

Colfax CORP  
Form PRER14A  
December 02, 2011

**PRELIMINARY PROXY STATEMENT DATED  
DECEMBER 2, 2011 SUBJECT TO COMPLETION**

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

**SCHEDULE 14A**

**(Rule 14a-101)**

**INFORMATION REQUIRED IN PROXY STATEMENT**

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934**

Filed by the Registrant  x  
Filed by a Party other than the Registrant  o  
Check the appropriate box:

x Preliminary Proxy Statement  
 o **Confidential, for Use of the Commission Only (as permitted by 14a-6(e)(2))**  
 o Definitive Proxy Statement  
 o Definitive Additional Materials  
 o Soliciting Material Pursuant to §240.14a-12

**COLFAX CORPORATION**

(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
- (1) Title of each class of securities to which transaction applies:  
common stock, par value \$0.001 per share
- (2) Aggregate number of securities to which transaction applies:  
20,832,469

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

Solely for purposes of calculating the filing fee, the underlying value of the transaction was calculated as the product of (i) 167,868,402 Charter International plc ordinary shares and (ii) the average of the high and low sales price of Charter International plc ordinary shares as quoted on the London Stock Exchange on October 6, 2011 (\$13.38 based on an exchange rate of £1.00 = \$1.5398 on October 6, 2011).

(4) Proposed maximum aggregate value of transaction:  
\$2,246,079,219.00

(5) Total fee paid:  
\$257,400.68 (based upon the product of \$2,246,079,219.00 and the applicable fee rate of \$114.60 per million dollars).

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

- (1) Amount Previously Paid:
- (2) Form, Schedule or Registration Statement No.:
- (3) Filing Party:
- (4) Date Filed:
-

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**PRELIMINARY PROXY STATEMENT  
DATED DECEMBER 2, 2011 SUBJECT TO  
COMPLETION  
COLFAX CORPORATION**

, 2011

Dear Colfax Corporation Stockholders:

On behalf of Colfax's Board of Directors, I am pleased to deliver our proxy statement relating to an important set of transactions for your company. As we announced on September 12, 2011, we have agreed to acquire Charter International plc ( Charter ) for consideration consisting of cash and shares of our common stock (the Acquisition ). The Acquisition values Charter's fully diluted share capital at approximately £1,528 million (\$2,426 million) (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, at the foreign exchange rate of U.S.\$1.5881/£1 in effect as of that date). The Board of Directors unanimously approved the Acquisition as a significant enabler for long-term growth and value creation.

In order to finance in part the Acquisition, we have negotiated a \$680 million cash investment by BDT CF Acquisition Vehicle, LLC (the BDT Investor ), in shares of our common stock and newly-created Series A perpetual convertible preferred stock that will be convertible into our common stock (the BDT Investment ). Also in connection with the Acquisition, we have negotiated a \$50 million cash investment by each of Mitchell P. Rales and Steven M. Rales, and a \$25 million cash investment by Markel Corporation (together with Messrs. Rales, the Other Investors ), in shares of our common stock (collectively, the Other Investment ). Mitchell P. Rales is the Chairman of our Board of Directors and Steven M. Rales is his brother. In addition, Tom Gayner, a member of our Board of Directors, is an officer of Markel Corporation. Given these relationships, we determined to form a special committee of disinterested directors to review the terms of the Other Investment (the Special Committee ). The Special Committee met on numerous occasions and unanimously approved the proposed investments by each of the Other Investors, having determined that the terms of the Other Investment were appropriate under the circumstances. The Other Investment was also approved by our disinterested directors pursuant to our corporate policy regarding related person transactions. In addition, the BDT Investment and Other Investment (together, the Investments ) were unanimously approved by our Board of Directors.

We have also entered into a credit facility to finance in part the Acquisition.

The Acquisition and the Investments are conditioned on each other: unless we complete the Investments, we will not complete the Acquisition and unless we complete the Acquisition we will not complete the Investments.

**YOUR VOTE IS REQUIRED TO APPROVE THE INVESTMENTS AND, THEREFORE, CRITICAL TO MAKING THE ACQUISITION HAPPEN.**

On September 12, 2011, we entered into an Implementation Agreement (the Implementation Agreement ) that sets out the terms of the Acquisition. On the same day, we entered into a securities purchase agreement with the BDT Investor (the BDT Purchase Agreement ), pursuant to which we have agreed to sell to the BDT Investor (i) 14,756,945 shares

of our common stock, par value \$0.001 per share (our Common Stock ) and (ii) 13,877,552 shares of newly created Series A perpetual convertible preferred stock ( Series A Preferred Stock ) for an aggregate of \$680 million. In connection with the BDT Investment, we granted the BDT Investor certain voting and approval rights. We refer to the shares of Common Stock and shares of Series A Preferred Stock to be sold to the BDT Investor collectively as the BDT Shares. Also on September 12, 2011, we entered into securities purchase agreements with each of Mitchell P. Rales, Steven M. Rales and Markel Corporation (the MPR Purchase Agreement, SMR Purchase Agreement and Markel Purchase Agreement, respectively), pursuant to which we agreed to sell to (a) Mitchell P. Rales 2,170,139 shares of our Common Stock (the MPR Shares ) for an aggregate of \$50 million, (b) Steven M. Rales 2,170,139 shares of our Common Stock (the SMR Shares ) for an aggregate of \$50 million and (c) Markel Corporation ( Markel ) 1,085,070 shares of our Common Stock for an aggregate of \$25 million (the Markel Shares , and together with the MPR Shares and SMR Shares, the Other Shares ). We refer to the MPR Purchase Agreement, SMR Purchase Agreement and Markel Purchase Agreement collectively as the

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Other Purchase Agreements. We refer to the BDT Shares and the Other Shares collectively as the Investor Securities, and refer to the Investor Securities and the up to 20,832,469 shares of Common Stock to be issued to the shareholders of Charter as partial consideration in the Acquisition (the Acquisition Shares ) collectively as the Securities. We refer to the BDT Purchase Agreement and the Other Purchase Agreements collectively as the Purchase Agreements.

The purchase price for the shares of Common Stock to be sold to the BDT Investor and the Other Investors in the Investments is \$23.04 per share (being the closing price of our Common Stock on September 9, 2011, which was the last business day prior to the execution of the Purchase Agreements), which was also the price used to calculate the value of the Acquisition as first announced on September 12, 2011. The purchase price for the shares of Series A Preferred Stock to be sold to the BDT Investor in the BDT Investment is \$24.50 per share and the initial conversion price is \$27.93 per share, subject to adjustment.

At our special meeting of stockholders on , 2011, stockholders are being asked to approve the issuance of the BDT Shares to the BDT Investor in the BDT Investment (and the issuance of shares of Common Stock upon conversion of the shares of Series A Preferred Stock to be issued in the BDT Investment), the issuance of the Other Shares to Mitchell P. Rales, Steven M. Rales and Markel in the Other Investment and the issuance of the Acquisition Shares to Charter s shareholders as part consideration in the Acquisition. Our stockholders are also being asked to approve an amendment and restatement of our Certificate of Incorporation ( the Amended and Restated Certificate of Incorporation ) to increase the number of our authorized shares of Common Stock and preferred stock and to provide the BDT Investor certain voting and approval rights in Colfax. Additionally, you are being asked to authorize the adjournment or postponement of the special meeting to a later date or time, if necessary or appropriate, to solicit additional proxies in the event there are insufficient votes at the time of such adjournment or postponement to approve the other proposals.

**After careful consideration, our Board of Directors has unanimously approved the Acquisition and the Investments and determined that the Acquisition and the Investments and the transactions contemplated by the Implementation Agreement and Purchase Agreements to support the Acquisition and the Investments, including the issuance of the Securities, the issuance of shares of Common Stock upon conversion of the shares of Series A Preferred Stock to be issued in the BDT Investment and the amendment and restatement of our Certificate of Incorporation, are advisable, fair to and in the best interests of Colfax and its stockholders. Our Board of Directors therefore unanimously recommends that you vote FOR the proposal to approve the issuance of the BDT Shares to the BDT Investor upon the terms set forth in the BDT Purchase Agreement (including the issuance of shares of Common Stock upon conversion of the shares of Series A Preferred Stock to be issued in the BDT Investment), FOR the proposal to approve the issuance of the Other Shares to the Other Investors upon the terms set forth in the Other Purchase Agreements, FOR the proposal to approve the issuance of the Acquisition Shares to the shareholders of Charter as part consideration for the Acquisition upon the terms set forth in the Implementation Agreement, FOR the proposal to approve the Amended and Restated Certificate of Incorporation and FOR the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies.**

Stockholders are cordially invited to attend the special meeting of stockholders to vote on the proposals described above. The special meeting of stockholders will be held on , 2011 at local time at our corporate headquarters located at 8170 Maple Lawn Boulevard, Suite 180, Fulton, Maryland 20759.

This proxy statement contains detailed information concerning us, the special meeting and the transactions contemplated by the Implementation Agreement and Purchase Agreements. **Please pay careful attention to all of the information in this proxy statement. In particular, you should carefully consider the discussion in Risk Factors beginning on page 29 of this proxy statement.**



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**Your vote is very important, regardless of the number of shares of Common Stock you own. In order to approve the Investments and issuance of the Acquisition Shares, which are necessary for the Acquisition, we need an affirmative vote of holders of a majority of the outstanding shares of Common Stock. Whether or not you plan to attend the special meeting of stockholders, please take the time to vote by completing the enclosed proxy card and returning it in the pre-addressed envelope provided or following the telephone or Internet voting instructions set forth on the enclosed proxy card. If you hold your shares of Common Stock through a broker or other custodian, please follow the voting instructions that the applicable institution provides to you.**

Clay H. Kiefaber  
President and Chief Executive Officer

Neither the U.S. Securities and Exchange Commission (the SEC), nor any state securities regulatory agency has approved or disapproved the transaction, passed upon the merits or fairness of the transaction or passed upon the adequacy or accuracy of the disclosure in this document. Any representation to the contrary is a criminal offense.

This proxy statement is dated , 2011, and is first being mailed to stockholders on or about , 2011.

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## COLFAX CORPORATION

# NOTICE OF SPECIAL MEETING OF STOCKHOLDERS TO BE HELD ON , 2011

To Our Stockholders:

A special meeting of stockholders of Colfax Corporation, a Delaware corporation ( Colfax ), will be held at , local time, on , 2011 at our corporate headquarters located at 8170 Maple Lawn Boulevard, Suite 180, Fulton, Maryland 20759, to consider and vote upon the proposals listed below.

*Proposal No. 1:* To approve (i) the issuance to the BDT Investor of 14,756,945 shares of Common Stock and 13,877,552 shares of Series A Preferred Stock, in accordance with the terms of the BDT Purchase Agreement to fund a portion of the Acquisition and (ii) the issuance of shares of our Common Stock upon conversion of such Series A Preferred Stock.

*Proposal No. 2:* To approve the issuance of 2,170,139 shares of Common Stock to Mitchell P. Rales, 2,170,139 shares of Common Stock to Steven M. Rales and 1,085,070 shares of Common Stock to Markel in accordance with the terms of the Other Purchase Agreements to fund a portion of the Acquisition.

*Proposal No. 3:* To approve the issuance of up to 20,832,469 shares of Common Stock as part consideration for the Acquisition in accordance with the terms of the Implementation Agreement.

*Proposal No. 4:* To approve an amendment and restatement of our Certificate of Incorporation to (i) increase the number of shares of authorized capital stock from 210,000,000 to 420,000,000, comprised of an increase in Common Stock from 200,000,000 to 400,000,000 shares and an increase in preferred stock from 10,000,000 to 20,000,000 shares 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 BDT Investment, including provisions that require the approval of the BDT Investor in order for us to take certain corporate actions and to provide the BDT Investor with the right to nominate up to two members of the Board of Directors depending on its beneficial ownership of Colfax securities from time to time.

*Proposal No. 5:* To adjourn or postpone the special meeting to a later date or time, if necessary or appropriate, to solicit additional proxies in the event there are insufficient votes at the time of such adjournment or postponement to approve the other proposals.

**The approval of Proposals No. 1, No. 2, No. 3 and No. 4 is required for the issuance of the Securities described in this proxy statement. Since the issuance of the Acquisition Shares and proceeds from the issuance of the Investor Securities will be used to fund in part the Acquisition, the approval of each of Proposal No. 1, No. 2, No. 3 and No. 4 is also a condition to the Acquisition.**

The Acquisition and the Investments are conditioned on each other: unless we complete the Investments, we will not complete the Acquisition and unless we complete the Acquisition we will not complete the Investments.

We may postpone or adjourn the special meeting if (i) there are insufficient shares of Common Stock present or represented by a proxy at the special meeting to conduct business at the special meeting, (ii) we are required to postpone or adjourn the special meeting by applicable law or regulation or a request from the SEC or its staff, or (iii) we determine in good faith (after consultation with outside legal counsel) that it is necessary or appropriate to postpone or adjourn the special meeting in order to give our stockholders sufficient time to evaluate any information



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or disclosure that we have sent to our stockholders or otherwise made available to our stockholders by issuing a press release, filing materials with the SEC or otherwise. We may also adjourn or postpone the meeting to solicit additional proxies upon approval of Proposal No. 5.

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The close of business on \_\_\_\_\_, 2011 has been fixed as the record date for determining those Colfax stockholders entitled to vote at the special meeting. Accordingly, only stockholders of record at the close of business on that date are entitled to notice of, and to vote at, the special meeting or any adjournment or postponement of the special meeting.

**Our Board of Directors unanimously recommends that you vote FOR each of the above proposals. Messrs. Rales and each member of our Board of Directors has advised us that they intend to vote all of the shares of Common Stock which they hold, directly or indirectly, in favor of the above proposals.**

**Your vote is very important.** Whether or not you plan to attend the special meeting, please submit your proxy promptly by telephone or via the Internet in accordance with the instructions on the accompanying proxy card, or by completing, dating and returning your proxy card in the enclosed envelope. If you hold your shares of Common Stock through a broker, bank or other nominee, please follow the voting instructions that the applicable institution provides to you.

By order of Colfax's Board of Directors

A. Lynne Puckett  
Corporate Secretary  
Fulton, Maryland  
, 2011

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## QUESTIONS AND ANSWERS

*The following questions and answers are intended to address briefly some commonly asked questions regarding the special meeting, the issuance of the Securities and the other transactions contemplated by the Implementation Agreement entered into with Charter and the Purchase Agreements entered into with each of the BDT Investor, Mitchell P. Rales, Steven M. Rales and Markel. These questions and answers may not address all questions that may be important to you as a Colfax stockholder. Please refer to the more detailed information contained elsewhere in this proxy statement, the annexes to this proxy statement and the documents referred to in this proxy statement, which you should read carefully. See *Where You Can Find More Information* beginning on page 318.*

*Except as otherwise noted, references in this proxy statement to Colfax, the Company, we, us, and our refer to the business of Colfax Corporation and its subsidiaries, and references in this proxy statement to Charter refer to the business of Charter International plc and its subsidiaries.*

**Q: Why am I receiving these materials?**

A: We are sending you this proxy statement and the enclosed proxy card in connection with a special meeting of our stockholders, which will take place on , 2011, starting at , local time, at our corporate headquarters located at 8170 Maple Lawn Boulevard, Suite 180, Fulton, Maryland 20759. As a stockholder, you are invited to attend the special meeting and are entitled and requested to vote on the proposals described in this proxy statement.

**Q: Who is entitled to vote at the special meeting?**

A: You are entitled to vote at the special meeting if you owned shares of Common Stock as of the close of business on , 2011, the record date for the special meeting. You will have one vote for each share of Common Stock that you owned as of the record date. As of the record date there were shares of Common Stock outstanding and entitled to vote. The presence in person or represented by proxy of stockholders possessing a majority of the shares of Common Stock entitled to vote as of the record date of the special meeting will constitute a quorum for the purpose of considering the proposals.

**Q: Why is Colfax holding the special meeting?**

A: On September 12, 2011, we entered into the Implementation Agreement and the Purchase Agreements in connection with the Acquisition and the Investments. We entered into the Implementation Agreement with Charter to purchase the entire issued and to be issued share capital of Charter. Pursuant to the terms of the Acquisition, Charter's shareholders will be entitled to receive for each ordinary share of Charter 730 pence in cash and 0.1241 newly issued shares of our Common Stock. Accordingly, we will issue up to 20,832,469 shares of Common Stock as part of the consideration to Charter's shareholders.

In addition, we entered into the BDT Purchase Agreement with the BDT Investor, pursuant to which we agreed to sell to the BDT Investor (i) 14,756,945 shares of our Common Stock and (ii) 13,877,552 shares of newly created Series A Preferred Stock, for an aggregate of \$680 million. Also on September 12, 2011, we entered into the Other Purchase Agreements with each of Mitchell P. Rales, Steven M. Rales and Markel, pursuant to which we agreed to sell to (a) Mitchell P. Rales 2,170,139 shares of our Common Stock for \$50 million, (b) Steven M. Rales 2,170,139 shares of our Common Stock for \$50 million and (c) Markel 1,085,070 shares of our Common Stock for \$25 million. The purchase price for the shares of Common Stock to be sold to the BDT Investor and the Other Investors in the Investments is \$23.04 per share, being the closing price of our Common Stock on September 9, 2011, which was the last business day prior to the execution of the Purchase Agreements. The purchase price for the shares of Series A Preferred Stock to be sold to the BDT Investor in the BDT Investment is \$24.50 per share and the initial conversion price is \$27.93 per share, subject to adjustment.

