900 million term B facility, to be borrowed by Colfax. In addition, the credit agreement has two revolving credit facilities which total $300 million in commitments.

The term loans and the revolving credit facilities will bear interest, at the election of Colfax and Bidco at either the base rate (as defined in the credit agreement) or LIBOR, plus the applicable interest rate margin for the credit facility, provided that Euro borrowings will bear interest at EURIBOR plus the applicable interest rate margin. The $200 million term A-1 facility, the $700 million term A-2 facility and the revolving credit facilities will initially bear interest at either LIBOR (or EURIBOR) plus 3.00% or at the base rate plus 2.00%, and from the end of the first full fiscal quarter ending at least six months after the date of the Acquisition will be determined based on Colfax's consolidated leverage ratio (the interest rates ranging from 3.25% to 2.50%, in the case of the LIBOR margin, and 2.25% to 1.50% in the case of the base rate margin). The $900 million term B facility will bear interest at either LIBOR plus 4.00% or at base rate plus 3.00%, and LIBOR is subject to a 1.25% floor. Each swingline loan denominated in dollars will bear interest at the base rate plus the interest rate margin calculated for the credit facility and swingline loans denominated in Euros will bear interest at EURIBOR plus the interest rate margin calculated for the credit facility. The arrangements with the relevant banks include market flex rights for the banks, reflective of current market conditions in the syndicated debt markets.

The term A-1 facility, the term A-2 facility and the term B facility are repayable according to an amortization schedule which is set out in the credit agreement but are required to be repaid in full by the date falling five years after the date of the closing date (as defined in the credit agreement) in the case of the term A-1 facility and the term A-2 facility and the date falling seven years after the closing date in the case of the term B facility. Amounts drawn under the two revolving credit facilities are repayable in full on the date falling five years after the closing date.

As security for the obligations under the credit agreement, Colfax has agreed to pledge substantially all of its and its domestic subsidiaries' assets to support both its obligations and those of Bidco under the credit agreement. In addition, Colfax has agreed to have subsidiaries in certain foreign jurisdictions guarantee the Bidco's obligations and pledge substantially all of their assets to support the obligations of the Bidco under the credit agreement.

The credit agreement contains customary covenants limiting the ability of Colfax and its subsidiaries to, among other things, pay dividends, incur debt or liens, redeem or repurchase equity, enter into transactions with affiliates, make investments, merge or consolidate with others or dispose of assets. In addition, the credit agreement contains financial covenants requiring Colfax not to exceed certain leverage ratios and to maintain a minimum interest coverage ratio. The credit agreement contains various events of default (including failure to comply with the covenants under the credit agreement and related agreements) and upon an event of default the lenders may require the immediate payment of all amounts outstanding under the $200 million term A-1 facility, $700 million term A-2 facility, the $900 million term B facility and revolving credit facilities and foreclose on the collateral.

Bank of America Securities Credit Agreement

On May 13, 2008, Colfax entered into a credit agreement, led by Banc of America Securities LLC and administered by Bank of America. The credit agreement is a senior secured structure with a $150 million revolving credit line and a term A note of $100 million.

The term A note bears interest at LIBOR plus a margin ranging from 2.25% to 2.75% determined by the total leverage ratio calculated at quarter end. As of July 1, 2011 and December 31, 2010, the interest rate was 2.44% and 2.76%, respectively, inclusive of a margin of 2.25% and 2.50%, respectively. The term A note, as entered into on May 13, 2008, has $2.5 million due on a quarterly basis on the last day of each March, June, September and December beginning with June 30, 2010 and ending March 31, 2013, and one installment of $60 million payable on May 13, 2013.

The $150 million revolving credit line contains a $50 million letter of credit sub-facility, a $25 million swing line loan sub-facility and a €100 million sub-facility. The annual commitment fee on the revolving credit line ranges from 0.4% to 0.5% determined by the total leverage ratio calculated at quarter end. At April 1, 2011 and December 31, 2010, the commitment fee was 0.4% and 0.5%, respectively and there was $21.8 million and $14.1 million outstanding on the letter of credit sub-facility. As of July 1, 2011, Colfax's availability under the revolving credit facility was $120.6 million. The bankruptcy of Lehman Brothers, one of the financial institutions in the consortium that provided Colfax's revolving credit line, resulted in their default under the terms of the revolving credit line and Colfax will not be able to draw on Lehman Brothers' commitment of $6 million, leaving approximately $129.9 million available under the revolving credit line. The credit agreement was amended on February 14, 2011 to eliminate Lehman Brothers' commitment, thereby reducing the total amount of the revolving credit line to $144 million. At December 31, 2009, the commitment fee was 0.4% and there was $14.4 million outstanding on the letter of credit sub-facility, leaving approximately $136 million available under the revolver loan.

Substantially all assets and stock of Colfax's domestic subsidiaries and 65% of the shares of certain European subsidiaries are pledged as collateral against borrowings under the credit agreement. Certain European assets are pledged against borrowings directly made to Colfax's European subsidiary. The credit agreement contains customary covenants limiting Colfax's ability to, among other things, pay cash dividends, incur debt or liens, redeem or repurchase Colfax stock, enter into transactions with affiliates, make investments, merge or consolidate with others or dispose of assets. In addition, the credit agreement contains financial covenants requiring Colfax to maintain a total leverage ratio of not more than 3.25 to 1.0 and a fixed charge coverage ratio of not less than 1.50 to 1.0, measured at the end of each quarter. If Colfax does not comply with the various covenants under the credit agreement and related agreements, the lenders may, subject to various customary cure rights, require the immediate payment of all amounts outstanding under the term A note and revolving credit line and foreclose on the collateral. Colfax was in compliance with all such covenants as of September 30, 2011.