At our special meeting, stockholders are being asked to approve the issuance of the BDT Shares to the BDT Investor (including the issuance of shares of Common Stock upon conversion of the shares of Series A Preferred Stock to be

issued in the BDT Investment) and the issuance of the Other Shares to Messrs. Rales and Markel in accordance with the terms of the Purchase Agreements as well as the issuance of the Acquisition Shares as partial consideration for the Acquisition. Our stockholders are also

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being asked to approve an amendment and restatement of our Certificate of Incorporation, referred to as the Amended and Restated Certificate of Incorporation, to increase the number of authorized shares of our Common Stock and preferred stock and to provide the BDT Investor certain approval rights and director nomination rights in Colfax.

**Q: Why is Colfax making the Acquisition?**

A: A number of strategic advantages are expected from the proposed combination of Colfax and Charter. We believe the Acquisition would complement our stated strategy which, in addition to driving organic growth, includes pursuing value-creating acquisitions within our served markets, and adding complementary growth platforms to provide scale and revenue diversity. We consider Charter to be a leading player in key markets with an attractive business mix and strong technological capabilities that fits well with our acquisition criteria. We believe that the Acquisition would accelerate our 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 our existing fluid handling platform, and Charter's welding, cutting and automation ( ESAB ) business would establish a new growth platform. We believe that the Acquisition will improve our business profile by providing a meaningful recurring revenue stream as well as considerable exposure to emerging markets, allowing the combined company to benefit from strong secular growth drivers and provide a balance of short and long cycle businesses. We also believe that, following the Acquisition, there are significant upside opportunities from applying our established management techniques to improve both margin and return on invested capital. The Acquisition is expected to provide a platform for additional acquisitions in the fragmented welding and air handling markets. It is also expected to be significantly accretive to earnings and to provide double digit returns on invested capital within three to five years.

**Q: Why is Colfax entering into the Investments?**

A: We will use the proceeds from the sale of the Investor Securities to fund in part the cash consideration payable in the Acquisition. We expect to complete the sale of the Investor Securities to the Investors six business days after the Acquisition becomes wholly unconditional or effective in accordance with the terms of the Implementation Agreement.

**Q: Do any executive officers or directors of Colfax have interests in the transactions contemplated by the Purchase Agreements and Implementation Agreement that may be different from, or in addition to, those of other stockholders?**

A: Pursuant to the MPR Purchase Agreement and SMR Purchase Agreement, Mitchell P. Rales, Chairman of our Board of Directors, and his brother Steven M. Rales, will acquire 2,170,139 and 2,170,139 shares of Common Stock, respectively, and, when aggregated with their current holdings, will own 11,315,749 and 11,315,749 shares of our outstanding Common Stock, respectively, which will represent approximately 13.37% and 13.37% of our outstanding Common Stock, respectively (representing approximately 11.69% and 11.69% of the total voting power of Colfax, respectively), after giving effect to the issuance of the Securities in the Investments and the Acquisition, assuming we acquire Charter's entire fully-diluted share capital in the Acquisition. In addition, under the Amended and Restated Certificate of Incorporation to be filed with the Secretary of State of Delaware immediately prior to closing of the Investments, the replacement of Mitchell P. Rales as Chairman of the Board of Directors would be subject to the written consent of the BDT Investor for so long as the BDT Investor and certain permitted transferees of the BDT Shares beneficially own, in the aggregate, at least 50% of the Series A Preferred Stock issued to the BDT Investor under the BDT Purchase Agreement. Pursuant to the Markel Purchase Agreement, Markel will acquire 1,085,070 shares of Common Stock, representing approximately 1.28% of our outstanding Common Stock after giving effect to the issuance of the Securities in the Investments and the Acquisition, assuming we acquire Charter's entire fully-diluted share capital in the Acquisition. Tom Gayner, a member of our Board of Directors, is the President and Chief Investment Officer of Markel.



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Given our relationship with each of the Other Investors, we formed the Special Committee to review the terms of the Other Investment. The Special Committee met separately on numerous occasions and was afforded the opportunity to discuss the terms of the Other Investment with the benefit of input from financial and legal advisors. The Special Committee unanimously approved the proposed investments by each of the Other Investors, having determined that the terms of the Other Investment were appropriate under the circumstances. The Other Investment was also approved by our disinterested directors pursuant to our corporate policy regarding related person transactions. In addition, the BDT Investment and Other Investment were unanimously approved by our Board of Directors.

**Q: What are the amendments to Colfax's Certificate of Incorporation under the Amended and Restated Certificate of Incorporation and what does the Certificate of Designations provide?**

A: Immediately prior to the closing of the transactions contemplated by the Purchase Agreements and Implementation Agreement, we will file with the Secretary of State of the State of Delaware: an Amended and Restated Certificate of Incorporation, in the form attached as Annex VI to this proxy statement, which will, among other things, (i) increase the number of shares of our authorized capital stock from 210,000,000 to 420,000,000, comprised of an increase in Common Stock from 200,000,000 to 400,000,000 shares and an increase in preferred stock from 10,000,000 to 20,000,000 shares and (ii) provide the BDT Investor with certain approval and director nomination rights in Colfax; and a certificate of designations of Series A Perpetual Convertible Preferred Stock, referred to as the Certificate of Designations, in the form attached as Annex VII to this proxy statement, which sets out the rights, preferences, privileges and restrictions of the Series A Preferred Stock. The 13,877,552 shares of Series A Preferred Stock to be issued to the BDT Investor under the BDT Purchase Agreement will carry certain preferred voting, dividend, liquidation and other rights as set forth in the Certificate of Designations and the Amended and Restated Certificate of Incorporation.

**Q: What rights will the BDT Investor receive pursuant to the Amended and Restated Certificate of Incorporation and the Certificate of Designations?**

A: In connection with the BDT Investment, the BDT Investor will be granted certain rights in respect of Colfax under the Amended and Restated Certificate of Incorporation, which we will file with the Secretary of State of the State of Delaware immediately prior to closing of the transactions contemplated by the Purchase Agreements and the Implementation Agreement. Such rights include:

*Board nomination rights.* The BDT Investor will have the right to exclusively nominate for election to our Board of Directors and certain of its committees (i) 2 of 11 directors for so long as the BDT Investor and certain permitted transferees of the BDT Shares beneficially own, in the aggregate, more than 20% of our outstanding Common Stock and (ii) 1 of 10 directors for so long as the BDT Investor and certain permitted transferees of the BDT Shares beneficially own, in the aggregate, equal to or less than 20% but more than 10% of our outstanding Common Stock; in each case calculated in accordance with the Amended and Restated Certificate of Incorporation and subject to applicable law and NYSE Listed Company Manual rules ( NYSE Rules );

*Voting and approval rights.* So long as the BDT Investor and certain permitted transferees of the BDT Shares beneficially own, in the aggregate, at least 50% of the Series A Preferred Stock purchased by the BDT Investor, the BDT Investor's written consent will be required in order for us to take certain corporate actions, including (i) the incurrence of certain indebtedness, (ii) the issuance of any shares of preferred stock, (iii) 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 (including the Common Stock) under certain circumstances, (iv) any voluntary liquidation, dissolution or winding up of Colfax, (v) any change in our independent auditor, (vi) the election of anyone other than Mitchell P. Rales as Chairman of the Board of Directors, (vii) any acquisition of another entity or assets for a purchase price exceeding 30% of our equity market capitalization, (viii) certain mergers, consolidations, reclassifications, joint ventures,



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dispositions or similar transactions, (viii) any amendments to our organizational or governing documents, including the Amended and Restated Certificate of Incorporation and our Bylaws; and (ix) any change in the size of our Board of Directors.

In addition, the Series A Preferred Stock to be issued to the BDT Investor under the BDT Purchase Agreement will be convertible into shares of Common Stock and carry certain preferred voting, dividend, liquidation, pre-emptive and other rights as set forth in the Certificate of Designations to be filed with the Secretary of State of the State of Delaware prior to closing of the transactions contemplated by the Purchase Agreements and the Implementation Agreement. Among other things, the Certificate of Designations provides that holders of the Series A Preferred Stock are entitled to receive cumulative cash preferred dividends, payable quarterly, at a per annum rate of 6% of the liquidation preference (defined as \$24.50, subject to customary anti-dilution adjustments, the Liquidation Preference ), provided that the dividend rate shall be increased to a per annum rate of 8% if we fail to pay the full amount of any dividend required to be paid on such shares until the date that full payment is made. In addition to the voting and approval rights to be granted to the BDT Investor under the Amended and Restated Certificate of Incorporation, as set forth above, the Certificate of Designations provides that any amendment to our organizational documents, including the Amended and Restated Certificate of Incorporation and our Bylaws, that would adversely affect the rights of the Series A Preferred Stock will require the approval of more than 50% of the shares of the Series A Preferred Stock.

The initial conversion price of the Series A Preferred Stock is \$27.93, which is subject to adjustment in customary circumstances. At the initial conversion price, the 13,877,552 shares of Series A Preferred Stock to be issued to the BDT Investor are convertible into 12,173,291 shares of Common Stock. The Series A Preferred Stock entitles its holder to vote on an as-converted basis on all matters submitted to the holders of the Common Stock, voting together as a single class. Immediately after the issuance of the Securities in the Investments and the Acquisition, the BDT Investor will own approximately 27.8% of the voting power of Colfax, assuming we acquire Charter's entire fully-diluted share capital in the Acquisition.

**Q: What other agreements has Colfax entered into, or is Colfax entering into, in connection with the transactions contemplated by the Purchase Agreements and the Acquisition?**

A: In connection with the Purchase Agreements we will be entering into the following agreements: registration rights agreements (the Registration Rights Agreements ) with each of (i) the BDT Investor (the BDT Registration Rights Agreement ), attached as Annex VIII to this proxy statement, (ii) Mitchell P. Rales (the MPR Registration Rights Agreement), attached as Annex IX to this proxy statement, (iii) Steven M. Rales (the SMR Registration Rights Agreement ), attached as Annex X to this proxy statement, and (iv) Markel (the Markel Registration Rights Agreement ), attached as Annex XI to this proxy statement, pursuant to which we will file a registration statement covering the resale of Common Stock issued to the Investors under the Purchase Agreements or upon conversion of the Series A Preferred Stock issued to the BDT Investor under the BDT Purchase Agreement and the Investors will have demand registration rights and piggyback registration rights under certain circumstances.

With respect to the Acquisition, we have entered into:

the Implementation Agreement with Charter, attached as Annex I to this proxy statement, pursuant to which we will acquire by way of a court-sanctioned scheme of arrangement, or if we elect, by way of a takeover offer for, the entire issued and to be issued share capital of Charter for 730 pence in cash and 0.1241 newly issued shares of Common Stock per Charter ordinary share; and

a credit agreement (the Credit Agreement ), attached as Annex XII to this proxy statement, with certain of our subsidiaries, 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 with respect to credit facilities to be provided to us and certain of our subsidiaries.



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In addition, each of Mitchell P. Rales, Chairman of our Board of Directors and a current beneficial owner of approximately 21.0% of our Common Stock, and Steven M. Rales, a current beneficial owner of approximately 21.0% of our Common Stock entered into:

voting agreements with the BDT Investor, attached as Annex XV and Annex XVI to this proxy statement, pursuant to which Messrs. Rales agreed to vote the Common Stock held by them in favor of the BDT Investment and Amended and Restated Certificate of Incorporation; and

voting agreements with Charter, attached as Annex XIII and Annex XIV to this proxy statement, pursuant to which Messrs. Rales agreed to vote the Common Stock held by them in favor of the issuance of securities to be issued as partial consideration for the Acquisition.

**Q: What am I being asked to vote on?**

**A:** You are being asked to vote to:

approve the issuance of the BDT Shares to the BDT Investor in accordance with the terms of the BDT Purchase Agreement and the issuance of shares of our Common Stock upon conversion of the shares of Series A Preferred Stock to be issued to the BDT Investor, referred to in this proxy statement as Proposal No. 1;

approve the issuance of the Other Shares to Mitchell P. Rales, Steven M. Rales and Markel in accordance with the terms of the Other Purchase Agreements, referred to in this proxy statement as Proposal No. 2;

approve the issuance of the Acquisition Shares as partial consideration in the Acquisition, referred to in this proxy statement as Proposal No. 3;

approve the Amended and Restated Certificate of Incorporation to (i) increase the number of shares of our authorized capital stock from 210,000,000 to 420,000,000, comprised of an increase in our Common Stock from 200,000,000 to 400,000,000 shares and an increase in our preferred stock from 10,000,000 to 20,000,000 shares and (ii) make other changes to our Certificate of Incorporation to set forth certain rights of the BDT Investor to be granted in connection with the BDT Investment, including provisions that require the approval of the BDT Investor in order for us to take certain corporate actions and to provide the BDT Investor with the right to nominate up to two members of the Board of Directors depending on its beneficial ownership of Colfax securities from time to time, referred to in this proxy statement as Proposal No. 4; and

adjourn or postpone the special meeting to a later date or time, if necessary or appropriate, to solicit additional proxies in the event there are insufficient votes at the time of such adjournment or postponement to approve the other proposals, referred to in this proxy statement as Proposal No. 5.

**Q: Why is Colfax seeking stockholder approval of the issuance of the Securities as described in Proposal No. 1, Proposal No. 2 and Proposal No. 3?**

**A:** We are subject to the listing requirements of the New York Stock Exchange ( NYSE ) because our Common Stock is listed on the NYSE. These rules, which apply to the proposed issuance of the Securities, require stockholder approval for an issuance of Common Stock, or securities convertible into Common Stock, (i) in a transaction or series of related transactions equal to or greater than 20% of our Common Stock outstanding before the issuance of the additional securities at a price, or having a conversion price, less than the greater of book or market value of the Common Stock or (ii) to a director, officer or substantial security holder of Colfax if the Common Stock to be issued is greater than 1% of our Common Stock outstanding before such issuance. The Securities to be issued represent greater than 20% of our outstanding Common Stock and the Other Investment involves the issuance of greater than 1% of our Common Stock to a director and substantial security holders of Colfax. Therefore, under the NYSE Rules, shareholder approval is required for the issuance of the Securities.

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**Q: Why is Colfax seeking stockholder approval of the Amended and Restated Certificate of Incorporation as described in Proposal No. 4?**

We do not currently have sufficient authorized shares of preferred stock to complete the issuance of the Series A Preferred Stock to the BDT Investor as described in Proposal No. 1. To issue the Series A Preferred Stock to the BDT Investor, we need to increase the number of shares of our preferred stock authorized for issuance under our Certificate of Incorporation. It is a condition to the completion of the Investments and Implementation Agreement that our stockholders approve Proposal No 4. We have proposed increasing the authorized number of shares of preferred stock from 10,000,000 to 20,000,000 shares to permit the issuance of the Series A Preferred Stock to the BDT Investor pursuant to the BDT Purchase Agreement. In addition, we have proposed increasing the number of shares of our Common Stock from 200,000,000 to 400,000,000 shares to provide for additional authorized shares of Common Stock to issue in the future. The additional shares may be issued for various purposes without further stockholder approval, except to the extent required by applicable NYSE Rules. The purposes may include raising capital, providing equity incentives to employees, officers, directors or consultants, establishing strategic relationships with other companies, expanding our business or product lines through the acquisition of other businesses or products and other corporate purposes. In addition, it is a condition to the completion of the transactions contemplated by the BDT Purchase Agreement that our stockholders approve other changes to our Certificate of Incorporation in order to provide the BDT Investor certain approval rights and director nomination rights.

**Q: What quorum and vote is required in connection with each of the proposals?**

A: A quorum, consisting of the holders of a majority of the shares of our Common Stock entitled to vote as of the record date of the special meeting, must be present in person or represented by proxy before any action may be taken at the special meeting. Abstentions and broker non-votes will be treated as shares that are present for purposes of determining the presence of a quorum.

The affirmative vote of the majority of shares of Common Stock present or represented by proxy at the special meeting and entitled to vote is necessary to approve each of Proposals No. 1, No. 2, No. 3 and Proposal No. 5. The affirmative vote of the holders of a majority of the outstanding shares of Common Stock entitled to vote is necessary to approve Proposal No. 4.

**The approval of Proposals No. 1, No. 2, No. 3 and No. 4 is required for the issuance of the Securities described in this proxy statement. Since the issuance of the Acquisition Shares and proceeds from the issuance of the Investor Securities will be used to fund in part the Acquisition, the approval of each of Proposals No. 1, No. 2, No. 3 and No. 4 is a condition to the Acquisition.**

**Q: What happens if only one, two or three of Proposal No. 1, Proposal No. 2, Proposal No. 3 or Proposal No. 4 (but not all four) are approved by Colfax's stockholders at the special meeting or adjournment thereof?**

A: If proposals No. 1, No. 2, No. 3 and No. 4 are not approved, we will not consummate the Investments or Acquisition as described in this proxy statement. The approval of Proposals No. 1, No. 2, No. 3 and No. 4 is required for the issuance of the Securities described in this proxy statement. Since the issuance of the Acquisition Shares and proceeds from the issuance of the Investor Securities will be used as partial consideration for and to fund in part the Acquisition of Charter, the approval of each of Proposals No. 1, No. 2, No. 3 and No. 4 is a condition to the Acquisition.

**Q: Am I being asked to vote to approve the Acquisition?**

A: No. However, the Acquisition Shares will be issued to the shareholders of Charter as partial consideration for the Acquisition and the proceeds received from the issuance of the Investor Securities to the BDT Investor and Other Investors will be used to fund in part the Acquisition, so approval of each of Proposal No. 1, Proposal No. 2, Proposal No. 3 and Proposal No. 4 is required for us to complete the Acquisition. This will be the only opportunity for our stockholders to consider and vote upon the transactions contemplated in connection with the Acquisition.



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**Q: Are there any risks in undertaking (or not undertaking) the transactions contemplated by the Implementation Agreement and the Purchase Agreements?**

A: Yes. In evaluating the issuance of the Securities and the other transactions contemplated by the Implementation Agreement and Purchase Agreements, including the Acquisition, you should carefully consider the factors discussed in the section of this proxy statement entitled Risk Factors beginning on page 29.

**Q: What are the conditions to completing the Acquisition?**

A: The Implementation Agreement contains conditions to each party's obligations, and includes the condition that we have received stockholder approval for the issuance of the Investor Securities pursuant to the Purchase Agreements. In addition, since the Acquisition Shares will be issued to the shareholders of Charter as partial consideration under the Acquisition and the proceeds received from the issuance of the Investor Securities to the BDT Investor and Other Investors will be used to partially fund the Acquisition, approval of the matters set out in each of Proposal No. 1, Proposal No. 2, Proposal No. 3 and Proposal No. 4 is required for us to complete the Acquisition.

**Q: What are the conditions to completing the transactions contemplated by the Purchase Agreements?**

A: The BDT Purchase Agreement contains conditions to each party's obligations, and includes the approval by Colfax's stockholders of the matters set out in Proposal No. 1 and Proposal No. 4 at the special meeting.

The Other Purchase Agreements each contain conditions customary for transactions such as those contemplated by the Other Purchase Agreements, and include the approval by Colfax's stockholders of the matters set out in Proposal No. 2 and Proposal No. 4 at the special meeting.

**Q: How will my vote affect the composition of Colfax's Board of Directors?**

A: If Proposal No. 1 and Proposal No. 4 are approved by our stockholders at the special meeting and the transactions contemplated by the BDT Purchase Agreements are subsequently completed, effective as of the closing of the issuance of the BDT Shares to the BDT Investor, the number of authorized directors will be increased from 9 to 11 and the BDT Investor will have the right to exclusively nominate for election 2 of 11 directors to serve as members of our Board of Directors and certain of its committees (subject to applicable law and NYSE Rules) pursuant to the Amended and Restated Certificate of Incorporation. Our Board of Directors may elect persons to fill the two newly created directorships without stockholder approval, until a successor is elected and qualified at our next annual meeting of stockholders. Any such appointment will be made by our Board of Directors in compliance with applicable law and the NYSE Rules.

**Q: How does Colfax's Board of Directors recommend that I vote on each of the proposals?**

A: Our Board of Directors unanimously recommends that you vote (i) FOR Proposal No. 1 to approve the issuance of the BDT Shares to the BDT Investor in accordance with the terms of the BDT Purchase Agreement (and the issuance of shares of our Common Stock upon conversion of the shares of Series A Preferred Stock to be issued in the BDT Investment), (ii) FOR Proposal No. 2 to approve the issuance of the Other Shares to the Other Investors in accordance with the terms of the Other Purchase Agreements; (iii) FOR Proposal No. 3 to approve the issuance of the Acquisition Shares as partial consideration in the Acquisition, (iv) FOR Proposal No. 4 to approve the Amended and Restated Certificate of Incorporation and (v) FOR Proposal No. 5 to adjourn or postpone the special meeting to a later date or time, if necessary or appropriate, to solicit additional proxies in the event there are insufficient votes at the time of such adjournment or postponement to approve the other proposals.

**Q: What happens if I do not vote?**

A: Proposal No. 4 requires the affirmative vote of a majority of the outstanding shares of our Common Stock entitled to vote thereon. Because the approval of Proposal No. 1, Proposal No. 2, Proposal No. 3 and Proposal No. 4 are required to consummate the Acquisition, failure to vote on Proposal No. 4 is effectively a vote against the issuance of the Securities and the Acquisition.



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In addition, the failure to vote on these proposals, by failing to either submit a proxy or attend the special meeting if you are a stockholder of record, may make it more difficult to establish a quorum, consisting of the holders of a majority of the shares of Common Stock entitled to vote at the special meeting.

**Q: What happens if I abstain?**

A: If you execute and return your proxy card or submit a proxy by telephone or via the Internet and vote ABSTAIN or if you vote ABSTAIN at the special meeting, this will have the same effect as voting against each of the proposals. Abstentions will be treated as shares that are present for purposes of determining the presence of a quorum.

Because the approval of Proposal No. 1, Proposal No. 2, Proposal No. 3 and Proposal No. 4 are required to consummate the Acquisition, voting ABSTAIN on Proposal No. 1, Proposal No. 2, Proposal No. 3 or Proposal No. 4 is effectively a vote against the issuance of the Securities and Acquisition of Charter.

**Q: What is the difference between holding shares as a stockholder of record and as a beneficial owner?**

Most of our stockholders hold their shares through a broker, bank or other nominee rather than directly in their own A: name. As summarized below, there are some distinctions between shares held of record and those owned beneficially.

*Stockholder of Record* If your shares are registered directly in your name with our transfer agent, Registrar and Transfer Company, you are considered the stockholder of record with respect to those shares and these proxy materials are being sent directly to you by us. As the stockholder of record, you have the right to grant your voting proxy directly to us or to vote in person at the special meeting. After carefully reading and considering the information contained in this proxy statement, if you are the stockholder of record, please submit your proxy by telephone or via the Internet in accordance with the instructions set forth in the enclosed proxy card, or fill out, sign and date the proxy card, and then mail your signed proxy card in the enclosed prepaid envelope as soon as possible so that your shares may be voted at the special meeting.

*Beneficial Ownership* If your shares are held in a brokerage account or by a bank or other nominee, you are considered the beneficial owner of shares held in street name, and these proxy materials are being forwarded to you by your broker, bank or other nominee who is considered the stockholder of record with respect to those shares. As the beneficial owner, you have the right to direct your broker, bank or other nominee on how to vote and are also invited to attend the special meeting. However, since you are not the stockholder of record, you may not vote these shares in person at the special meeting unless you request a legal proxy from your broker, bank or other nominee. Your broker, bank or other nominee has enclosed a voting instruction card with this proxy statement for you to use in directing such institution regarding how to vote the shares you beneficially own.

See The Special Meeting How to Vote Your Shares beginning on page 23.

**Q: If my shares are held in street name by my broker, will my broker vote my shares for me?**

A: If your shares are held in street name, your broker may, under certain circumstances, vote your shares. Certain brokerage firms have authority to vote a client's unvoted shares on some routine matters but cannot vote a client's unvoted shares on non-routine matters. Proposals No. 1, No. 2, No. 3 and No. 4 are considered non-routine matters under exchange rules applicable to certain brokerage firms. If you do not give voting instructions to your broker on a non-routine matter, your shares may constitute broker non-votes. A broker non-vote occurs on a matter when a broker returns an executed proxy but indicates that it does not have discretionary authority to vote on that matter and has not received instructions from the beneficial owner. Broker non-votes are not deemed to be votes cast and, therefore, are not included in the tabulation of the voting results on these proposals.

You should instruct your broker to vote your shares. If you do not instruct your broker, your broker may not have the authority to vote your shares for any of the proposals at the special meeting.



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Please check with your broker and follow the voting procedures your broker provides. Your broker will advise you whether you may submit voting instructions by telephone or via the Internet. See The Special Meeting Quorum and Required Votes and The Special Meeting Abstentions and Broker Non-Votes .

**Q: How can I vote my shares in person at the special meeting?**

Shares held directly in your name as the stockholder of record may be voted in person at the special meeting. If you choose to do so, please bring the enclosed proxy card or proof of identification to the meeting. Even if you plan to attend the special meeting, we recommend that you vote your shares in advance so that your vote will be counted if you later decide not to attend the special meeting. If you hold your shares in street name, you must request a legal proxy from your broker, bank or other nominee in order for you to vote at the special meeting.

**Q: How can I vote my shares without attending the special meeting?**

If you do not plan to attend the special meeting, we request that you vote your shares as promptly as possible. If you are the stockholder of record, you may mark your votes, date, sign and return the enclosed proxy card. For shares held in street name, you may vote your shares by submitting voting instructions to your broker, bank or other nominee. A voting instruction card will be provided by your broker, bank or other nominee. For shares held in street name, you may be eligible to vote by telephone or via the Internet if your broker, bank or other nominee participates in the proxy voting program provided by Broadridge. Instructions for voting by telephone or via the Internet, if available, will be provided by your broker, bank or other nominee.

**Q: May I change my vote after I have submitted a proxy by telephone or via the Internet or mailed my signed proxy card?**

Yes. You may change your vote at any time before your proxy is voted at the special meeting. You can do this in several ways. If you hold your shares as a stockholder of record, you can send a written notice stating that you want to revoke your proxy, or you can complete and submit a new proxy card, in either case dated later than the prior proxy card relating to the same shares. You must submit your notice of revocation or your new proxy card to A. Lynne Puckett, Corporate Secretary of Colfax at Colfax Corporation, 8170 Maple Lawn Boulevard, Suite 180, Fulton, Maryland, Attention: Corporate Secretary. You can also attend the special meeting and vote in person. Simply attending the special meeting, however, will not revoke your proxy; you must vote at the special meeting to revoke your proxy if you have not previously revoked your proxy.

You can also change your vote by submitting a proxy at a later date by telephone or via the Internet, if you have previously voted by telephone or via the Internet in connection with the special meeting, in which case your later-submitted proxy will be recorded and your earlier proxy revoked.

If your shares are held in street name and you have instructed your broker, bank or other nominee to vote your shares, the preceding instructions do not apply, and you must follow the voting procedures received from your broker, bank or other nominee to change your vote.

**Q: If I want to attend the special meeting, what do I do?**

You should come to our corporate headquarters located at 8170 Maple Lawn Boulevard, Suite 180, Fulton, Maryland 20759 at , local time, on , 2011. Stockholders of record as of the record date for the special meeting can vote in person at the special meeting. If your shares are held in street name, then you must ask your broker, bank or other nominee holder how you can vote at the special meeting.

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**Q: Who is paying for this proxy solicitation?**

A: The total expense of this solicitation will be borne by Colfax, including reimbursement paid to brokerage firms and others for their expenses in forwarding material regarding the special meeting to beneficial owners. Solicitation of proxies may be made personally or by mail, telephone, internet, e-mail or facsimile by officers and other management employees of Colfax, who will receive no additional compensation for their services.

**Q: Who can help answer my additional questions about the special meeting, the Acquisition, the Implementation Agreement, the Purchase Agreements and the transactions contemplated by the Implementation Agreement and Purchase Agreements?**

A: If you have questions about the special meeting and the matters to be voted upon, you should contact:

Colfax Corporation.  
8170 Maple Lawn Boulevard, Suite 180  
Fulton, Maryland 47669  
Telephone: (301) 323-9000  
Attention: A. Lynne Puckett

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## **CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS**

The information contained in this proxy statement may contain certain statements about Colfax and Charter that are or may be forward-looking statements that is, statements related to future, not past, events, including forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. These statements are based on the current expectations of the management of Colfax and Charter (as the case may be) and are naturally subject to uncertainty and changes in circumstances and involve risks and uncertainties that could cause actual results to differ materially from those expressed or implied in such forward-looking statements. Factors that could cause our results to differ materially from current expectations include, but are not limited to factors detailed in our reports filed with the U.S. Securities and Exchange Commission ( SEC ) as well as this proxy statement under the caption Risk Factors . In addition, these statements are based on a number of assumptions that are subject to change. The forward-looking statements contained in the information in this proxy statement may include statements about the expected effects on Charter and Colfax of the Acquisition, the expected timing and scope of the Acquisition, strategic options and all other statements in this document other than historical facts. Without limitation, any statements preceded or followed by, or that include the words targets , plans , believes , expects , aims , intends , will anticipate , estimates , projects , seeks , sees , should, would, expect, positioned, strategy, or word substance or the negative thereof, are forward-looking statements. Forward-looking statements include statements relating to the following: (i) future capital expenditures, expenses, revenues, earnings, synergies, economic performance, indebtedness, financial condition, losses and future prospects; (ii) business and management strategies and the expansion and growth of Colfax s or Charter s operations and potential synergies resulting from the Acquisition; (iii) the effects of government regulation on Colfax s or Charter s business, and (iv) our plans, objectives, expectations and intentions generally.

There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. These factors include, but are not limited to, the satisfaction of the conditions to the Acquisition and other risks related to the Acquisition and actions related thereto. Additional particular uncertainties that could cause our actual results to be materially different than those expressed in forward-looking statements include: risks associated with our international operations; significant movements in foreign currency exchange rates; changes in the general economy, as well as the cyclical nature of our markets; our ability to accurately estimate the cost of or realize savings from our restructuring programs; availability and cost of raw materials, parts and components used in our products; the competitive environment in our industry; our ability to identify, finance, acquire and successfully integrate attractive acquisition targets, including but not limited to Charter should the Acquisition be successful; our ability to complete the Acquisition as planned and achieve expected synergies, expected earnings of Colfax following the Acquisition, and risks relating to any unforeseen liabilities of Charter; the amount of and our ability to estimate asbestos-related liabilities; material disruption at any of our significant manufacturing facilities; the solvency of our insurers and the likelihood of their payment for asbestos-related costs; our ability to manage and grow our business and execution of our business and growth strategies; our recent substantial leadership turnover and realignment; our ability and the ability our customers to access required capital at a reasonable costs; our ability to expand our business in our targeted markets; our ability to cross-sell our product portfolio to existing customers; the level of capital investment and expenditures by our customers in our strategic markets; our financial performance; our ability to identify, address and remediate any material weakness in our internal control over financial reporting; our ability to achieve or maintain credit ratings and the impact on our funding costs and competitive position if we do not do so; and others risks and factors as disclosed in this proxy statement under the caption Risk Factors . Other unknown or unpredictable factors could also cause actual results to differ materially from those in any forward-looking statement.

Due to such uncertainties and risks, readers are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date hereof. None of Colfax or Charter undertakes any obligation to update publicly or revise forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent legally required.

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Nothing contained herein shall be deemed to be a forecast, projection or estimate of the future financial performance of Colfax or any of its subsidiaries, Charter or the enlarged business following completion of the Acquisition, unless otherwise stated.

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## SUMMARY

*This summary highlights selected information also contained elsewhere in this proxy statement related to the matters you are being asked to vote upon and may not contain all of the information important to you. You should read this entire document and the other documents to which this proxy statement refers you to fully understand the matters you are being asked to vote upon. Each item in this summary refers to the page where that subject is hereinafter discussed in more detail. Except as otherwise noted, references in this proxy statement to Colfax, , the Company, we, us, and our refer to the business of Colfax Corporation and its subsidiaries, and references in this proxy statement to Charter refer to the business of Charter International plc and its subsidiaries.*

## The Transactions

As we announced on September 12, 2011, we have agreed to acquire Charter for consideration consisting of cash and shares of our Common Stock. The Acquisition values Charter's fully diluted share capital at approximately £1,528 million (\$2,426 million) (based on the closing price of \$23.04 per share of Common Stock on September 9, 2011, being the last business day before the Acquisition was announced, and the foreign exchange rate of U.S.\$1.5881/£1 in effect as of that date). The Board of Directors unanimously approved the Acquisition as a critical component of our growth plan.

A number of strategic advantages are expected from the proposed combination of Colfax and Charter. We believe the Acquisition would complement our stated strategy which, in addition to driving organic growth, includes pursuing value-creating acquisitions within our served markets, and adding complementary growth platforms to provide scale and revenue diversity. We consider Charter to be a leading player in key markets with an attractive business mix and strong technological capabilities that fits well with our acquisition criteria. We believe that the Acquisition would accelerate our 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 our existing fluid handling platform, and Charter's welding, cutting and automation (ESAB) business would establish a new growth platform. We believe that the Acquisition will improve our business profile by providing a meaningful recurring revenue stream as well as considerable exposure to emerging markets, allowing the combined company to benefit from strong secular growth drivers and provide a balance of short and long cycle businesses. We also believe that, following the Acquisition, there are significant upside opportunities from applying our established management techniques to improve both margin and return on invested capital. The Acquisition is expected to provide a platform for additional acquisitions in the fragmented welding and air handling markets. It is also expected to be significantly accretive to earnings and to provide double digit returns on invested capital within three to five years.

In order to finance in part the Acquisition, we have negotiated a \$680 million cash investment by the BDT Investor, in shares of our Common Stock and newly-created Series A Preferred Stock that will be convertible into our Common Stock. Also in connection with the Acquisition, we have negotiated a \$50 million cash investment by each of Mitchell P. Rales and Steven M. Rales, and a \$25 million cash investment by Markel, in shares of our Common Stock.

The Special Committee unanimously approved the proposed investments by each of the Other Investors, having determined that the terms of the Other Investment were appropriate under the circumstances. The Other Investment was also approved by our disinterested directors pursuant to our corporate policy regarding related person transactions. In addition, the BDT Investment and Other Investment were unanimously approved by our Board of Directors.



On September 12, 2011, we entered into the Implementation Agreement which sets out the terms of the Acquisition. On the same day, we entered into the BDT Purchase Agreement with the BDT Investor, pursuant to which we agreed to sell to the BDT Investor (i) 14,756,945 shares of our Common Stock and (ii) 13,877,552 shares of newly created Series A Preferred Stock for an aggregate of \$680 million. In connection with the BDT Investment, we will grant the BDT Investor certain voting rights, pre-emptive rights and approval rights, which will be set forth in the Amended and Restated Certificate of Incorporation and the Certificate of Designations for the Series A Preferred Stock. Also on September 12, 2011, we entered into the Other Purchase Agreements with each of Other Investors, pursuant to which we agreed to sell to Mitchell P. Rales 2,170,139 shares of our Common Stock for an aggregate of \$50 million, sell to

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Steven M. Rales 2,170,139 shares of our Common Stock for an aggregate of \$50 million and sell to Markel 1,085,070 shares of our Common Stock for an aggregate of \$25 million.