Charter

Other than the Implementation Agreement, which is described above in *Part 14: Additional Information – 12. Material Contracts – Colfax – Implementation Agreement*, there are no contracts (not being contracts entered into in the ordinary course of business) (i) that have been entered into by members of the Charter Group within the two years immediately preceding the date of this document which are or may be material; or (ii) that contain any provision under which a member of the Charter Group has an obligation or entitlement which is material to the Charter Group as at the date of this document.

13. Dividend policy

Colfax has not previously paid a dividend on the Colfax Common Stock and Colfax does not currently anticipate paying any dividends on the Colfax Common Stock (including the New Colfax Common Shares to be issued in respect of the Acquisition) in the foreseeable future. Holders of Series A Preferred Stock are entitled to receive cumulative cash dividends payable quarterly. For further information see *Part 14: Additional Information – 4. Summary of Certificate of Incorporation, Bylaws and Related Legal Provisions.*

14. Related party transactions

Except for the transactions described below, no related party transactions were entered into by any member of the Colfax Group during the period between January 1, 2008 and the date of this document.

Prior to our initial public offering in May 2008, we paid a quarterly management fee of $250,000 to Colfax Towers, Inc., an entity that is wholly owned by Mitchell P. Rales, the Chairman of the Board, and Steven M. Rales, one of our principal stockholders. Joseph O. Bunting III, who was a Vice President of Colfax until the initial public offering and is currently a director of Colfax, serves as an officer of Colfax Towers. Payment of this management fee was discontinued in April 2008. Since the beginning of 2008 until discontinuance of the management fee, $500,000 in management fees were paid to Colfax Towers. Such arrangements were concluded on an arm's-length basis.

In 2009, we purchased approximately $230,000 in goods from Danaher in transactions that took place in the ordinary course of business and on an arm's-length basis. Mitchell P. Rales is the Chairman of Danaher's executive committee and Steven M. Rales is the Chairman of Danaher's Board of Directors, and both are the beneficial owners of at least 5% of Danaher's outstanding common stock and the outstanding Colfax Common Stock.

In 2010, our subsidiaries purchased approximately $80,000 of products and received purchase orders for the future sale of approximately $104,000 of products from Danaher in transactions that took place in the ordinary course of business and on an arm's-length basis.

In addition, Colfax has entered into the MPR Purchase Agreement, the SMR Purchase Agreement and the Markel Purchase Agreement. All such agreements were concluded on an arm's length basis. For further information see *Part 14: Additional Information – 12. Material Contracts.*

15. Litigation

Colfax

Save as disclosed below, there have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Colfax is aware) during the 12 months preceding the date of this document which may have, or have had in the recent past, significant effects on the Colfax Group's financial position or profitability.

Asbestos Litigation

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

The subsidiaries settle asbestos claims for amounts management considers reasonable given the facts and circumstances of each claim. The annual average settlement payment per asbestos claimant has fluctuated during the past several years. Management expects such fluctuations to continue in the future based upon, among other things, the number and type of claims settled in a particular period and the jurisdictions in which such claims arise. To date, the majority of settled claims have been dismissed for no payment.

As at December 31, 2010, of the 24,764 pending claims, approximately 3,500 of such claims had been brought in various federal and state courts in Mississippi; approximately 3,300 of such claims had been brought in the Supreme Court of New York County, New York; approximately 200 of such claims had been brought in the Superior Court, Middlesex County, New Jersey; and approximately 900 claims had been filed in state courts in Michigan and the US District Court, Eastern and Western Districts of Michigan. The remaining pending claims had been filed in state and federal courts in Alabama, California, Kentucky, Louisiana, Pennsylvania, Rhode Island, Texas, Virginia, the US Virgin Islands and Washington.

For further information in relation to these claims, see:

- *Risk Factors – Available insurance coverage, the number of future asbestos-related claims and the average settlement value of current and future asbestos-related claims of two of Colfax's subsidiaries could be different than we have estimated, which could materially and adversely affect our business, financial condition and results of operations*;
- *Part 6: Colfax Operating and Financial Review – Critical accounting policies – Asbestos liabilities and insurance costs*;
- *Part A* of *Part 8: Colfax Financial Information – Note 15 to the unaudited condensed financial information for the six months ended July 1, 2011 – Commitments and Contingencies – Asbestos Liabilities and Insurance Assets*;
- *Part B* of *Part 8: Colfax Financial Information – Note 18 to the 2010 audited consolidated financial statements for the year ended December 31, 2010 – Commitments and Contingencies – Asbestos Liabilities and Insurance Assets*; and
- *Part C* of *Part 8: Colfax Financial Information – Note 19 to the 2009 audited consolidated financial statements for the year ended December 31, 2010 – Commitments and Contingencies – Asbestos Liabilities and Insurance Assets*.

Since the publication of our audited consolidated financial statements for the year ended December 31, 2010, the recommendation of the court-appointed special allocation master referred to in Note 18 thereto has been made, modified and accepted by the relevant court.