The purchase price for the shares of Common Stock to be sold to the BDT Investor and the Other Investors in the Investments is \$23.04 per share, being the closing price of our Common Stock on September 9, 2011, which was the last business day prior to the execution of the Purchase Agreements. The purchase price for the shares of Series A Preferred Stock to be sold to the BDT Investor in the BDT Investment is \$24.50 per share and the initial conversion price is \$27.93 per share, subject to adjustment.

At our special meeting of stockholders on \_\_\_\_\_, 2011, our stockholders are being asked to approve the issuance of the BDT Shares to the BDT Investor (including the issuance of shares of our Common Stock upon conversion of the shares of Series A Preferred Stock to be issued in the BDT Investment), the issuance of the Other Shares to the Other Investors and the issuance of the Acquisition Shares in connection with the Acquisition of Charter. Stockholders are also being asked to approve an amendment and restatement of our Certificate of Incorporation, referred to as the Amended and Restated Certificate of Incorporation, to increase the number of our authorized shares of Common Stock and preferred stock and to provide the BDT Investor certain voting and approval rights in Colfax. Additionally, you are being asked to authorize the adjournment or postponement of the special meeting to a later date or time, if necessary or appropriate, to solicit additional proxies in the event there are insufficient votes at the time of such adjournment or postponement to approve the other proposals.

## **Interests of Colfax's Executive Officers and Directors in the Transaction**

When you consider our Board of Directors' recommendation to vote in favor of the Proposals, you should be aware that our executive officers and directors may have interests in the transactions contemplated by the Purchase Agreements and the Implementation Agreement that may be different from, or in addition to, the interests of other Colfax stockholders. In particular, pursuant to the MPR Purchase Agreement and SMR Purchase Agreement, Mitchell P. Rales, Chairman of our Board of Directors, and his brother Steven M. Rales, will acquire 2,170,139 and 2,170,139 shares of Common Stock, respectively, and, when aggregated with their current holdings, will own 11,315,749 and 11,315,749 shares of our outstanding Common Stock, respectively, which will represent approximately 13.37% and 13.37% of our outstanding Common Stock, respectively (representing approximately 11.69% and 11.69% of the total voting power of Colfax, respectively), after giving effect to the issuance of the Securities in the Investments and the Acquisition, assuming we acquire Charter's entire fully-diluted share capital in the Acquisition. In addition, under the Amended and Restated Certificate of Incorporation to be filed with the Secretary of State of Delaware immediately prior to closing of the Investments, the replacement of Mitchell P. Rales as Chairman of the Board of Directors would be subject to the written consent of the BDT Investor for so long as the BDT Investor and certain permitted transferees of the BDT Shares beneficially own, in the aggregate, at least 50% of the Series A Preferred Stock issued to the BDT Investor under the BDT Purchase Agreement. Pursuant to the Markel Purchase Agreement, Markel will acquire 1,085,070 shares of Common Stock, representing approximately 1.28% of our outstanding Common Stock after giving effect to the issuance of the Securities in the Investments and the Acquisition, assuming we acquire Charter's entire fully-diluted share capital in the Acquisition. Tom Gayner, a member of our Board of Directors, is the President and Chief Investment Officer of Markel.

## **The Special Meeting (see page 22)**

## **Date, Time and Place**

The special meeting of the stockholders of Colfax will be held at our corporate headquarters located at 8170 Maple Lawn Boulevard, Suite 180, Fulton, Maryland 20759 at , local time, on , 2011.

## **Purpose**

You will be asked to consider and vote upon the approval of the issuance of the BDT Shares to the BDT Investor (and the issuance of shares of Common Stock upon conversion of the Series A Preferred Stock to be issued in the BDT Investment), the issuance of the Other Shares to the Other Investors, the issuance of the Acquisition Shares in connection with the Acquisition, the Amended and Restated Certificate of

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Incorporation and a proposal to adjourn or postpone the special meeting to a later date or time, if necessary or appropriate, to solicit additional proxies in the event there are insufficient votes at the time of such adjournment or postponement to approve any of the proposals.

### **Record Date and Quorum**

You are entitled to vote at the special meeting if you owned shares of our Common Stock as of the close of business on      , 2011, the record date for the special meeting. You will have one vote for each share of Common Stock that you owned as of the record date. As of the record date there were      shares of our Common Stock outstanding and entitled to vote. The presence in person or by proxy of stockholders having a majority of all shares of Common Stock entitled to be cast at the special meeting will constitute a quorum for the purpose of considering the proposals.

### **Vote Required**

A quorum, consisting of the holders of a majority of the outstanding shares of Common Stock as of the record date of the special meeting, must be present in person or represented by proxy before any action may be taken at the special meeting. Abstentions and broker non-votes will be treated as shares that are present for purposes of determining the presence of a quorum.

The affirmative vote of the majority of shares of Common Stock present or represented by proxy at the special meeting and entitled to vote is necessary to approve each of Proposal No. 1, Proposal No. 2, Proposal No. 3 and Proposal No. 5. The affirmative vote of the holders of a majority of the outstanding shares of Common Stock entitled to vote thereon is necessary to approve Proposal No. 4.

**The approval of Proposals No. 1, No. 2, No. 3 and No. 4 is required for the issuance of the Securities described in this proxy statement. Since the issuance of the Acquisition Shares and proceeds from the issuance of the Investor Securities will be used to fund in part the Acquisition of Charter, the approval of each of Proposal No. 1, No. 2, No. 3 and No. 4 is also a condition to the Acquisition described in this proxy statement.**

**The Acquisition and the Investments are conditioned on each other: unless we complete the Investments, we will not complete the Acquisition and unless we complete the Acquisition we will not complete the Investments.**

### **Common Stock Ownership of Directors and Executive Officers**

As of the record date, the directors and executive officers of Colfax held an aggregate of      % of the shares of Common Stock entitled to vote at the special meeting, including the      % of our outstanding Common Stock held by Mitchell P. Rales, Chairman of our Board of Directors. Mitchell P. Rales and his brother, Steven M. Rales, who holds approximately 21.0% of our outstanding Common Stock, have each signed voting agreements with Charter and the BDT Investor, pursuant to which they have agreed to vote their shares of Common Stock in favor of the BDT Investment, including the Amended and Restated Certificate of Incorporation, and the issuance of securities necessary to complete the Acquisition.

### **Proposal No. 1: Issuance of Securities to the BDT Investor (see page 121)**

You are being asked to approve (i) the issuance to the BDT Investor of 14,756,945 shares of Common Stock and 13,877,552 shares of Series A Preferred Stock, in accordance with the terms of the BDT Purchase Agreement in order to raise a portion of the funds required to complete the Acquisition and (ii) the issuance of shares of our Common Stock upon conversion of such Series A Preferred Stock. The proposal to approve the issuance of the BDT Shares to the BDT Investor and the issuance of the shares of our Common Stock upon conversion of the Series A Preferred Stock to be issued in the BDT Investment is referred to as Proposal No. 1.

## **BDT Purchase Agreement (see page 124)**

On September 12, 2011, Colfax entered into the BDT Purchase Agreement with the BDT Investor, pursuant to which Colfax will issue the BDT Shares to the BDT Investor for an aggregate consideration of \$680 million. The purchase price of each share of Common Stock under the BDT Purchase Agreement is

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\$23.04 per share and the purchase price of each share of Series A Preferred Stock under the BDT Purchase Agreements is \$24.50. The shares of Series A Preferred Stock are convertible into Common Stock at an initial conversion price of \$27.93 per share, subject to adjustment.

### **Parties to the BDT Purchase Agreement**

Colfax Corporation is a leading 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. For more information, visit [www.colfaxcorp.com](http://www.colfaxcorp.com). Information included on the website is not incorporated by reference into this proxy statement. The BDT Investor is a newly formed entity controlled by BDT Capital Partners. BDT Capital Partners, which is based in Chicago, Illinois, provides entrepreneur and family owned companies with long-term capital, solutions-based advice and access to an extensive network of world-class family businesses. BDT Capital Partners is a merchant bank structured to provide advice and capital that address the unique needs of closely held businesses. The firm has an investment fund as well as an investor base with the ability to co-invest additional capital. The investment fund's portfolio includes investments in Pilot Flying J, City Beverage, Tudor, Pickering, Holt & Co. and Weber-Stephen Products Co.

Mitchell P. Rales and Steven M. Rales are also signatories to the BDT Purchase Agreement solely for the purpose of certain provisions pursuant to which the BDT Investor has been granted tag-along sale rights in respect of the BDT Shares in the event of certain sales of Colfax shares by either or both of Mitchell P. Rales or Steven M. Rales.

### **Use of Proceeds (see page 124)**

Colfax will use the proceeds from the sale of the BDT Shares to the BDT Investor to fund the Acquisition of Charter.

### **Conditions to Closing (see page 127)**

Consummation of the transactions contemplated by the BDT Purchase Agreement is conditional upon, among other things, approval by our stockholders of the transactions contemplated by the BDT Purchase Agreement and the Amended and Restated Certificate of Incorporation and sanctioning of the scheme of arrangement for implementing the Acquisition of Charter by the Royal Court of Jersey (or in the case of a takeover offer, such offer becoming unconditional).

### **Termination (see page 127)**

Prior to the closing of the issuance of the BDT Shares to the BDT Investor, the BDT Purchase Agreement may be terminated:

by the BDT Investor, if Colfax's offer for Charter is withdrawn, lapses or terminates;  
by the BDT Investor or Colfax, if the issuance of the BDT Shares has not been completed before March 30, 2012 (the Termination Date) (provided that the right to so terminate the BDT Purchase Agreement shall not be available to any party if such party's action or inaction was a principal cause of or resulted in the failure to complete the issuance of the BDT Shares and constitutes a breach of the BDT Purchase Agreement);

by the BDT Investor or Colfax, if any applicable governmental authority has issued a non-appealable final order, decree or ruling or taken any other action having the effect of permanently restraining, enjoining or otherwise prohibiting the consummation of the issuance of the BDT Shares and other transactions contemplated by the BDT Purchase Agreement;

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by the BDT Investor at any time prior to completion of the issuance of the BDT Shares, if Colfax (i) has breached certain material representations or undertakings under the BDT Purchase Agreement and failed to cure such breach by the earlier of the Termination Date and 20 days from written notice of such breach and (ii) such breach, if not cured, would give rise to the failure to meet a condition to closing;

by Colfax at any time prior to completion of the issuance of the BDT Shares, if the BDT Investor has (i) breached their representations, warranties and covenants under the BDT Purchase Agreement and failed to cure such breach by the earlier of the Termination Date and 20 days from written notice of such breach and (ii) such breach, if not cured, would give rise to the failure to meet a condition to closing; and

by mutual written agreement of the BDT Investor and Colfax.

### **Certain Agreements and Documents Related to the BDT Investment (see page 127)**

In connection with the BDT Purchase Agreement, we have entered into or will enter into agreements related to the BDT Purchase Agreement and the transactions contemplated by the BDT Purchase Agreement, including the BDT Registration Rights Agreement. In addition, immediately prior to the closing of the transactions contemplated by the BDT Purchase Agreement, we will file the Amended and Restated Certificate of Incorporation and Certificate of Designations with the Secretary of State of the State of Delaware.

### **Directors of Colfax Following the Transaction (see page 129)**

Our Board of Directors is currently comprised of nine directors, each serving a term expiring at the next annual meeting of stockholders in 2012. If our stockholders vote to approve Proposal No. 1, Proposal No. 2, Proposal No. 3 and Proposal No. 4, effective upon the consummation of the transactions contemplated by the Purchase Agreements and the Implementation Agreement, the number of authorized directors will be increased from 9 to 11 and the BDT Investor will have the right to exclusively nominate for election 2 of the 11 directors to serve as members of our Board of Directors and certain of its committees (subject to applicable law and NYSE Rules) pursuant to the Amended and Restated Certificate of Incorporation. Our Board of Directors has the ability to elect persons to fill the two newly created directorships without stockholder approval, until a successor is elected and qualified at our next annual meeting of stockholders. Any such appointment will be made by our Board of Directors in compliance with applicable law and the NYSE Rules.

### **Proposal No. 2: Issuance of Securities to the Other Investors (see page 131)**

You are being asked to approve the issuance of 2,170,139 shares of Common Stock to Mitchell P. Rales, 2,170,139 shares of Common Stock to Steven M. Rales and 1,085,070 shares of Common Stock to Markel in accordance with the terms of the Other Purchase Agreements between Colfax and each of Mitchell P. Rales, Steven M. Rales and Markel, respectively, in order to raise a portion of the funds necessary to complete the Acquisition. The proposal to approve the issuance of the Other Shares to the Other Investors is referred to as Proposal No. 2.

### **Other Purchase Agreements (see page 131)**

On September 12, 2011, we entered into the Other Purchase Agreements with each of Mitchell P. Rales, Steven M. Rales and Markel, respectively, pursuant to which, among other things, we will issue the MPR Shares to Mitchell P.



Rales for \$50 million, the SMR Shares to Steven M. Rales for \$50 million and the Markel Shares to Markel for \$25 million. The purchase price of each share of Common Stock under the Other Purchase Agreements is \$23.04 per share.

### **Parties to the Other Purchase Agreements**

#### Colfax Corporation

Mr. Mitchell P. Rales is a co-founder of Colfax and has served as a director of Colfax since our founding in 1995. He is the Chairman of the Board of Directors of Colfax and the beneficial owner of approximately 21.0% of our Common Stock. Mr. Mitchell P. Rales served as a member of the Board of Directors of Danaher Corporation since 1983 and as Chairman of Danaher Corporation s

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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 companies for over 25 years. He was instrumental in the founding of Colfax and has played a key leadership role on our Board of Directors 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 our growth.

Mr. Steven M. Rales is a co-founder of Danaher Corporation and has served on its Board of Directors since 1983, serving as Chairman of the Board since 1984. He was also CEO of the Danaher Corporation from 1984 to 1990. In addition, for more than the past five years he has been a principal in private business entities in the areas of manufacturing and film production. Mr. Rales is a brother of Mr. Mitchell P. Rales.

Markel Corporation (NYSE: MKL) markets and underwrites specialty insurance products and programs. Markel operates in three segments: the Excess and Surplus lines, the Specialty Admitted and the London Insurance Markets. Tom Gayner, a member of our Board of Directors, is the President and Chief Investment Officer of Markel.

### **Use of Proceeds (see page 131)**

We will use the proceeds from the sale of the Other Shares to fund in part the Acquisition of Charter.

### **Conditions to Closing (see page 133)**

Consummation of the transactions contemplated by each of the MPR Purchase Agreement, SMR Purchase Agreement and Markel Purchase Agreement are conditional upon, among other things, approval by our stockholders of the issuance of the Other Shares and the Amended and Restated Certificate of Incorporation.

### **Termination (see page 133)**

Prior to the closing, each of the Other Purchase Agreements may be terminated:

by the relevant Other Investor, if our offer for Charter is withdrawn, lapses or terminates;  
by either party, if closing has not occurred before March 30, 2012 (provided that the right to so terminate shall not be available to any party if such party's action or inaction was a principal cause of or resulted in the failure to close the transactions contemplated under the agreement or constitute a breach thereof);

by the relevant Other Investor, at any time prior to closing, if we (i) have breached certain material representations and failed to cure such breach by the earlier of March 30, 2012 and 20 days from written notice of such breach and (ii) such breach, if not cured, would give rise to the failure to meet a condition to closing; and

by mutual written agreement of the parties.

### **Certain Agreements Related to the Other Investments (see page 131)**

In connection with the Other Purchase Agreements, we have entered into or will enter into agreements related to the transactions contemplated therein, including the MPR Registration Rights Agreement, the SMR Registration Rights Agreement and the Markel Registration Rights Agreement. In addition, immediately prior to the closing of the transactions contemplated by the Other Purchase Agreements, we will file the Amended and Restated Certificate of Incorporation and Certificate of Designations with the Secretary of State of the State of Delaware.

## **Proposal No. 3: Issuance of Securities in the Acquisition (see page 136)**

You are being asked to approve the issuance of up to 20,832,469 shares of our Common Stock as part of the consideration in the Acquisition. The proposal to approve the issuance of the Acquisition Shares is referred to as Proposal No. 3.

We intend to cause the Acquisition Shares to be authorized for listing on the NYSE, subject to notice of issuance.

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**Implementation Agreement (see page 136)**

On September 12, 2011, we and our wholly-owned subsidiary, Colfax UK Holdings Ltd. ( Bidco ), entered into the Implementation Agreement with Charter that provides the terms of the Acquisition. The Acquisition is intended to be implemented by way of a court-sanctioned scheme of arrangement (the Scheme ) under Article 125 of the Companies (Jersey) Law 1991 (the Companies Act ) or, if Bidco elects, by way of a takeover offer under the Companies Act. 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.

Pursuant to the Acquisition, Charter's shareholders will be entitled to receive 730 pence in cash and 0.1241 newly-issued shares of our Common Stock in exchange for each share of Charter's ordinary stock. The Acquisition values Charter's fully diluted share capital at approximately £1,528 million (\$2,426 million) (based on the closing price of \$23.04 per share of our Common Stock on September 9, 2011, being the last business day before the Acquisition was announced, and the foreign exchange rate of U.S.\$1.5881/£1 in effect as of that date).

**Parties to the Implementation Agreement**

Colfax

Colfax UK Holdings Ltd., Bidco, is our indirect wholly-owned subsidiary formed in England to effect the Acquisition. Bidco has not engaged in any business prior to the date of this proxy statement (except for entering into transactions relating to the Acquisition).

Charter International plc, 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 registered in Jersey and listed on the London Stock Exchange.

ESAB is a leading international welding and cutting company. 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 and cutting equipment ranges from small retail uses to large bespoke equipment particularly 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.

**Recommendation of Charter's Board of Directors (see page 61)**

Charter agreed to have its board of directors unanimously recommend to Charter's shareholders to vote in favor of the Acquisition at the general meeting of Charter's shareholders to be convened to consider the Acquisition as well as at the meeting of Charter's shareholders to be convened by the order of the Royal Court of Jersey for purposes of approving the Scheme. The Charter directors have further agreed not to withdraw, qualify or adversely modify the recommendation of the Charter board of directors. However, the foregoing obligations shall 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.

## **Conditions to Closing of the Acquisition (see page 61)**

The Implementation Agreement contains conditions to each party's obligations. Among other things, 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's stockholders to be convened by the order of the Royal Court of Jersey for purposes of approving the Scheme (such approvals were obtained at the general meeting of Charter's stockholders held on November 14, 2011 and at the meeting of Charter's stockholders convened by the order of the Royal Court of Jersey, also held on November 14, 2011) 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 Purchase Agreements entered into with each of the Investors.

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**Inducement Fee (see page 62)**

Charter has agreed to pay an inducement fee of £15,275,000 (\$24,258,228 assuming a foreign exchange rate of U.S.\$1.5881/£1 in effect on September 9, 2011, the last business day prior to signing of the Implementation Agreement) to Bidco, subject to the terms and conditions set out in the Implementation Agreement, in circumstances where a competing offer (or similar proposal) is announced before the Acquisition lapses or is withdrawn and such competing offer (or similar proposal) or another third party offer (or similar proposal) becomes wholly unconditional or effective or is otherwise consummated.

In addition, Charter has agreed to pay an inducement fee of £7,638,000 (\$12,129,908 assuming the foreign exchange rate described above) to Bidco in certain other circumstances, subject to the terms and conditions set out in the Implementation Agreement. These circumstances include where: (a) the board of directors of Charter recommends a competing offer (or similar proposal); (b) the board of directors of Charter withdraws, qualifies or adversely modifies its recommendation of the Acquisition or such recommendation ceases to be unanimous; and (c) where Charter takes any steps to implement a competing offer (or similar proposal) or if Charter makes certain changes in respect of the timing of the Acquisition and as a result the Scheme is reasonably expected not to become effective by March 30, 2012.

**Termination (see page 62)**

The Implementation Agreement may be terminated:

as agreed in writing by the parties;

in the event the recommendation of the board of directors of Charter in favor of the Acquisition is no longer unanimous or is withdrawn, qualified or adversely modified at any time;

if the Acquisition has not occurred by March 30, 2012;

on the date on which the Scheme lapses, terminates or is withdrawn or becomes effective in accordance with its terms; if the Scheme is not approved at the general meeting of Charter's shareholders to be convened to consider the Acquisition or the meeting of Charter's shareholders to be convened by the order of the Royal Court of Jersey for purposes of approving the Scheme;

if the Royal Court of Jersey fails to sanction the Scheme and approve related matters;

if the capital raising transactions contemplated by the Purchase Agreements entered into with each of the Investors to finance part of the Acquisition are not approved at the special meeting and we have not, within 10 business days, presented an adequate proposal for alternative funding for the Acquisition.

**Certain Agreements and Documents Related to the Acquisition  
(see page 0)**

In connection with the Acquisition, we have entered into or will enter into certain agreements related to the Implementation Agreement, including the Purchase Agreements, the Registration Rights Agreements and the Credit Agreement. In addition, we will file the Amended and Restated Certificate of Incorporation and the Certificate of Designations with the Secretary of State of the State of Delaware.

**Proposal No. 4: Amendment and Restatement of Colfax's  
Certificate of Incorporation (see page 138)**

You are being asked to approve an amendment and restatement of our Certificate of Incorporation to (i) increase the number of shares of authorized capital stock of Colfax from 210,000,000 to 420,000,000, comprised of an increase in Common Stock from 200,000,000 to 400,000,000 shares and an increase in preferred stock from 10,000,000 to 20,000,000 shares and (ii) make other changes to our Certificate of Incorporation to set forth certain rights of the BDT Investor to be granted in connection with the BDT Investment, including provisions that require the approval of the BDT Investor in order for us to take certain corporate actions and to provide the BDT Investor with the right to nominate up to two members of our Board of Directors depending on its beneficial ownership of Colfax securities from time to time. Stockholder approval of the Amended and Restated Certificate of Incorporation is a condition to completing

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the issuance of the Investor Securities to the Investors and the Acquisition Shares in connection with the Acquisition. The proposal to approve the Amended and Restated Certificate of Incorporation is referred to as Proposal No. 4.

**Proposal No. 5: Adjournment of Special Meeting (see page 142)**

You are being asked to approve a proposal to adjourn or postpone the special meeting to a later date or time, if necessary or appropriate, to solicit additional proxies in the event there are insufficient votes at the time of such adjournment or postponement to approve the other proposals. The proposal to adjourn or postpone the special meeting is referred to as Proposal No. 5.

**Recommendation of Our Board of Directors (see page 142)**

Our Board of Directors has unanimously approved the Implementation Agreement, the BDT Purchase Agreement, the Other Purchase Agreements, the issuance of the Securities thereunder and the Amended and Restated Certificate of Incorporation. **Our Board of Directors unanimously recommends that stockholders vote FOR Proposal No. 1, Proposal No. 2, Proposal No. 3, Proposal No. 4 and Proposal No. 5.**



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## THE SPECIAL MEETING

### Date, Time and Place

The special meeting of Colfax's stockholders will be held on \_\_\_\_\_, 2011, starting at \_\_\_\_\_, local time, at our corporate headquarters located at 8170 Maple Lawn Boulevard, Suite 180, Fulton, Maryland 20759.

### Matters to be Considered

The purpose of the special meeting is to consider and vote on:

- Proposal No. 1:* To approve (i) the issuance to the BDT Investor of 14,756,945 shares of Common Stock and 13,877,552 shares of Series A Preferred Stock, in accordance with the terms of the BDT Purchase Agreement to fund a portion of the Acquisition and (ii) the issuance of shares of our Common Stock upon conversion of such Series A Preferred Stock.
- Proposal No. 2:* To approve the issuance of 2,170,139 shares of Common Stock to Mitchell P. Rales, 2,170,139 shares of Common Stock to Steven M. Rales and 1,085,070 shares of Common Stock to Markel in accordance with the terms of the Other Purchase Agreements to fund a portion of the Acquisition.
- Proposal No. 3:* To approve the issuance of up to 20,832,469 shares of Common Stock as part consideration for the Acquisition in accordance with the terms of the Implementation Agreement.
- Proposal No. 4:* To approve an amendment and restatement of our Certificate of Incorporation to (i) increase the number of shares of authorized capital stock from 210,000,000 to 420,000,000, comprised of an increase in Common Stock from 200,000,000 to 400,000,000 shares and an increase in preferred stock from 10,000,000 to 20,000,000 shares 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 BDT Investment, including provisions that require the approval of the BDT Investor in order for us to take certain corporate actions and to provide the BDT Investor with the right to nominate up to two members of the Board of Directors depending on its beneficial ownership of Colfax securities from time to time.
- Proposal No. 5:* To adjourn or postpone the special meeting to a later date or time, if necessary or appropriate, to solicit additional proxies in the event there are insufficient votes at the time of such adjournment or postponement to approve the other proposals.

### Record Date; Shares Outstanding and Entitled to Vote

The close of business on \_\_\_\_\_, 2011 has been fixed as the record date for determining those Colfax stockholders entitled to notice of and to vote at the special meeting and any adjournment or postponement of the special meeting.

At the close of business on the record date for the special meeting, there were \_\_\_\_\_ shares of Common Stock outstanding and entitled to vote, held by approximately \_\_\_\_\_ holders of record. Each share of Common Stock entitles its

holder to one vote at the special meeting on all matters properly presented at the meeting.

## **Common Stock Ownership of Directors and Executive Officers**

As of the record date, our directors and executive officers held an aggregate of      % of the shares of Common Stock entitled to vote at the special meeting, including the      % of Common Stock held by Mitchell P. Rales, Chairman of our Board of Directors. Mitchell P. Rales and his brother, Steven M. Rales, who together hold an aggregate of approximately 42.0% of our Common Stock, have each signed voting agreements with Charter and the BDT Investor, pursuant to which they have agreed to vote their shares of Common Stock in favor of the BDT Investment, including the Amended and Restated Certificate of

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Incorporation, and the issuance of securities necessary to complete the Acquisition. In the aggregate, as of the record date, the shares held by the directors and executive officers of Colfax and Steven M. Rales represent % of the voting power necessary to approve Proposals No. 1, No. 2, No. 3 and No. 5 (assuming the vote in person or by proxy of all outstanding shares of Common Stock) and Proposal No. 4.

## How to Vote Your Shares

Stockholders of record may submit a proxy by telephone, via the Internet or by mail or vote by attending the special meeting and voting in person.

*Submitting a Proxy by Telephone:* You can submit a proxy for your shares by telephone until 11:59 p.m. (EDT) on , 2011 by calling the toll-free telephone number on your proxy card. Telephone proxy submission is available 24 hours a day. Easy-to-follow voice prompts allow you to submit a proxy for your shares and confirm that your instructions have been properly recorded. Our telephone proxy submission procedures are designed to authenticate stockholders by using individual control numbers. **IF YOU SUBMIT A PROXY BY TELEPHONE, YOU DO NOT NEED TO RETURN YOUR PROXY CARD.**

*Submitting a Proxy via the Internet:* You can submit a proxy via the Internet until 11:59 p.m. (EDT) on , 2011 by accessing the web site listed on your proxy card and following the instructions you will find on the web site. Internet proxy submission is available 24 hours a day. As with telephone proxy submission, you will be given the opportunity to confirm that your instructions have been properly recorded. **IF YOU SUBMIT A PROXY VIA THE INTERNET, YOU DO NOT NEED TO RETURN YOUR PROXY CARD.**

*Submitting a Proxy by Mail:* If you choose to submit a proxy by mail, simply mark the enclosed proxy card, date and sign it, and return it in the postage paid envelope provided.

*Attending the Special Meeting:* If you are a stockholder of record, you may attend the special meeting and vote in person. If you plan to attend the special meeting, you must bring a form of personal photo identification with you in order to be admitted. We reserve the right to refuse admittance to anyone without proper proof of share ownership and without proper photo identification.

If your shares of Common Stock are held in the name of a broker, bank or other nominee, you will receive instructions from the stockholder of record that you must follow for your shares to be voted. Please follow their instructions carefully. Also, please note that if the stockholder of record of your shares of Common Stock is a broker, bank or other nominee and you wish to vote in person at the special meeting, you must request a legal proxy from your broker, bank or other nominee that holds your shares and present that proxy and proof of identification at the special meeting.

## How to Change Your Vote

If you are the stockholder of record, you may revoke your proxy or change your vote prior to your shares being voted at the special meeting by:

delivering a written notice of revocation or a duly executed proxy card, in either case dated later than the prior proxy card relating to the same shares, to Colfax's Corporate Secretary, A. Lynne Puckett, at Colfax Corporation, 8170 Maple Lawn Boulevard, Suite 180, Fulton, Maryland 20759, Attention: Corporate Secretary; submitting a proxy at a later date by telephone or via the Internet, if you have previously voted by telephone or via the Internet in connection with the special meeting; or attending the special meeting and voting in person.



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If you are the beneficial owner of shares held in the name of a broker, bank or other nominee, you may change your vote by:

submitting new voting instructions to your broker, bank or other nominee in a timely manner following the voting procedures received from your broker, bank or other nominee; or  
attending the special meeting and voting in person, if you have obtained a legal proxy from the broker, bank or other nominee that holds your shares giving you the right to vote the shares.

Attendance at the special meeting will not, in and of itself, constitute revocation of a proxy.

## **Counting Your Vote**

All properly executed proxies delivered and not properly revoked will be voted at the special meeting as specified in such proxies. If you provide specific voting instructions, your shares of Common Stock will be voted as instructed. If you hold shares in your name and sign and return a proxy card or submit a proxy by telephone or via the Internet without giving specific voting instructions, your shares will be voted **FOR** :

the approval of the issuance of the BDT Shares to the BDT Investor pursuant to the terms of the BDT Purchase Agreement and the issuance of shares of Common Stock upon conversion of the Series A Preferred Stock to be issued in the BDT Investment;

the approval of the issuance of the Other Shares to the Other Investors pursuant to the terms of the Other Purchase Agreements;

the approval of the issuance of the Acquisition Shares as partial consideration in the Acquisition, the approval of the Amended and Restated Certificate of Incorporation; and  
adjournment or postponement of the special meeting to a later date or time, if necessary or appropriate, to solicit additional proxies in the event there are insufficient votes at the time of such adjournment or postponement to approve the other proposals.

Proxies solicited may be voted only at the special meeting and any adjournment or postponement of the special meeting and will not be used for any other meeting.

## **Quorum and Required Votes**

A quorum, consisting of the holders of a majority of the outstanding shares of Common Stock entitled to vote at the special meeting as of the record date, must be present in person or represented by proxy before any action may be taken at the special meeting. Abstentions and broker non-votes will be treated as shares that are present for the purpose of determining the presence of a quorum.

*Proposal No. 1:* The affirmative vote of the majority of shares of Common Stock present in person or represented by proxy at the special meeting and entitled to vote is necessary to approve the issuance of the BDT Shares to the BDT Investor pursuant to the BDT Purchase Agreement and the issuance of shares of Common Stock upon conversion of the Series A Preferred Stock to be issued in the BDT Investment.

*Proposal No. 2:* The affirmative vote of the majority of shares of Common Stock present in person or represented by proxy at the special meeting and entitled to vote is necessary to approve the issuance of the Other Shares to the Other Investors pursuant to the Other Purchase Agreements.

*Proposal No. 3:* The affirmative vote of the majority of shares of Common Stock present in person or represented by proxy at the special meeting and entitled to vote is necessary to approve the issuance of the Acquisition Shares to the

existing shareholders of Charter s ordinary shares as partial consideration in the Acquisition pursuant to the Implementation Agreement.

*Proposal No. 4:* The affirmative vote of the holders of a majority of the outstanding shares of Common Stock entitled to vote thereon at the special meeting is necessary to approve the Amended and Restated Certificate of Incorporation.

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*Proposal No. 5:* The affirmative vote of the majority of shares of Common Stock present in person or represented by proxy at the special meeting and entitled to vote is necessary to approve the adjournment or postponement of the special meeting to a later date or time, if necessary or appropriate, to solicit additional proxies in the event there are insufficient votes at the time of such adjournment or postponement to approve the other proposals.

**The approval of Proposals No. 1, No. 2, No. 3 and No. 4 is required for the issuance of the Securities described in this proxy statement. Since the issuance of the Acquisition Shares and proceeds from the issuance of the Investor Securities will be used to fund in part the Acquisition of Charter, the approval of each of Proposal No. 1, No. 2, No. 3 and No. 4 is also a condition to the Acquisition described in this proxy statement.**

As of the close of business on the record date for the special meeting, the BDT Investor did not beneficially own any shares of our Common Stock and, to the knowledge of the BDT Investor, none of its affiliates beneficially owned any shares of our Common Stock. As of the close of business on the record date for the special meeting, Markel did not beneficially own any shares of our Common Stock and, to the knowledge of the Markel, none of its affiliates beneficially owned any shares of our Common Stock other than its President and Chief Investment Officer, Thomas Gayner, who is also a member of our board of directors and the beneficial owner of 19,860 shares of Common Stock, representing less than 1% of our outstanding Common Stock.

As of the close of business on the record date for the special meeting, Mitchell P. Rales and Steven M. Rales beneficially own an aggregate of 18,291,220 shares of Common Stock, representing % of the shares of Common Stock entitled to vote at the special meeting. Mitchell P. Rales and Steven M. Rales have each signed voting agreements with the BDT Investor and Charter, pursuant to which they have agreed to vote their shares of Common Stock in favor of the BDT Investment, including the Amended and Restated Certificate of Incorporation, and the issuance of securities necessary to complete the Acquisition.

## **Abstentions and Broker Non-Votes**

Abstentions will have the same effect as a vote AGAINST each of the proposals.

If shares are held in a brokerage account or by a bank or other nominee, the holders are considered the beneficial owner of shares held in street name. Certain brokerage firms have authority to vote a client's unvoted shares on some routine matters but cannot vote a client's unvoted shares on non-routine matters. Proposals No. 1, No. 2, No. 3 and No. 4 are considered non-routine matters under exchange rules applicable to certain brokerage firms. If you do not give voting instructions to your broker on a non-routine matter, your shares may constitute broker non-votes. A broker non-vote occurs on a matter when a broker returns an executed proxy but indicates that it does not have discretionary authority to vote on that matter and has not received instructions from the beneficial owner. Broker non-votes are not deemed to be votes cast and, therefore, are not included in the tabulation of the voting results on these proposals.

## **Solicitation of Proxies**

The total expense of this solicitation will be borne by Colfax, including reimbursement paid to brokerage firms and others for their expenses in forwarding material regarding the special meeting to beneficial owners. Solicitation of proxies may be made personally or by mail, telephone, internet, e-mail or facsimile by officers and other management employees of Colfax, who will receive no additional compensation for their services.

## **Adjournment and Postponement**

Whether or not a quorum exists, holders of a majority of our Common Stock present in person or represented by proxy and entitled to vote at the special meeting may adjourn the special meeting, without further notice other than by an announcement made at the special meeting. Because a majority of the votes present in person or represented at the meeting, whether or not a quorum exists, is required to approve the proposal to adjourn the special meeting, abstentions will have the same effect on such proposal as a vote **AGAINST** the proposal to adjourn the special meeting. Any adjournment or postponement of the special meeting for the purpose of soliciting additional proxies will allow our stockholders who have already sent in their proxies to revoke them at any time prior to their use at the special meeting as adjourned or postponed.