The claim amounts in respect of such claims are not reasonably quantifiable. In addition, it is not reasonably practicable to quantify precisely the amount of any potential damages or other costs or liabilities that might ensue if any liability was imposed on any member of the Colfax Group. Colfax has established reserves of $418.9 million as of July 1, 2011 for the probable and reasonably estimable asbestos-related liability cost it believes the subsidiaries will pay through the next 15 years. It has also established recoverables of $362.7 million as of July 1, 2011 for the insurance recoveries that are deemed probable during the same time period. Net of these recoverables, the expected cash outlay on a non-discounted basis for asbestos-related bodily injury claims over the next 15 years was $56.2 million as of July 1, 2011. In addition, Colfax has recorded a receivable for liability and defense costs previously paid in the amount of $44.5 million as of July 1, 2011 for which insurance recovery is deemed probable. Colfax has included the reserves for the asbestos liabilities in Accrued asbestos liability and Long-term asbestos liability and the related insurance recoveries in Asbestos insurance asset and Long-term asbestos insurance asset in the condensed consolidated balance sheet. The receivable for previously paid liability and defense costs is recorded in Asbestos insurance receivable and Long-term asbestos insurance receivable in the condensed consolidated balance sheet. Colfax also has reflected in Other accrued liabilities $21.3 million as of July 1, 2011 for overpayments by certain insurers and unpaid legal costs related to defending itself against asbestos-related liability claims and legal action against Colfax's insurers.

General litigation

On June 3, 1997, one of our subsidiaries was served with a complaint in a case brought by Litton in the Superior Court of New Jersey which alleges damages in excess of $10.0 million incurred as a result of losses under a government contract bid transferred in connection with the sale of its former Electro-Optical Systems business. In the third quarter of 2004, this case was tried and the jury rendered a verdict of $2.1 million for the plaintiffs. After appeals by both parties, the Supreme Court of New Jersey upheld the plaintiffs' right to a refund of their attorney's fees and costs of trial, but remanded the issue to the trial court to reconsider the amount of fees using a proportionality analysis of the relationship between the fee requested and the damages recovered. The date for the new trial on additional claims allowed by the Appellate Division of the New Jersey Superior Court and the recalculation of attorney's fees has not been set. The subsidiary intends to continue to defend this matter vigorously. At July 1, 2011, the Company's consolidated balance sheet included a liability, recognised in ''Other liabilities'', related to this matter of $9.5 million.

Charter

Save as disclosed below, there have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Colfax is aware) during the 12 months preceding the date of this document which may have significant effects on the Combined Group's financial position or profitability following the completion of the Acquisition, or have had in the recent past significant effects on the Charter Group's financial position or profitability.

Central operations

Since about 1985, certain subsidiaries of Charter have been named as defendants in asbestos-related actions in the United States. These lawsuits have alleged that the defendants were liable for the acts of Cape PLC, a former partly-owned subsidiary of Charter Limited. Between 1985 and 1987, the issue was tried in several matters, each of which was resolved in the defendants' favour either at trial or on appeal. In subsequent years, the defendants have continued to be named in asbestos-related lawsuits. The defendants have contested these actions and, in most cases, have obtained dismissals. The defendants have settled some of the cases brought in Mississippi. Currently, the only pending cases against the defendants in which they have received service of process are in Mississippi, which cases are dormant and are not actively being pursued by plaintiffs. The directors of Charter have received legal advice that the defendants and their wholly owned subsidiaries should be able to continue to defend successfully the actions brought against them, but that uncertainty must exist as to the eventual outcome of the trial of any particular action. It is not practicable to estimate in any particular case the amount of damages which might ensue if liability were imposed on any of the defendants. The defence costs and other expenses charged against Charter's operating profits in 2011 were negligible.

The claim amounts in respect of such claims are not reasonably quantifiable. In addition, it is not reasonably practicable to quantify precisely the amount of any potential damages or other costs or liabilities that might ensue if any liability was imposed on any member of the Charter Group. For further information on this, please refer to page 102 of Charter's Annual Report 2010 and Charter's Interim Results Announcement.

In these circumstances, the directors of Charter concluded that it was not appropriate to make provision for any liability in respect of such actions in the consolidated balance sheet included in the Charter Interim Results Announcement.

Welding

EGI, an indirect subsidiary of Charter, has been named as a defendant in a number of lawsuits in state and federal courts in the United States alleging personal injuries from exposure to manganese in the fumes of welding consumables. Other current and former manufacturers of welding consumables have also been named as defendants as well as various other defendants such as distributors, trade associations and others. The claimants seek compensatory and, in some cases, punitive damages for unspecified amounts.

There is one manganese fume trial scheduled for the balance of 2011. Additional trials could also be scheduled. There have been no manganese fume trials involving EGI during the first half of 2011.

For more than 20 years, the Welding Industry Defense group, which was established to represent a number of the welding company defendants, including EGI, in this and other litigation, has succeeded in obtaining defence verdicts in the vast majority of cases in which one or more of its members have been named as a defendant. EGI, in conjunction with other current and former US manufacturers of welding consumables, is defending these claims vigorously. EGI's defence costs, in relation to the manganese fume cases, net of insurance recoveries, are estimated to be of the order of $6.0 million, which is reflected in EGI's balance sheet at June 30, 2011.

EGI has also been named as a defendant in a small number of lawsuits in Massachusetts, Pennsylvania, Illinois and Missouri in which claimants allege asbestos-induced personal injuries. The claimants seek compensatory and, in some cases, punitive damages for unspecified amounts from EGI, other welding consumable manufacturers and other defendants who manufactured a variety of asbestos products. EGI has one asbestos case listed for trial for the remainder of 2011 although it is not anticipated that it will proceed to trial as scheduled. EGI has been dismissed prior to trial in the previous cases in which it was named as a defendant.

EGI intends vigorously to defend these lawsuits, which should be covered in whole or in part by insurance. In addition, the majority of defence costs are being borne by EGI's insurers.

The claim amounts in respect of such claims are not reasonably quantifiable. In addition, it is not reasonably practicable to quantify precisely the amount of any potential damages or other costs or liabilities that might ensue if any liability was imposed on any member of the Charter Group. For further information on this, please refer to page 102 of Charter's Annual Report 2010 and Charter's Interim Results Announcement.

Air and gas handling

Howden North America (formerly Howden Buffalo Inc.), an indirect subsidiary of Charter, has been named as a defendant in a number of asbestos-related actions in the United States. On the advice of counsel, Howden North America is vigorously defending all the cases that have been filed against it. Over the past few years, Howden North America has sought and received dismissals in 11,700 cases and has, on the advice of counsel, settled 499 cases. These cases were typically settled for nuisance value amounts, much less than the cost of defending the cases at trial. Howden North America has received legal advice indicating that it should be able to continue to defend successfully the actions that are brought. At this time, it is not practical to estimate the amount of any potential damages or to provide details of the current stage of proceedings in particular cases, as the majority of cases do not specify the amount of damages sought and the cases are at varying stages in the litigation process. However, legal fees associated with the defence of these claims and the cost of the settlements have been covered, in substantial part, by applicable insurance.

The claim amounts in respect of such claims are not reasonably quantifiable. In addition, it is not reasonably practicable to quantify precisely the amount of any potential damages or other costs or liabilities that might ensue if any liability was imposed on any member of the Charter Group. For further information on this, please refer to page 102 of Charter's Annual Report 2010 and Charter's Interim Results Announcement.

16. Consents

Ernst & Young LLP has given and has not withdrawn its consent to the inclusion in this document of its reports on (a) the profit forecast of the Colfax Group for the year ending December 31, 2011 set out in *Part 13: Profit Forecast* and (b) the pro forma financial information set out in *Part 10: Unaudited Pro Forma Financial Information of the Colfax Group*, in the form and context in which they are included and has authorized the contents of those parts of this document which comprise its reports for the purposes of paragraph 5.5.3R(2)(f) of the Prospectus Rules. A written consent under the Prospectus Rules is different from a consent filed with the SEC under section 7 of the US Securities Act and accordingly Ernst & Young LLP has not filed a consent under section 7 of the US Securities Act.

17. Auditors

The audit for each of the financial years ended December 31, 2010, December 31, 2009 and December 31, 2008 has been performed by Ernst & Young LLP, of The Edgeworth Building, Suite 201, 2100 East Cary Street, Richmond, Virginia 23223, United States of America, which is registered with the Public Company Accounting Oversight Board (United States).

18. Costs, charges and expenses

The total costs, charges and expenses payable by Colfax in connection with the Acquisition are estimated to be approximately $122 million (exclusive of VAT).

19. Documents for inspection

Copies of the following documents will be available for inspection during normal business hours on any weekday (Saturday, Sundays and public holidays excepted) at the offices of Skadden, Arps, Slate, Meagher & Flom (UK) LLP at 40 Bank Street, London E14 5DS, England until the later of October 16, 2012 and the completion of the Acquisition:

(i) the Certificate of Incorporation and Bylaws of Colfax;

(ii) the audited consolidated financial statements of Colfax for the year ended December 31, 2010;

(iii) the audited consolidated financial statements of Colfax for the year ended December 31, 2009;

(iv) the report by Ernst & Young in respect of the *pro forma* financial information in *Part 10: Unaudited Pro Forma Financial Information of the Colfax Group*;

(v) the report by Ernst & Young in respect of Colfax's profit forecast in *Part 13: Profit Forecast*;

(vi) Charter's interim results announcement in respect of the six months ended June 30, 2011;

(vii) Charter's Annual Report for the financial year ended December 31, 2010;

(viii) Charter's Annual Report for the financial year ended December 31, 2009;

(ix) Charter's Annual Report for the financial year ended December 31, 2008;

(x) the terms and conditions of the CSN Facility; and

(xi) this document.