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## **Recommendation of Our Board of Directors**

Our Board of Directors has unanimously approved the issuance of the Securities (including the issuance of shares of our Common Stock upon conversion of the Series A Preferred Stock to be issued in the BDT Investment) and the Amended and the Restated Certificate of Incorporation. In addition, the Special Committee unanimously approved the proposed investments by each of the Other Investors, having determined that the terms of the Other Investment were appropriate under the circumstances. The Other Investment was also approved by our disinterested directors pursuant to our corporate policy regarding related person transactions.

Based on our reasons for the recommendations set forth in Proposal No. 1 Issuance of Securities to the BDT Investor Reasons for the BDT Investment and Recommendation of Our Board of Directors , Proposal No. 2 Issuance of Securities to the Other Investors Reasons for the Other Investment and Recommendation of Our Board of Directors and Proposal No. 3 Issuance of Securities in the Acquisition of Charter Reasons for the Acquisition and Recommendation of Our Board of Directors , our Board of Directors believes that the approval of each of (i) the issuance of the BDT Shares (including the issuance of shares of our Common Stock upon conversion of the Series A Preferred Stock to be issued in the BDT Investment), (ii) the issuance of the Other Shares (iii) the issuance of the Acquisition Shares and (iv) the Amended and Restated Certificate of Incorporation is advisable, fair to, and in the best interests of, Colfax's stockholders.

Our Board of Directors recommends that you vote **FOR** :

the approval of the issuance of the BDT Shares to the BDT Investor pursuant to the terms of the BDT Purchase Agreement (including the issuance of shares of our Common Stock upon conversion of the Series A Preferred Stock to be issued in the BDT Investment);

the approval of the issuance of the Other Shares to the Other Investors pursuant to the terms of the Other Purchase Agreements;

the approval of the issuance of the Acquisition Shares pursuant to the Acquisition;

the approval of the Amended and Restated Certificate of Incorporation; and

adjournment or postponement of the special meeting to a later date or time, if necessary or appropriate, to solicit additional proxies in the event there are insufficient votes at the time of such adjournment or postponement to approve the other proposals.

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## **CURRENCIES**

In this proxy statement, unless otherwise specified or the context otherwise requires:

pounds sterling, pounds, sterling, U.K. pounds, £, pence, or p each refer to the lawful currency of the United Kingdom; and

U.S. dollars, dollars, \$ or U.S.\$ each refer to the lawful currency of the United States.

We publish our financial statements in U.S. dollars and Charter publishes its financial statements in pounds sterling.

Please see the section of this proxy statement entitled Exchange Rate Information for additional information regarding the exchange rates between pounds sterling and the U.S. dollar.

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The following table shows, for the periods indicated, information concerning the exchange rate between U.S. dollars and pounds sterling. The information in the following table is expressed in U.S. 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 monthly periods presented in these tables were calculated by taking the simple average of the daily noon buying rates. 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 the last day of each month during the relevant period.

On \_\_\_\_\_, 2011, the latest practicable date for which such information was available prior to the printing of this proxy statement, 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 \$ \_\_\_\_\_ per £1.00. These translations should not be construed as a representation that the U.S. dollar amounts actually represent, or could be converted into, pounds sterling at the rates indicated.

	Period-end rate U.S.\$	Average rate U.S.\$	High U.S.\$	Low U.S.\$
<b>Recent monthly data</b>				
November 2011	1.5467		1.6076	1.5467
October 2011	1.6141		1.6141	1.5398
September 2011	1.5624		1.6190	1.5358
August 2011	1.6269		1.6591	1.6169
July 2011	1.6455		1.6455	1.5932
June 2011	1.6067		1.6444	1.5972
<b>Interim period data</b>				
Nine months ended September 30, 2011	1.5624	1.6147	1.6691	1.5358
Nine months ended September 30, 2010	1.5731	1.5339	1.6370	1.4344
<b>Annual Data (year ended 31 December)</b>				
2010	1.5392	1.5455	1.6370	1.4344
2009	1.6167	1.5660	1.6977	1.3658
2008	1.4619	1.8546	2.0311	1.4395
2007	1.9843	2.0016	2.1104	1.9235
2006	1.9586	1.8434	1.9794	1.7256

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## **RISK FACTORS**

*You should carefully consider the following risks and uncertainties together with all the other information set out in, or incorporated by reference into, this proxy statement prior to deciding whether to vote for the approval of the proposals presented in this proxy statement. 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 and Charter and/or the combined group following the Acquisition (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 material adverse effects 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 our Common Stock could decline and investors could lose all or part of the value of their investment in Colfax shares. You 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.

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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.

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**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 U.S. Foreign Corrupt Practices Act and regulations issued by U.S. Customs and Border Protection, the U.S. 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 U.S. sanctions and embargoes, and we 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 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 U.S. government and/or the United Nations, such as Syria. In March 2010, our Board of Directors affirmatively prohibited any sales to Iran by us and all of our foreign subsidiaries. With the exception of the U.S. sanctions against

Cuba, the applicable sanctions and embargoes generally do not prohibit our foreign subsidiaries from selling non-U.S.-origin products and services to countries that are or have previously been subject to sanctions and embargoes. However, our and, following completion of the Acquisition, the Combined Group's U.S. personnel and each of their domestic subsidiaries, as well as employees of the Combined Group's and each of their foreign subsidiaries who are U.S. 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 U.S. 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

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which could result in substantial costs. In addition, Syria is currently identified by the U.S. 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 U.S. 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 U.S. Treasury Department's Office of Foreign Assets Control, or OFAC. Cuba is also identified by the U.S. 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 U.S. Export Administration Regulations, administered by the U.S. Department of Commerce, Bureau of Industry and Security, which require that an export license be 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-U.S. 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 U.S. government, including substantial monetary penalties, denial of export privileges and debarment from U.S. 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 U.S. and we have manufacturing facilities in eight countries. Sales from international operations, export sales and the use of manufacturing facilities outside of the U.S. by us and, following completion of the Acquisition, the Combined Group are subject to risks inherent in doing business outside the U.S. 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

If we and Charter and, following completion of the Acquisition, the Combined Group fail to comply with export control

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.

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**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 U.S. 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 and Charter 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 or, following completion of the Acquisition, the Combined Group's 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,

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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

As manufacturers, we and Charter are, and, following completion of the Acquisition, the Combined Group will be, su

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.

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**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 Credit Agreement contains restrictions that may limit our flexibility in operating our business**

The 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, our and our subsidiaries' capital stock;
- 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 Credit Agreement, the we are required to satisfy and maintain compliance with a total leverage ratio and an interest coverage ratio. The Credit Agreement's various covenants and the additional leverage taken on by us could limit our financial and operational flexibility and increase our vulnerability to general economic slowdowns which could have a materially adverse effect on our 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 benefits 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.

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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 conditions 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 pension 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. We 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 us 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 U.S. 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 U.S. 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 U.S. 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 U.S. 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.

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**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 favorable 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 April 6, 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 favorable 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 benefits plans are or may become subject to funding requirements or obligations that could adversely affect their business, financial condition and results of operations .

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**Charter's products may be subject to certain liability claims**

In common with similar manufacturers, Charter and its Subsidiary and associated undertakings, as defined in the UK Companies Act 2006 (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. ESAB Group, Inc., 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. Upon the advice of counsel, Charter has advised that it believes that ESAB Group, Inc. has meritorious defences to these claims and it 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 operating results**

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 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 operating results may be adversely affected.

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**The Acquisition will result in significant integration costs and any material delays or unanticipated additional expense may harm our business, financial conditions 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 conditions 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

The Acquisition will result in significant integration costs and any material delays or unanticipated additional expenses



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, results of operations and financial condition.

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**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.

**The 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 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 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 our 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 our Board of Directors;

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 our Bylaws; and

any change in the size of our Board of Directors.

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 our 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 set forth the authorized number of members of our Board of Directors and the BDT Investor's nomination rights in respect of members of our Board of Directors. The

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above factors could limit our 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, Bylaws, and Delaware law contain provisions that may make it difficult for a third-party to acquire us without the consent of our 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, our Board of Directors has the right to issue preferred stock without stockholder approval, which it 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 us and any holder of 15% or more of our 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 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 were 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 our 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 on Takeovers and Mergers (the UK Takeover 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 UK Takeover 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

Provisions in our charter documents and Delaware law may delay or prevent an acquisition of Colfax, which could

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 U.S. domestic company. If a material adverse change affecting Charter were to occur and the UK Takeover Panel did not allow us to invoke a condition that would cause the Acquisition not to proceed, the market price of our Common Stock could decline or our business, financial condition or results of operations could be materially adversely affected.

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## **Risks and other considerations relating to 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 Implementation Agreement are completed, the shares of Common Stock and Series A Preferred Stock owned by the BDT Investor will represent approximately 27.8% of the voting rights in respect of our issued share capital, assuming we acquire Charter's entire fully-diluted share capital in the Acquisition. 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 our Board of Directors so long as the BDT Investor and its permitted transferees beneficially own, in the aggregate, more than 20% of the outstanding Common Stock, with one of its nominees to serve on the audit committee of the Board of Directors and one of its nominees to serve on the compensation committee of the Board of Directors, and one out of ten directors to our Board of Directors so long as 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 Common Stock, with such nominee to serve on the audit committee and the compensation committee of the Board of Directors; 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 Implementation Agreement could have a substantial dilutive effect on our Common Stock, which may adversely affect the market price of our Common Stock**

When the transactions contemplated by the Purchase Agreements and Implementation Agreement are completed, there will be up to 41,014,762 additional shares of Common Stock outstanding (assuming we acquire Charter's entire fully-diluted share capital in the Acquisition) as well as an additional 12,173,291 shares of 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 our Common Stock. Under the Scheme, the Acquisition Shares will be issued pursuant to the exemption provided by Section 3(a)(10) of the Securities Act, and such shares of Common Stock will be freely transferable by former Charter shareholders who are not our affiliates.

As a result of the issuance of the Securities, the voting interests of our current stockholders will be significantly diluted. For example, a holder of 1,000,000 shares of Common Stock on September 30, 2011 would have owned approximately 2.3% of the voting power of Colfax. Immediately after the issuance of the Securities (excluding any conversion of the Series A Preferred Stock), such holder would own approximately 1.0% of the total voting power of

Colfax (assuming we acquire Charter's entire fully-diluted share capital in the Acquisition).

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 our Common Stock. Pursuant to the 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 Common Stock purchased in the Investments and, with respect to the BDT Investor, shares of Common Stock issuable upon conversion of the Series A Preferred Stock. These registration rights would

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facilitate the resale of such securities into the public market, and any such resale would increase the number of shares of 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 Common Stock in the public market, or the perception that such sales might occur, could have a material adverse effect on the price of our Common Stock.

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

**The market price of our 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 our Common Stock, regardless of our operating performance.



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## INFORMATION ON THE CHARTER ACQUISITION

The following information regarding the Acquisition of Charter, including the summary of certain terms and provisions of the Implementation Agreement, which is incorporated into this proxy statement by reference, is qualified in its entirety by reference to the more detailed Annexes to this proxy statement. We urge you to read all of the Annexes to this proxy statement in their entirety.

### Transaction Structure

As announced on September 12, 2011, we have reached an agreement with Charter under which our wholly-owned subsidiary, Bidco, will acquire the entire issued share capital of Charter for cash and newly-issued shares of our Common Stock. The terms of the Acquisition are set forth in the Implementation Agreement entered into by Colfax, Bidco and Charter on September 12, 2011. The Acquisition is intended to be implemented by way of a court-sanctioned scheme of arrangement (the Scheme) under Article 125 of the Companies (Jersey) Law 1991 (the Companies Act). Alternatively, Bidco may elect to implement the Acquisition by way of a takeover offer under the Companies Act.

A scheme of arrangement is a formal procedure under the Companies Act which is commonly used to carry out corporate acquisitions and requires the approval of Charter's stockholders (such approval was obtained on November 14, 2011) and the Royal Court of Jersey. If the relevant approvals are obtained, the Scheme will become effective and all Charter stockholders will be bound by the Acquisition regardless of whether or how they voted. Upon the Scheme becoming effective, Charter's issued ordinary shares will be cancelled and in their place new ordinary shares in the capital of Charter will be issued to Bidco, whereupon Charter will become a private limited company and wholly-owned subsidiary of Colfax.

Under the terms of the Acquisition, Charter shareholders will be entitled to receive 730 pence in cash and 0.1241 newly-issued shares of our Common Stock for each share of Charter's ordinary stock. The Acquisition values Charter's fully diluted share capital at approximately £1,528 million (\$2,426 million), being 910 pence per Charter share on a fully diluted basis (based on the closing price of \$23.04 per share of our Common Stock on September 9, 2011, being the last business day before the Acquisition was announced, at the foreign exchange rate of U.S.\$1.5881/£1 in effect as of that date).

We will be providing a mix and match facility in connection with the Acquisition, under which Charter's shareholders (other than certain residents or citizens in jurisdictions outside the U.S., U.K. or Jersey) may elect to vary the proportions in which they receive cash and Common Stock as a result of the Acquisition, subject to equal and opposite elections made by other Charter shareholders. However, the total number of shares of Common Stock 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. We will also be providing a loan note alternative option whereby Charter shareholders (other than certain residents or citizens in jurisdictions outside the U.K. or Jersey, including U.S. persons or persons resident in the U.S.) 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 shares in Charter.

See Information on the Charter Acquisition Implementation Agreement and related Agreements.

## **Background to the Acquisition**

As part of the ongoing evaluation of our business, we continuously consider and analyze a variety of potential acquisitions of all sizes.

On February 15, 2011, we completed the acquisition of Rosscor Holding BV, a Netherlands-based fluid handling company and customer of Charter's air and gas handling business, Howden. Following this acquisition, our management conducted research and analysis on Charter's businesses and concluded that Charter would be a good strategic fit because, among other reasons, Charter's air and gas handling business (Howden) would extend our existing fluid handling platform, and Charter's welding, cutting and automation (ESAB) business would establish a new growth platform for Colfax. On April 15, 2011, our management presented Charter (along with several other potential acquisition targets) as a potential opportunity to our Board of Directors.

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On June 29, 2011, Charter announced that it had received an unsolicited indicative approach (that may or may not lead to an offer) from Melrose plc ( Melrose ), an LSE-listed industrial holding company generally focused on underperforming or turnaround situations, for the entire share capital of Charter. This initial proposal by Melrose to acquire Charter for 780 pence per share (inclusive of Charter's interim dividend) in an undisclosed mix of stock and cash valued Charter's total equity at approximately £1.3 billion.

On June 30, 2011, Charter announced that its Board of Directors had rejected Melrose's proposed offer.

On June 30, 2011, we contacted Deutsche Bank Securities Inc. ( Deutsche Bank ) to assist us in the evaluation and financing of a potential transaction and to serve as a U.K. advisor for purposes of the U.K. City Code on Takeovers and Mergers (the UK Takeover Code ). We subsequently engaged Deutsche Bank as an advisor in this capacity.

In early July 2011, we contacted Skadden, Arps, Slate, Meagher & Flom LLP ( SASM&F ) to assist as our outside legal advisors. On July 5, 2011 certain of our executive officers participated in a teleconference with certain representatives of Deutsche Bank. The discussions consisted of an overview of a potential transaction to acquire Charter, including the potential acquisition costs, indicative financing terms, consideration mix, transaction mechanics and potential financial impact of the acquisition. Between July 5, 2011 and July 8, 2011, certain of our executive officers conducted various internal discussions to review the attractiveness of a potential acquisition of Charter.

On July 8 and 9, 2011, we held telephone discussions with BDT & Company, LLC ( BDT ), an affiliate of the BDT Investor, about a potential role for BDT as a financial advisor in connection with a potential business combination with Charter, and as placement agent to arrange equity financing for the combination through certain limited partners in a BDT-affiliated investment fund. During these discussions, Mitchell P. Rales, Chairman of our Board of Directors, indicated that he and his brother Steven M. Rales would be willing to make concurrent investments in new Common Stock as part of this equity financing. We subsequently engaged BDT in these capacities on August 17, 2011.

On July 11, 2011, Charter's Board of Directors received a revised proposal from Melrose of 840 pence per Charter ordinary share (inclusive of Charter's interim dividend). Melrose's revised proposal valued Charter's total equity at approximately £1.4 billion.

On July 13, 2011, members of our senior management and Board of Directors participated in a teleconference with certain representatives of BDT. The discussions covered an overview of a potential transaction to acquire Charter, including indicative equity financing terms and coordinating an initial approach to Goldman, Sachs & Co. ( Goldman Sachs ), in its capacity as financial advisor to Charter, regarding Charter's possible strategic interest in a transaction with Colfax. On July 14, 2011, BDT sent us preliminary proposed terms for equity financing to be provided by certain limited partners in a BDT-affiliated investment fund. These proposed terms contemplated financing from BDT of up to \$1.3 billion and two potential structures: the first a combination of Common Stock, subordinated debt and warrants and the second a combination of Common Stock and Series A Preferred Stock. For the following two months, members of our senior management, taking into account discussions with Deutsche Bank and SASM&F, engaged in extensive negotiations with representatives of BDT regarding the terms of the potential equity investment focusing on the mix and structure of the equity financing. Our management indicated to BDT that an issuance of Series A Preferred Stock and Common Stock was preferable to a Common Stock, subordinated debt and warrant financing based on cost, stockholder dilution, leverage and likely ratings impact. The negotiations focused in particular on the relative amounts of Common Stock and Series A Preferred Stock that would comprise such investment, the mechanism for determining the price of the Common Stock, the conversion price of the Series A Preferred Stock, the dividend and forced conversion terms of the Series A Preferred Stock and the governance rights that would be granted in connection with such investment. All such discussions assumed that Messrs. Rales would collectively invest \$100 million as part of the equity financing, with any such possible investment being subject to the review and

consideration by a committee of disinterested members of our Board of Directors.