Dated: October 18, 2011

PART 15: DEFINITIONS

The following definitions apply throughout this document unless the context otherwise requires:

"2.5 Announcement"	the announcement of the Acquisition made by Charter and Colfax on September 12, 2011 announcing the terms of the recommended offer for Charter to be made by Colfax
"2001 Plan"	Colfax Corporation 2001 Employee Appreciation Rights Plan
"2006 Plan"	2006 Executive Stock Rights Plan
"2008 Plan"	Colfax Corporation 2008 Omnibus Incentive Plan
"Acquisition"	the proposed acquisition of the entire issued and to be issued share capital of Charter by Bidco (other than the Excluded Shares), to be effected by the Scheme (or by the Offer under certain circumstances described in the 2.5 Announcement)
"Amended and Restated Certificate of Incorporation"	the certificate of incorporation of Colfax to be adopted pursuant to the BDT Purchase Agreement and as it will be upon completion of the Acquisition
"Annual Incentive Plan"	Colfax Corporation Annual Incentive Plan
"associated undertaking"	has the meaning given by paragraph 19 of Schedule 6 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 other than paragraph 19(1)(b) of Schedule 6 to those Regulations which shall be excluded for this purpose
"Baric"	Baric Group
"BDT Investor"	BDT CF Acquisition Vehicle, LLC, an entity controlled by BDT Capital Partners Fund I, L.P.
"BDT Purchase Agreement"	the securities purchase agreement dated September 12, 2011 between, amongst others, Colfax and the BDT Investor pursuant to which Colfax agreed to sell to the BDT Investor the BDT Shares for an aggregate of $680 million, representing a purchase price of $24.50 per share of Series A Preferred Stock and $23.04 per share of Colfax Common Stock
"BDT Shares"	the 14,756,945 newly-issued shares of Colfax Common Stock and the 13,877,552 shares of Series A Preferred Stock sold to the BDT Investor pursuant to the BDT Purchase Agreement for an aggregate of $680 million
"Bidco"	Colfax UK Holdings Ltd, a wholly-owned subsidiary of Colfax
"BOA Credit Agreement"	the credit agreement dated May 13 2008 between, amongst others, Colfax, Banc of America Securities LLC and Bank of America
"Board"	the board of directors of the relevant company
"Capital Reduction"	the proposed reduction of share capital of Charter pursuant to the Scheme
"CBS"	Colfax Business System
"CDI"	a CREST depositary interest representing an entitlement to a share
"Certificate of Designations"	the certificate of designations establishing the Series A Preferred Stock to be adopted pursuant to the Amended and Restated Certificate of Incorporation pursuant to the BDT Purchase Agreement

"Certificated Holders"	a Charter Shareholder (other than those with a registered address in the US or in any other CSN Restricted Jurisdiction) who holds his Charter Shares in certificated form (that is, not in CREST)
"Charter"	Charter International plc, incorporated in Jersey with registered number 100249
"Charter Consolidated"	a predecessor to Charter formed in 1965 by the merger of three British mining, finance and investment companies, The British South Africa Company, The Central Mining & Investment Corporation Limited and The Consolidated Mines Selection Company Limited
"Charter Executive Share Schemes"	the Charter International plc Long Term Incentive Plan first approved by the shareholders of Charter on August 27, 2008 and first adopted by Charter on October 22, 2008 (including subsequent amendments approved by shareholders on April 29, 2010 and adopted by Charter on February 16, 2011); and the Deferred Bonus Plan approved by the shareholders of Charter on August 27, 2008 and adopted by Charter on October 22, 2008
"Charter General Meeting"	the extraordinary general meeting of Charter Shareholders to consider and if thought fit pass, a special resolution in relation to the Acquisition and any adjournment thereof
"Charter Group"	Charter and its subsidiary and associated undertakings
"Charter plc"	a Subsidiary of Charter that was formed in 1993
"Charter Shareholders"	the holders of Charter Shares
"Charter Shares"	the ordinary shares of 2 pence each in the capital of Charter
"Charter's Interim Results Announcement"	Charter's interim results for the six months ended June 30, 2011 as announced on July 26, 2011
"City Code"	the City Code on Takeovers and Mergers
"Closing Price"	the closing middle market quotation of a share derived from (in respect of Charter Shares) the Daily Official List of the London Stock Exchange or (in respect of Colfax Shares) the New York Stock Exchange
"Colfax"	Colfax Corporation, a Delaware corporation having its registered office at 8170 Maple Lawn Blvd., Suite 180 Fulton, MD 20759
"Colfax CDI(s)"	dematerialised CREST depositary interests representing New Colfax Common Share(s)
"Colfax Common Stock"	shares of common stock in Colfax
"Colfax General Meeting"	the meeting of Colfax Shareholders to consider and, if thought fit, to approve the Equity Capital Raising and any adjournment thereof
"Colfax Group"	Colfax and its subsidiary undertakings from time to time and, where the context permits, each of them
"Colfax Shareholders"	the holders of Colfax Shares
"Colfax Shares"	Colfax Common Stock and Series A Preferred Stock
"Combined Group"	the Colfax Group and the Charter Group, following completion of the Acquisition
"Competing Proposal"	an approach (whether or not conditional) made by or on behalf of a third party which is not acting in concert with Colfax in relation to: (a) a takeover offer, scheme of arrangement, merger, acquisition or business combination involving Charter or any member of the Charter Group, the purpose of which is to acquire all or a substantial proportion (being 30% or more

	when aggregated with shares already held by the relevant third party and any body acting in concert with that third party) of the issued or to be issued share capital of Charter or any member or members of the Charter Group representing a substantial proportion of the Charter Group (being 30% or more as aforesaid); (b) a demerger and/or any material reorganisation, compromise, arrangement, division or split of Charter or all or a substantial proportion of the Charter Group; or (c) a transaction which would be an alternative to, or is inconsistent with, or would be reasonably likely to preclude, impede, delay or prejudice the implementation of, the Acquisition, in each case whether implemented in a single transaction or a series of transactions
"Conditions"	the conditions of the Acquisition set out in Appendix 1 to the 2.5 Announcement
"Condor"	Condor Equipamentos Industriais Ltda
"Court"	the Royal Court of Jersey
"Court Hearing"	the hearing following the Court Meeting, by the Court, of the application to sanction the Scheme
"Court Meeting"	the meeting of the Charter Shareholders convened by order of the Court pursuant to Article 125 of the Companies (Jersey) Law 1991 for the purpose of considering and, if thought fit, approving the Scheme (with or without amendment) and any adjournment thereof
"CRA Regulation"	Regulation (EC) No. 1060/2009
"CREST"	the relevant system (as defined in the Uncertificated Securities Regulations 2001 (SI 2001/3755) in respect of which Euroclear UK & Ireland Limited is the Operator (as defined in the Uncertified Securities Regulations)
"CREST Manual"	the rules governing the operation of CREST, consisting of the CREST Reference Manual, the CREST International Manual, the CREST Rules, the Registrars Service Standards, the Settlement Discipline Rules, the CCSS Operations Manual, the Daily Timetable, the CREST Application Procedure and the CREST Glossary of Terms promulgated by Euroclear on July 15, 1996 and as amended from time to time
"CSN"	Computershare Company Nominees Limited, the corporate sponsored nominee for the CSN Facility
"CSN Facility"	the facility under which the CSN holds Colfax CDIs on behalf of Certificated Holders and provides certain other services
"CSN Permitted Jurisdiction"	Argentina, Austria, Belgium, Botswana, Brazil, Bulgaria, Chile, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Gibraltar, Greece, Guernsey, Guinea, Hungary, Iceland, Indonesia, Ireland, Isle of Man, Italy, Jersey, Korea, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Mexico, Namibia, The Netherlands, Norway, Poland, Paraguay, Peru, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, Taiwan and the United Kingdom
"CSN Restricted Jurisdiction"	any jurisdiction other than a CSN Permitted Jurisdiction
"Danaher"	Danaher Corporation
"Deutsche Bank Credit Agreement"	the credit agreement dated September 12, 2011 between, amongst others, Colfax, Bidco and Deutsche Bank AG New

	York Branch, as administrative agent, collateral agent, swing line lender and L/C issuer
"DGCL"	Delaware General Corporation Law
"Director" or "Colfax Director"	any of the persons listed as a director of Colfax at *Part 4: Colfax Directors, Senior Managers, Employees and Corporate Governance*
"Disclosure and Transparency Rules"	the Disclosure and Transparency Rules made by the FSA under Part VI of FSMA
"DSU"	Deferred Stock Unit
"DTC"	The Depository Trust Company
"EEA"	European Economic Area
"EFTA"	European Free Trade Association
"Effective"	in the context of the Acquisition: (a) if the Acquisition is implemented by way of the Scheme, the Scheme having become effective pursuant to its terms; or (b) if the Acquisition is implemented by way of an Offer, such offer having been declared or become unconditional in all respects in accordance with the requirements of the City Code
"Effective Date"	the date on which the Scheme becomes effective in accordance with its terms
"EGI"	ESAB Group, Inc., an indirect subsidiary of Charter
"Equity Capital Raising"	the equity capital raising described in *Part 1: Information on the Acquisition*
"ESAB"	the ESAB business of Charter focused on welding, cutting and automation
"EURIBOR"	Euro Interbank Offered Rate
"Euroclear"	Euroclear UK & Ireland Limited
"Exchange Act"	the United States Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder
"Exchange Ratio"	means 0.1241 Colfax Shares for every 1 Charter Share
"Excluded Shares"	any Charter Shares legally or beneficially held by Colfax or any of its Subsidiaries or subsidiary undertakings
"Fairmount"	Fairmount Automation, Inc.
"FASB ASC Topic 718"	Financial Accounting Standards Board Accounting Standards Codification Topic 718
"Form of Election"	the form of election for the use by Charter Shareholders in relation to the Mix and Match Facility and the Loan Note Alternative
"FSA"	the Financial Services Authority
"FSMA"	the Financial Services and Markets Act 2000
"HMRC"	Her Majesty's Revenue & Customs
"Howden"	the Howden business of Charter focused on air and gas handling
"Howden North America"	Howden North America Inc.
"IFRS"	international financial reporting standards and international accounting standards and interpretations thereof, approved or published by the International Accounting Standards Board and adopted by the European Union