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On July 14 and 15, 2011, a representative of BDT called certain representatives from Goldman Sachs, informing Goldman Sachs that an unnamed potential strategic buyer might be interested in making an offer to acquire Charter.

Goldman Sachs indicated that Melrose had approached Charter on an unsolicited basis and that no exclusivity agreement had been entered into between Melrose and Charter. Goldman Sachs also confirmed to BDT that no non-public information had been provided by Charter to Melrose. On July 15, 2011, members of our senior management and Board of Directors had a telephone conversation with BDT regarding BDT's discussions with Goldman Sachs.

On July 15, 2011, Charter's Board of Directors announced that it had rejected Melrose's revised proposal of 840 pence per share equity and cash offer, as opportunistic and undervaluing Charter and its prospects. At that time, Charter's Board of Directors confirmed that it remained committed to maximizing value for its stockholders and was exploring a full range of strategic alternatives.

On July 19, 2011, we entered into a non-disclosure agreement with BDT and provided BDT certain non-public information to facilitate their evaluation of equity financing in connection with an acquisition of Charter. On July 22, 2011, and again on July 25, 2011, BDT provided us with updated proposed terms for such equity investment based on this information. The proposed terms included the mechanism for determining the price of the Common Stock, the conversion premium for the Series A Preferred Stock, mandatory conversion rights, the dividend rate, the proportion of the investment to be made in Common Stock versus Series A Preferred Stock, and the governance rights that would be granted in connection with the investment. These terms were discussed by members of our senior management and representatives of BDT over the subsequent weeks, with management's objective being to obtain the most attractive pricing and terms, taking into account dilution to our current stockholders and fixed charges incurred by Colfax, while addressing BDT's demands for certain governance rights that BDT deemed commensurate with its contemplated level of investment.

On July 26 and 27, 2011, Daniel A. Pryor, Senior VP - Strategy & Business Development of Colfax, made presentations to our Board of Directors about a potential acquisition of Charter. The potential transaction was discussed in detail by our Board of Directors as part of the Strategy and Business Development session during our regularly scheduled Board meeting on July 27, 2011. Following the July 27 Board meeting, one of our directors, Mr. Thomas Gayner indicated that Markel Corporation, a company for which Mr. Gayner is the President and Chief Investment Officer, would be interested in purchasing \$25 million of Common Stock in the equity financing on the same terms as Messrs. Rales, with any such possible investment being subject to the review and consideration by a committee of disinterested members of our Board of Directors.

On July 27, 2011, a representative of BDT informed Goldman Sachs that we were the unnamed potential strategic buyer referred to in their conversations on July 14 and 15, 2011, and requested a meeting be held between representatives of Colfax, BDT, Charter and Goldman Sachs. In subsequent conversations between representatives of BDT and Goldman Sachs, Goldman Sachs requested that we provide written confirmation of our interest in acquiring Charter.

On July 30 and 31, 2011, members of our senior management and Board of Directors, together with SASM&F, attended calls with BDT, during which we discussed and finalized a letter to be presented to Charter to provide formal written confirmation of our interest in acquiring Charter.

On August 1, 2011, we provided the letter to Charter, giving formal written confirmation of our interest in acquiring Charter. On August 5, 2011, Charter provided BDT an initial proposed non-disclosure agreement. After agreeing to certain changes with Goldman Sachs, we signed a revised version of the initial non-disclosure agreement on August 12, 2011, pursuant to which we agreed to keep certain information provided by Charter confidential.

Between August 4 and August 13, 2011, members of our senior management and Board of Directors held telephone discussions with BDT representatives regarding the potential BDT equity financing to be provided in connection with an acquisition of Charter, as well as the terms of such financing and the concurrent Common Stock investments by Mitchell P. Rales, Steven M. Rales and Markel. During this same period, Mr. Pryor held telephone discussions with Deutsche Bank during which Deutsche Bank discussed the terms of the proposed BDT equity financing in the context of the limited universe of comparable investments made in

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public companies, the proceeds from which were used to finance an acquisition. Deutsche Bank noted the pricing terms (including the conversion premium, dividend rate and redemption provisions), the magnitude of the investment and the willingness of the BDT investors to commit to invest on a funds certain basis at a fixed price at the time of the announcement of the agreement to acquire Charter. Taking these discussions into account, based on subsequent internal discussions and analyses, our management concluded that the terms of the Series A Preferred Stock included as a part of the proposed BDT investment were acceptable to Colfax, subject to the final approval of our Board of Directors. During this same period, members of our senior management and Board of Directors also held telephone discussions with Deutsche Bank during which Deutsche Bank discussed preliminary proposed terms for any potential debt financing in connection with an acquisition of Charter.

On August 11, 2011, following discussions with advisors to both Charter and Melrose, the Panel Executive from the UK Takeover Panel ruled that Melrose must either announce a firm intention to make an offer for Charter under Rule 2.5 of the UK Takeover Code, or announce that it did not intend to make an offer for Charter, by September 6, 2011.

On August 14, 2011 and August 15, 2011, members of the Board of Directors and management of both Colfax and Charter engaged in high-level discussions regarding a potential business combination involving the two companies.

On August 14, 2011, Mr. Mitchell P. Rales met with Mr. Emilson at the airport Hilton hotel in Copenhagen and discussed a potential acquisition of Charter by Colfax. On August 15, 2011, members of our senior management and Board of Directors and representatives from BDT met with Gareth Rhys Williams, CEO of Charter, Michael Hampson, General Counsel of Charter, Brendan Colgan, Chief Executive of Charter's ESAB division, Ian Brander, Chief Executive of Charter's Howden division (by videoconference), and representatives of Goldman Sachs and Slaughter and May, Charter's legal advisor, in London at the offices of Goldman Sachs. During these meetings, they presented an overview of Colfax, reviewed Charter's 2011 Interim Results and Strategic Overview presentation dated July 26, 2011 and discussed the potential transaction. No material non-public information was discussed at this meeting, save for the possibility of a potential transaction between Colfax and Charter.

Also on August 15, 2011, members of our senior management and Board of Directors met with representatives of BDT at the offices of Goldman Sachs to discuss the terms of a potential equity financing in connection with the acquisition of Charter. The terms proposed by representatives of BDT reflected the discussions between BDT and members of Colfax's senior management to date.

On August 16, 2011, our Board of Directors held a special meeting telephonically and approved and submitted to Mr. Emilson a non-binding indicative offer indicating a purchase price range of 875 to 900 pence per ordinary share of Charter, valuing the existing and to be issued share capital of Charter at approximately £1.5 billion. At that meeting, our Board of Directors formed the Special Committee, consisting of Clay Perfall (as Chair), Mr. Kiefaber and Patrick Allender as disinterested directors, for purposes of reviewing the terms of the investment by Mitchell P. Rales and his brother, Steven M. Rales, the proceeds of which would be used to finance in part the Acquisition.

On August 17, 2011, BDT informed us that Charter had indicated willingness to engage in discussions regarding a transaction with Colfax. Also on August 17, 2011, Mr. Pryor held discussions with BDT about the terms of potential equity financing in connection with the acquisition of Charter.

On August 18, 2011, the Special Committee met, together with representatives of SASM&F, Mr. Pryor and A. Lynne Puckett, Senior VP, General Counsel and Secretary of Colfax, to review the terms of the investment by Mitchell P. Rales and Steven M. Rales, where it was noted that, unlike the BDT-affiliated investment fund, neither of Mitchell P. Rales nor Steven M. Rales would purchase Series A Preferred Stock and that Mitchell P. Rales and Steven M. Rales would purchase our Common Stock on the same terms as the BDT-affiliated investment fund, which such terms had been negotiated on an arms-length basis with BDT.

Also on August 18, 2011, Mr. Pryor held discussions with BDT about the terms of potential equity financing in connection with the acquisition of Charter, and the parties agreed on a preliminary equity financing term sheet containing terms reflecting discussions between BDT and members of Colfax's senior management to date.



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On August 19, 2011, the Special Committee met again to discuss the terms of the investments by Mitchell P. Rales and Steven M. Rales, together with Mr. Pryor, Ms. Puckett and representatives of SASM&F and Deutsche Bank, and approved such terms, having determined that they represent appropriate terms under the circumstances. Also on August 19, 2011, we engaged in discussions with financial institutions, including Deutsche Bank, as potential lenders in connection with potential debt financing in connection with the acquisition of Charter.

On August 23, 2011, we entered into a more comprehensive non-disclosure agreement with Charter, pursuant to which we agreed to certain customary standstill provisions with respect to Charter's ordinary shares, in addition to keeping certain information provided by Charter confidential. On that same date, in response to an article in the UK press and as requested by the UK Takeover Panel, Charter announced that it was in discussions with a potential offeror other than Melrose regarding a possible offer for Charter. At this time, we and our advisors were granted access to an electronic dataroom containing certain commercial, financial, legal and other information about Charter.

Later that day, certain members of our senior management (and Mr. Allender and Steven Simms, members of our Board of Directors, participating by videoconference) and representatives of BDT met with Charter at the offices of SASM&F in London and participated in due diligence meetings with Mr. Rhys Williams, Robert Careless, Finance Director of Charter, Mr. Hampson, Mr. Colgan and Mr. Brander, as well as representatives of Goldman Sachs and Slaughter and May. These meetings continued with members of our senior management the next day.

On August 25, 2011, BDT circulated a private placement memorandum to certain limited partners in its affiliated investment fund with respect to a potential co-investment in the equity financing. The proposed terms of the co-investment were substantially the same as the terms presented by BDT on August 18, 2011.

On August 31 and September 1, 2011, members of our senior management, certain of our advisors and representatives from BDT participated in due diligence meetings with certain members of Charter's management team as well as representatives of Goldman Sachs at the offices of SASM&F in London and by videoconference.

On September 1, 2011, Charter's Board of Directors 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 ordinary shares of Charter. 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 4, 2011, Colfax's Board of Directors met telephonically to review the financial model and due diligence performed to date and discuss next steps. Later in the day, pursuant to a request from the UK Takeover Panel and following an article in the UK press, we announced that we were in preliminary discussions regarding a possible all-cash offer to acquire Charter.

Between September 5 and September 9, 2011, we continued to perform due diligence on Charter, including telephone discussions with certain members of Charter's management on September 8, 2011 to review recent order and shipment trends.

Also between September 5 and 9, 2011, a number of UK-based news publications published stories about the Melrose acquisition proposal, noting that some of Charter's large stockholders preferred share consideration for the acquisition so they would be able to share in the potential upside of any proposed business combination.

On or around September 9, 2011, following the interest expressed by certain Charter stockholders in participating in any potential upside of the combined business, we altered the form of consideration contemplated in the possible offer from all cash to a combination of cash and Common Stock.

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On September 9, 2011, members of our senior management and Board of Directors spoke with BDT and agreed on certain changes to the equity financing term sheet, including finalizing the size of the BDT equity investment at \$680 million and the investment by Mitchell P. Rales, Steven M. Rales and Markel at \$125 million, reflecting the amount of merger consideration to be in the form of Common Stock offered to Charter stockholders.

Also on September 9, 2011, based on our confirmatory due diligence, we sent a letter to Charter outlining the terms of a possible offer that included detail as to, among other things, the anticipated form of consideration in cash and shares, the inclusion of a mix and match facility and the acquisition being effected by way of a scheme of arrangement under Jersey law. The mix of cash and stock consideration was determined based upon the cost and available amounts of the debt and equity financing as well as the stated interest by certain Charter stockholders in receiving a portion of the merger consideration in the form of equity in order to share in the potential upside of any proposed business combination. This offer would value the outstanding shares of Charter at 900 pence per Charter share on a fully diluted basis (based on the closing price of \$23.04 per share of our Common Stock on September 9, 2011 at the foreign exchange rate of U.S.\$1.5881/£1 in effect as of that date), with 730 pence provided in cash and the balance in Common Stock at an exchange ratio of 0.1247 share of Common Stock per share of Charter stock. That afternoon representatives of Deutsche Bank and BDT met with representatives of Goldman Sachs to discuss the possible offer in person.

On September 10, 2011, our Board of Directors met in Washington, D.C. to review the findings of the due diligence that had been undertaken by our senior management with respect to Charter, the terms and conditions of the Acquisition, discuss the terms of the equity and debt financing and consider authorizing our management to submit a binding offer for Charter. Representatives of SASM&F and Deutsche Bank were also present. A presentation prepared by Deutsche Bank reflecting certain terms and conditions of the Acquisition and including certain financial analyses with respect to the Acquisition was distributed to and discussed by the Board of Directors and its advisors. Deutsche Bank indicated to our Board of Directors that nothing had come to the attention of Deutsche Bank that would lead Deutsche Bank to believe that it could not deliver to our Board of Directors an opinion, to the effect that, as of the date of such opinion and based upon and subject to various assumptions, matters considered and limitations, qualifications and conditions described in its opinion, the Acquisition Consideration (as defined below) taken as a whole is fair, from a financial point of view, to Colfax. On September 11, 2011, Deutsche Bank delivered such opinion orally (subsequently confirmed in writing).

Also on September 10, 2011, our Board of Directors concluded that the terms of the Series A Preferred Stock included as part of the BDT equity investment were consistent with the anticipated prevailing market terms that would be applicable to newly issued Series A Preferred Stock of Colfax. In addition, on September 10, 2011, the Special Committee met again separately to review the terms of the investment by Mitchell P. Rales, Steven M. Rales and Markel (a company in which Tom Gayner, a member of our Board of Directors, is an officer), given their relationships with Colfax. Representatives of SASM&F and Deutsche Bank were also present. The Special Committee unanimously approved and recommended the proposed investments by the Other Investors, having determined that the terms of the Other Investment represent appropriate terms under the circumstances and noting that the Other Investors would not be participating in the Series A Preferred Stock. Later that day, our Board of Directors approved, among other things, (i) the terms of the offer to effect the Acquisition (including certain additional documents necessary or advisable or otherwise in connection with the Acquisition), (ii) the terms of the BDT Investment (iii) the terms of the Other Investment and (iv) the terms of the debt financing for the Acquisition.

On September 11, 2011, Charter rejected our proposed offer. Later that day, we verbally delivered a revised offer to Charter, increasing the value per outstanding share of Charter on a fully-diluted basis to 910 pence. On September 12, 2011, we reached an agreement with Charter based on this revised offer under which our wholly-owned subsidiary, Bidco, will acquire the entire issued share capital of Charter for cash and newly-issued shares of our Common Stock

and entered into the Implementation Agreement setting forth the terms of the Acquisition. The Acquisition was publicly announced that day. The Acquisition values Charter's fully diluted share capital at approximately £1,528 million (\$2,426 million), being 910 pence per Charter share on a fully diluted basis (based on the closing price of \$23.04 per share of our Common Stock on

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September 9, 2011, being the last business day before the Acquisition was announced, at the foreign exchange rate of U.S.\$1.5881/£1 in effect as of that date).

On September 12, 2011, we also entered into the Purchase Agreements with the Investors, pursuant to which we agreed to issue the Investor Shares to the BDT Investor, Mitchell P. Rales, Steven M. Rales and Markel for an aggregate of \$805 million, and the Credit Agreement, to finance in part the Acquisition.

Also on September 12, 2011, at the request of Charter and the BDT Investor, respectively, each of Mitchell P. Rales and Steven M. Rales entered into voting agreements with Charter and the BDT Investor. Pursuant to such voting agreements, Mitchell P. Rales and Steven M. Rales have agreed to vote their shares of Common Stock in favor of the BDT Investment, including the Amended and Restated Certificate of Incorporation, and the issuance of Colfax securities necessary to complete the Acquisition at a special meeting of our stockholders.

On September 27, 2011, Melrose withdrew its proposal to acquire Charter and announced that it would not be making an offer for Charter.

## **Opinion of Our Financial Advisor**

On June 30, 2011, we contacted Deutsche Bank to assist us in the evaluation and financing of a potential transaction and to serve as a U.K. advisor for purposes of the U.K. Takeover Code. We subsequently engaged Deutsche Bank as an advisor in this capacity. At the September 10, 2011 meeting of our Board of Directors, Deutsche Bank indicated to our Board of Directors that nothing had come to the attention of Deutsche Bank that would lead Deutsche Bank to believe that it could not deliver to our Board of Directors an opinion, to the effect that, as of the date of such opinion and based upon and subject to various assumptions, matters considered and limitations, qualifications and conditions described in its opinion, the Acquisition Consideration (as defined below) taken as a whole is fair, from a financial point of view, to Colfax. On September 11, 2011, Deutsche Bank delivered such opinion orally (subsequently confirmed in writing).