"Implementation Agreement"	the agreement dated September 12, 2011 and entered into by Colfax, Bidco and Charter with respect to the implementation of the Acquisition
"Investors"	the BDT Investor, Mitchell P. Rales, Steven M. Rales and Markel
"Jersey"	the Bailiwick of Jersey, Channel Islands
"Junior Stock"	Colfax Common Stock or any other class of Colfax stock ranking junior or subordinated to the Series A Preferred Stock with respect to dividends and distributions
"LIBOR"	London Inter Bank Offer Rate
"Litton"	Litton Industries, Inc
"Listing Rules"	the rules and regulations made by the FSA in its capacity as the UK Listing Authority under FSMA, and contained in the UK Listing Authority's publication of the same name
"Loan Note Alternative"	the option whereby Charter Shareholders (other than certain Overseas Shareholders and US persons or persons resident in the US) may elect to receive Loan Notes instead of some or all of the cash consideration to which they would otherwise be entitled under the Acquisition
"Loan Notes"	the unsecured floating rate loan notes of Bidco issued pursuant to the Loan Note Alternative
"London Stock Exchange"	London Stock Exchange plc
"Long Stop Date"	March 30, 2012, or such later date as Bidco and Charter may agree and the Court (if required) may allow
"LSC"	Lubrication Systems Company of Texas
"Markel"	Markel Corporation
"Markel Purchase Agreement"	the securities purchase agreement dated September 12, 2011 between Colfax and Markel, pursuant to which Colfax agreed to sell to Markel the Markel Shares for an aggregate of $25 million, representing a purchase price of $23.04 per share of Colfax Common Stock
"Markel Shares"	the 1,085,070 newly-issued shares of Colfax Common Stock sold to Markel pursuant to the Markel Purchase Agreement for an aggregate of $25 million
"Meetings"	the Court Meeting and the Charter General Meeting
"Melrose"	Melrose PLC
"Messrs. Rales"	Mitchell P. Rales and Steven M. Rales
"Mix and Match Facility"	the mix and match facility under which Charter Shareholders (other than certain Overseas Shareholders) may elect, subject to equal and opposite elections made by other Charter Shareholders, to vary the proportions in which they receive cash and New Colfax Common Shares under the Acquisition
"MPR Purchase Agreement"	the securities purchase agreement dated September 12, 2011 between Colfax and Mitchell P. Rales pursuant to which Colfax agreed to sell to Mitchell P. Rales the MPR shares for an aggregate of $50 million, representing a purchase price of $23.04 per share of Colfax Common Stock
"MPR Shares"	the 2,170,139 newly-issued shares of Colfax Common Stock sold to Mitchell P. Rales pursuant to the MPR Purchase Agreement for an aggregate of $50 million

"New Charter Shares"	the new ordinary shares of $^{2}/_{910}$ pence each in the capital of Charter to be issued credited as fully paid up to Bidco and/or its nominee(s) pursuant to the Scheme
"New Colfax Common Shares"	the new shares of Colfax Common Stock to be issued credited as fully paid up to Scheme Shareholders (other than certain Overseas Shareholders) pursuant to the Scheme
"New UK Colfax Shareholders"	Charter Shareholders who receive New Colfax Common Shares (including where represented by Colfax CDIs) in connection with Colfax's offer for Charter and who are resident and, in the case of individuals, ordinarily resident and domiciled in the UK for UK tax purposes and who are not resident for tax purposes in any other jurisdiction
"Non-Executive Director"	any of the persons listed as a Non-Executive Director of Colfax at *Part 4*: *Colfax Directors, Senior Managers, Employees and Corporate Governance* (together, the "Non-Executive Directors")
"NYSE"	the New York Stock Exchange
"Offer"	should the Acquisition be implemented by way of a takeover offer, the takeover offer to be made by or on behalf of Bidco to acquire the entire issued and to be issued ordinary share capital of Charter and, where the context admits, any subsequent revision, variation, extension or renewal of such offer
"Offer Consideration"	the consideration payable in connection with the Acquisition
"Offer Document"	should the Acquisition be implemented by means of the Offer, the document to be sent to Charter Shareholders which will contain, *inter alia*, the terms and conditions of the Offer
"Offer Period"	the offer period, as defined in the City Code, in relation to Charter, which began on June 29, 2011
"Official List"	the official list maintained by the UK Listing Authority
"Overseas Shareholders"	Scheme Shareholders who are resident in, ordinarily resident in, or citizens of, jurisdictions outside the United Kingdom, Jersey or the United States
"Panel"	the Panel on Takeovers and Mergers
"PD-Technik"	PD-Technik Ingenieurbüro GmbH
"Phantom Restricted Share Plan"	the Phantom Restricted Share Plan last approved and adopted by Charter Limited (registered number: 2794949) on May 17, 2011 (including all prior versions thereof)
"Price Associates"	T. Rowe Price Associates, Inc.
"Profit Forecast"	the profit forecast made on July 29, 2011 in respect of the year ending December 31, 2011, and set out in *Part 13: Profit Forecast*
"Prospectus Rules"	the rules made for the purposes of Part IV of FSMA in relation to the offer of securities to the public and the admission to trading on a regulated market
"Proxy Statement"	the Colfax proxy statement pursuant to Section 14(a) of the Exchange Act required in connection with the Equity Capital Raising
"PRSU"	performance-based restricted stock unit
"Purchase Agreements"	together, the BDT Purchase Agreeement, the Markel Purchase Agreement, the MPR Purchase Agreement and the SMR Purchase Agreement
"Receiving Agent"	Computershare, having its office at Corporate Actions 2, Bristol BS99 6AG

"Reduction Court Order"	the act of Court confirming the Capital Reduction together with the approval minute
"Registrar"	Computershare Investor Services (Jersey) Limited having their office at 2nd Floor, Queensway House, Hilgrove Street, St. Helier, Jersey JE1 1ES
"Registrar of Companies"	the Registrar of Companies for Jersey
"Regulation (EC) 139/2004"	Council Regulation (EC) 139/2004 (as amended)
"Regulatory Information Service"	any of the services set out in Appendix II to the Listing Rules
"Reorganisation Record Time"	6.00 p.m. on the business day immediately prior to the Court Hearing
"Restricted Holder"	a Charter Shareholder who holds his Charter Shares in certificated form (that is, not in CREST) and who has a registered address in the US or in any other CSN Restricted Jurisdiction
"Restricted Jurisdiction"	any jurisdiction where the relevant action would constitute a violation of the relevant laws and regulations of such jurisdiction or would result in a requirement to comply with any governmental or other consent or any registration, filing or other formality which Colfax, Bidco or Charter regard as unduly onerous
"Rosscor"	Rosscor Holding B.V.
"RSU"	Restricted Stock Unit
"Scheme"	the proposed scheme of arrangement under Article 125 of the Companies (Jersey) Law 1991 between Charter and Charter Shareholders to implement the Acquisition which is set out in the Scheme Document
"Scheme Court Order"	the act of Court sanctioning the Scheme
"Scheme Document"	the document to be dispatched to Charter Shareholders in respect of the Scheme
"Scheme Record Time"	6.30 p.m. on the business day immediately prior to the Court Hearing
"Scheme Shareholder"	holders of Scheme Shares
"Scheme Shares"	(a) the Charter Shares in issue at the date of the Scheme Document; (b) any Charter Shares issued after the date of the Scheme Document and prior to the Voting Record Time; and (c) any Charter Shares issued at or after the Voting Record Time and prior to the Scheme Record Time in respect of which the original or any subsequent holder thereof is bound by the Scheme, or shall by such time have agreed in writing to be bound by the Scheme, but excluding the Excluded Shares
"SEC"	the US Securities and Exchange Commission
"Securities Act"	the US Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
"Senior Manager"	any of the persons listed as a Senior Manager of Colfax at *Part 4: Colfax Directors, Senior Managers, Employees and Corporate Governance*
"Series A Preferred Stock"	shares of Series A Preferred Stock in Colfax
"significant interest"	a direct or indirect interest in 10% or more of the equity share capital (as defined in the Companies Act 2006)

"SMR Purchase Agreement"	the securities purchase agreement dated September 12, 2011 between Colfax and Steven M. Rales pursuant to which Colfax agreed to sell to Steven M. Rales the SMR Shares for an aggregate of $50 million, representing a purchase price of $23.04 per share of Colfax Common Stock
"SMR Shares"	the 2,170,139 newly-issued shares of Colfax Common Stock sold to Steven M. Rales pursuant to the MPR Purchase Agreement for an aggregate of $50 million
"Statement of Ownership"	a statement of ownership to be sent to participants in the CSN Facility from the CSN detailing the number of Colfax CDIs held by the relevant participant through the CSN facility
"subsidiary", "subsidiary undertaking" and "undertaking"	have the meanings given by the Companies Act 2006
"Sychevsky"	LLC Sychevsky Electrodny Zavod
"Thomassen"	Thomassen Compression Systems BV
"TTE Instruction"	a transfer to escrow instruction (as defined in the CREST Manual)
"UK" or "United Kingdom"	the United Kingdom of Great Britain and Northern Ireland
"UK Listing Authority"	the FSA as the competent authority for listing in the United Kingdom
"Uncertificated Holders"	a Charter Shareholder who holds his Charter Shares in uncertificated form through CREST
"Uncertificated Securities Regulations"	the Uncertificated Securities Regulations 2001 of the UK
"US" or "United States"	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia
"US GAAP"	generally accepted accounting principles in the US
"US person(s)"	any US person as defined in Rule 902(k) of Regulation S under the Securities Act
"Voting Record Time"	6.00 p.m. on the day which is two days before the date of the Court Meeting or, if the Court Meeting is adjourned, 6.00 p.m. on the day which is two days before the date of such adjourned Court Meeting
"Wider Charter Group"	Charter and its subsidiary undertakings, associated undertakings and any other undertaking in which Charter and/or such undertakings (aggregating their interests) have a significant interest
"Wider Colfax Group"	Colfax and its subsidiary undertakings, associated undertakings and any other undertaking in which Colfax and/or such undertakings (aggregating their interests) have a significant interest

PART 16: GLOSSARY

2-screw pump	a type of screw pump which uses two intermeshing screws synchronized by timing gears
centrifugal pump	a pump which uses the kinetic energy imparted by rotating an impeller inside a configured casing to create pressure
floating production storage and offloading unit	a floating vessel used by the offshore industry for the processing of hydrocarbons and for storage of oil
gasket	a mechanical seal which fills the space between two or more mating surfaces, generally to prevent leakage from or into the joined objects while under compression
gear pump	a pump which uses the meshing of gears to pump fluid by displacement
impeller	a rotor inside a tube or conduit used to increase the pressure and flow of a fluid
progressive cavity pump	a type of positive displacement pump which transfers fluid by means of the progress, through the pump, of a sequence of small, fixed shape, discrete cavities, as its rotor is turned
rotary positive displacement pump	a pump which consists of a casing containing screws, gears, vanes or similar components that are actuated by the relative rotation of that component to the casing, which results in the physical movement of the liquid from the inlet to the discharge at a constant rate
screw pump	a pump which consists of a screw inside a hollow pipe. As the bottom end of the screw turns, it scoops up a volume of liquid which will slide up in the spiral tube as the shaft is turned

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