**The full text of the written opinion of Deutsche Bank, dated as of September 11, 2011, which sets forth, among other things, the assumptions made, matters considered and limitations, qualifications and conditions of the review undertaken by Deutsche Bank in rendering its opinion, is attached as Annex XVII to this proxy statement. The Deutsche Bank opinion only addressed the fairness of the Acquisition Consideration taken as a whole, from a financial point of view, to Colfax and did not address any other aspect or implication of the Acquisition. The summary of the Deutsche Bank opinion set forth in this proxy statement is qualified by reference to the full text of the opinion attached hereto as Annex XVII. The Deutsche Bank opinion should be read carefully in its entirety.**

## **Summary of Deutsche Bank Opinion**

In connection with Deutsche Bank's role as financial advisor to Colfax, and in arriving at its opinion, Deutsche Bank, among other things:

reviewed certain publicly available financial and other information concerning Charter and Colfax; reviewed certain internal analyses, financial forecasts and other information relating to Charter and Colfax prepared by the management of Charter and Colfax, respectively, and held discussions with certain senior officers and other representatives and advisors of Charter and Colfax regarding the businesses and prospects of Charter and Colfax, respectively, and of Colfax after giving effect to the Acquisition;

reviewed the reported prices and trading activity for the ordinary shares of 2 pence each in the capital of Charter (the Charter Shares ) and the shares of our Common Stock;  
to the extent publicly available, compared certain financial and stock market information for Charter and Colfax with similar information for certain other companies it considered relevant whose securities are publicly traded;  
to the extent publicly available, reviewed the financial terms of certain recent business combinations which it deemed relevant;

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reviewed a draft dated September 11, 2011 of the Implementation Agreement, a draft dated September 11, 2011 of Colfax's announcement to Charter's shareholders describing the terms of the agreement for the Acquisition, as required under Rule 2.7 of the City Code on Takeovers and Mergers (the Announcement), and certain related documents; and performed such other studies and analyses and considered such other factors as it deemed appropriate. Deutsche Bank did not assume responsibility for the independent verification of, and did not independently verify, any information, whether publicly available or furnished to it, concerning Charter or Colfax, including, without limitation, any financial information considered in connection with the rendering of its opinion. Accordingly, for purposes of its opinion, Deutsche Bank, with the permission of our Board of Directors, assumed and relied upon the accuracy and completeness of all such information. Deutsche Bank did not conduct a physical inspection of any of the properties or assets, and did not prepare or obtain any independent evaluation or appraisal of any of the assets or liabilities (including any contingent, derivative or off-balance-sheet assets and liabilities), of Charter or Colfax or any of their respective subsidiaries, nor did Deutsche Bank evaluate the solvency or fair value of Charter or Colfax under any state or federal law relating to bankruptcy, insolvency or similar matters. With respect to the financial forecasts made available to Deutsche Bank and used in its analyses, Deutsche Bank assumed with the permission of our Board of Directors that they had been reasonably prepared on bases reflecting the best currently available estimates and judgments of the management of Charter and Colfax as to the matters covered thereby. In rendering its opinion, Deutsche Bank expressed no view as to the reasonableness of such forecasts and projections or the assumptions on which they are based. The Deutsche Bank opinion was necessarily based upon economic, market and other conditions as in effect on, and the information made available to Deutsche Bank as of, the date of its opinion. Deutsche Bank expressly disclaimed any undertaking or obligation to advise any person of any change in any fact or matter affecting its opinion of which it becomes aware after the date of the opinion.

For purposes of rendering its opinion, Deutsche Bank assumed with the permission of our Board of Directors that, in all respects material to its analysis, the Acquisition would be consummated in accordance with its terms, without any material waiver, modification or amendment of any term, condition or agreement. Deutsche Bank also assumed that all material governmental, regulatory or other approvals and consents required in connection with the consummation of the Acquisition would be obtained and that in connection with obtaining any necessary governmental, regulatory or other approvals and consents, no material restrictions would be imposed. Deutsche Bank is not a legal, regulatory, tax or accounting expert and has relied on the assessments made by Colfax and its advisors with respect to such issues. Representatives of Colfax informed Deutsche Bank, and Deutsche Bank further assumed, that the final terms of the Implementation Agreement and the Announcement would not differ materially from the terms set forth in the drafts Deutsche Bank reviewed.

The Deutsche Bank opinion was approved and authorized for issuance by a fairness opinion review committee, was addressed to, and for the use and benefit of, our Board of Directors and is not a recommendation to the stockholders of Colfax to approve the Acquisition. The Deutsche Bank opinion was limited to the fairness, from a financial point of view, of the Acquisition Consideration taken as a whole to Colfax. Deutsche Bank was not asked to, and the Deutsche Bank opinion did not, address the fairness of the Acquisition, or any consideration received in connection therewith, to the holders of any class of securities, creditors or other constituencies of Colfax, nor did it address the fairness of the contemplated benefits of the Acquisition. Deutsche Bank expressed no opinion as to the merits of the underlying decision by Colfax to engage in the Acquisition. Deutsche Bank did not express any view or opinion as to the fairness, financial or otherwise, of the amount or nature of any compensation payable to or to be received by any of the officers, directors or employees of any parties to the Acquisition, or any class of such persons, relative to the Acquisition Consideration. Deutsche Bank also expressed no opinion as to the mix and match facility or the loan note alternative. The Deutsche Bank opinion did not in any manner address the prices at which shares of our Common Stock or other securities would trade following announcement or consummation of the Acquisition.





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The following is a summary of the material financial analyses that were used by Deutsche Bank in connection with rendering its opinion described above. The following summary, however, does not purport to be a complete description of the financial analyses performed by Deutsche Bank, nor does the order of analyses described represent the relative importance or weight given to those analyses by Deutsche Bank. Some of the summaries of the financial analyses include information presented in tabular format. The tables must be read together with the full text of each summary and are alone not a complete description of Deutsche Bank's financial analyses. Except as otherwise noted, the following quantitative information, to the extent that it is based on market data, is based on market data as it existed on or before September 9, 2011, and is not necessarily indicative of current market conditions.

### **Transaction Overview**

Pursuant to the Implementation Agreement, holders of Charter Shares will be entitled to receive for each Charter Share (other than any Charter Shares legally or beneficially held by Colfax or any of its subsidiaries or subsidiary undertakings (collectively, the Excluded Shares)) (i) 730 pence in cash (the Cash Consideration) and (ii) 0.1241 shares of our Common Stock (the Share Consideration). The aggregate amount of Cash Consideration and Share Consideration to be paid to all holders of Charter Shares (other than the Excluded Shares) is referred to herein as the Acquisition Consideration.

Based on the Acquisition Consideration and the closing price per share of our Common Stock of \$23.04 on September 9, 2011, at the spot foreign exchange rate of \$1.5881/£1 in effect as of that date, Deutsche Bank noted that the implied equity value of Charter as of September 9, 2011 was approximately £1,528 million and the implied acquisition consideration per Charter Share as of September 9, 2011 was 910 pence. Based upon the implied equity value of Charter and selected balance sheet information as of June 30, 2011, Deutsche Bank further noted that the implied enterprise value of Charter as of September 9, 2011 was approximately £1,905 million.

### **Summary of Material Financial Analyses**

*Historical Share Price Analysis.* Deutsche Bank noted that the low and high closing prices per Charter Share during the 52-week period ending on September 9, 2011 were 515 pence and 860 pence, compared to the implied per share acquisition consideration of 910 pence.

*Illustrative Discounted Cash Flow Analysis.* Deutsche Bank performed an illustrative discounted cash flow analysis for Charter on a stand-alone basis based on Charter and Colfax management estimates of Charter's free cash flows for the years 2011 through 2016. Deutsche Bank calculated the discounted cash value for Charter as of December 31, 2011 as the sum of the net present value of (i) the estimated future unlevered free cash flows, calculated as EBIT minus unlevered cash taxes, capital expenditures, changes in working capital and restructuring charges (if any), plus depreciation and amortization, that Charter is expected to generate for the years 2011 through 2016, plus (ii) the value of Charter at the end of such period, or the terminal value. The terminal value of Charter was calculated by applying perpetual growth rates ranging from 1.0% to 2.0% to the terminal unlevered free cash flow. Deutsche Bank applied discount rates ranging from 9.5% to 10.5% to discount Charter's future unlevered free cash flows and terminal value. Deutsche Bank calculated the estimated equity values per Charter Share by deducting estimated net debt, calculated as debt minus cash and equity investments, plus the cost of an underfunded pension, minority interests and the cost of phantom restricted shares, from the sum of the present values of the period unlevered free cash flows and the terminal value. This analysis resulted in a range of implied values per Charter Share (rounded to the nearest 5 pence) of (i) 925 pence to 1,170 pence, on a stand-alone basis and excluding the restructuring measures disclosed by Charter in its 2011 Interim Results and Strategic Overview presentation dated July 26, 2011 (the Restructuring Measures) and (ii) 1,090 pence to 1,375 pence, on a stand-alone basis and including the Restructuring Measures.



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*Analysis of Selected Publicly Traded Companies.* Deutsche Bank reviewed and compared certain financial information for Charter to the corresponding financial information, ratios and public market multiples for the following publicly traded companies in the welding equipment, compressor and U.K. engineering industries:

**Welding Equipment**

Illinois Tool Works Inc.  
Sandvik AB  
Kennametal Inc.  
Lincoln Electric Holdings Inc.

**Compressor**

Atlas Copco Group  
Alfa Laval AB  
GEA Group AG  
SPX Corporation  
Burckhardt Compression Holding AG

**U.K. Engineering**

Smiths Group plc  
GKN plc  
IMI plc  
Invensys plc  
Cookson Group plc  
Melrose PLC  
Spectris plc  
Halma plc  
Spirax-Sarco Engineering plc  
Rotork plc  
Morgan Crucible Co. plc  
Renishaw plc  
Bodycote plc

Although none of the selected companies is directly comparable to Charter, the companies included were chosen because they are publicly traded companies with operations that, for purposes of analysis, may be considered similar to certain operations of Charter. Accordingly, the analysis of publicly traded comparable companies was not simply mathematical. Rather, it involved complex considerations and qualitative judgments, reflected in Deutsche Bank's opinion, concerning differences in financial and operating characteristics of the selected companies and other factors that could affect the public trading value of such companies.

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In its analysis, Deutsche Bank derived and compared multiples for the selected companies, calculated as follows:

the ratio of total enterprise value to estimated earnings before interest and taxes ( EBIT ) for calendar year 2011, which is referred to below as TEV/2011E EBIT ;  
 the ratio of the average total enterprise value during the past 120 days to estimated EBIT for calendar year 2011, which is referred to below as 120-Day Average TEV/2011E EBIT ;  
 the ratio of total enterprise value to estimated EBIT for calendar year 2012, which is referred to below as TEV/2012E EBIT ;  
 the ratio of the average total enterprise value during the past 120 days to estimated EBIT for calendar year 2012, which is referred to below as 120-Day Average TEV/2012E EBIT ;  
 the ratio of price per share to estimated earnings per share ( EPS ) for calendar year 2011, which is referred to below as P/2011E EPS ;  
 the ratio of the average price per share during the past 120 days to estimated EPS for calendar year 2011, which is referred to below as 120-Day Average P/2011E EPS ;  
 the ratio of price per share to estimated EPS for calendar year 2012, which is referred to below as P/2012E EPS ; and  
 the ratio of the average price per share during the past 120 days to estimated EPS for calendar year 2012, which is referred to below as 120-Day Average P/2012E EPS .

The multiples and ratios for each of the selected companies were calculated using the closing price of the selected companies' common stock on September 9, 2011 (or, in case of the 120-day averages, the closing prices for the 120 days ending on September 9, 2011), and were based on the most recent publicly available information, as well as Capital IQ and Thomson estimates.

Based on the foregoing and qualitative judgment, Deutsche Bank then selected certain reference ranges for each of these ratios and calculated the corresponding ranges of implied equity values of Charter. This analysis indicated the following ranges of implied values per Charter Share (rounded to the nearest 5 pence), compared, in each case, to the implied per share acquisition consideration of 910 pence:

	Implied Price Range
TEV/2011E EBIT	630p 725p
120-Day Average TEV/2011E EBIT	630p 820p
TEV/2012E EBIT	670p 850p
120-Day Average TEV/2012E EBIT	730p 850p
P/2011E EPS	765p 905p
120-Day Average P/2011E EPS	870p 1,045p
P/2012E EPS	890p 1,065p
120-Day Average P/2012E EPS	980p 1,155p

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*Analysis of Selected Precedent Transactions.* Deutsche Bank reviewed the financial terms, to the extent publicly available, of the following selected completed business combination transactions since September 1, 2000, involving companies participating in the welding equipment, compressor or U.K. engineering industries. Deutsche Bank calculated various financial multiples based on certain publicly available information for each of the selected transactions. The transactions reviewed were as follows:

Month and Year Announced	Target	Acquiror
<u>Welding Equipment</u>		
November 2002	American Saw & Mfg. Company	Newell Rubbermaid Inc.
November 2003	Toshiba Tungaloy Co. Ltd.	Nomura Holdings Inc.
July 2005	Facom Tools	The Stanley Works
March 2006	J&L America, Inc.	MSC Industrial Direct Co., Inc.
October 2008	Sia Abrasives Holding AG	Robert Bosch GmbH
December 2009	SSH Corporation Ltd.	KS Energy Services Ltd.
October 2010	Thermadyne Holdings Corporation	Irving Place Capital
December 2010	Winterthur Technologies AG	3M Co.
<u>Compressor</u>		
July 2006	Volution Holdings	ABN AMRO Capital
October 2007	APV	SPX Corporation
July 2008	CompAir Holdings Limited	Gardner Denver, Inc.
September 2010	Munters AB	Nordic Capital
August 2011	CLYDEUNION Pumps	SPX Corporation
<u>U.K. Engineering</u>		
September 2000	TI Group plc	Smiths Industries plc
April 2001	DONCASTERS plc	Royal Bank Private Equity
July 2001	Britax International plc	Royal Bank Private Equity
June 2003	Chubb plc	United Technologies Corp.
November 2003	Syltone plc	Gardner Denver, Inc.
December 2004	Kidde plc	United Technologies Corp.
August 2005	Domnick Hunter Group plc	Parker Hannifin International Corporation
December 2004	Novar plc	Honeywell International
December 2005	First Technology plc	Honeywell International
October 2007	Foseco plc	Cookson Group plc
December 2007	MTL Instruments Group plc	Cooper Controls (U.K.), Limited
April 2008	Enodis plc	The Manitowoc Company, Inc.
April 2008	Expro International Group PLC	Candover Partners Limited
April 2008	FKI plc	Melrose PLC
April 2010	Chloride Group PLC	Emerson Electric Co.

Although none of the selected transactions is directly comparable to the Acquisition, the companies that participated in the selected transactions are such that, for purposes of analysis, the selected transactions may be considered similar to the Acquisition. Accordingly, the analysis of precedent transactions was not simply mathematical. Rather, it involved complex considerations and qualitative judgments, reflected in Deutsche Bank's opinion, concerning differences between the characteristics of the selected transactions and the Acquisition that could affect the value of the subject companies and Charter.

In its analysis, Deutsche Bank derived and compared multiples for the selected transactions, including the ratio of total enterprise value based on transaction price to the target company's earnings before interest, taxes, depreciation and amortization ( EBITDA ) for the latest twelve months prior to entering into the transaction, or TEV/LTM EBITDA .

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Based on the foregoing and qualitative judgment, Deutsche Bank determined an estimated TEV/LTM EBITDA reference range, resulting in a range of implied values per Charter Share (rounded to the nearest 5 pence) of 860 pence to 1,105 pence, compared to the implied per share acquisition consideration of 910 pence.

*Analysis of Historical U.K. Offer Premia.* Deutsche Bank reviewed publicly available information relating to selected acquisition transactions announced since 2006 that involved a U.K. listed publicly-traded target company. With respect to each selected acquisition transaction, Deutsche Bank calculated the premium or discount of the per share consideration to the closing price of the target's common stock on the trading day that was one day and one month prior to the announcement date of such transaction. This analysis indicated the following, compared to a premium of 48% for the implied per share acquisition consideration of 910 pence over the closing price per Charter Share of 615 pence on June 28, 2011 (the last date on which the trading price of Charter Shares was perceived to be unaffected by a potential transaction) and a premium of 27% for the implied per share acquisition consideration of 910 pence over the closing price per Charter Share of 718 pence on June 17, 2011 (the last date on which the trading price of Charter Shares was perceived to be unaffected by a profit warning issued by Charter):

Year	Average Premia	
	One Day	One Month
2005	28 %	31 %
2006	31 %	34 %
2007	34 %	37 %
2008	48 %	49 %
2009	57 %	47 %
2010	42 %	47 %
2011 (through September 9)	47 %	54 %

**General**

The preparation of a fairness opinion is a complex process involving the application of subjective business and financial judgment in determining the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances and, therefore is not necessarily susceptible to partial analysis or summary description. Selecting portions of the analyses or of the summary set forth above, without considering the analyses as a whole, could create an incomplete view of the processes underlying the Deutsche Bank opinion. In arriving at its fairness determination, Deutsche Bank considered the results of all of its analyses and did not attribute any particular weight to any factor or analysis considered by it. Rather, Deutsche Bank made its determination as to fairness on the basis of its experience and professional judgment after considering the results of all of its analyses. No company used in the above analyses as a comparison is directly comparable to Charter.

Deutsche Bank prepared these analyses for purposes of providing its opinion to our Board of Directors as to the fairness of the Acquisition Consideration taken as a whole, from a financial point of view, to Colfax. These analyses do not purport to be appraisals nor do they necessarily reflect the prices at which businesses or securities actually may be sold, which are inherently subject to uncertainty. As described above, in connection with its analyses, Deutsche Bank made, and was provided by the management of Charter and Colfax with, numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of Deutsche Bank, Charter or Colfax. Analyses based upon forecasts of future results, including, without limitation, estimates of the Restructuring Measures, are not necessarily indicative of actual future results, which may be significantly more or less favorable than suggested by these analyses. Because these analyses are inherently subject

to uncertainty, being based upon numerous factors or events beyond the control of the parties or their respective advisors, none of Charter, Colfax, Deutsche Bank or any other person assumes responsibility if future results are materially different from those forecast. No Charter or Colfax management estimates and no analyses based on such estimates are intended to constitute profit forecasts or asset valuations by any of Charter, Colfax, Deutsche Bank or any other person and no person should rely on such estimates or analyses in making any decision in connection with the Acquisition.



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The Acquisition Consideration was determined through arm's-length negotiations between Charter and Colfax and was approved by our Board of Directors. Deutsche Bank provided advice to Colfax during these negotiations. Deutsche Bank did not, however, recommend the Acquisition Consideration to Colfax or our Board of Directors or that any specific consideration constituted the only appropriate consideration for the Acquisition.

Our Board of Directors selected Deutsche Bank as its financial advisor in connection with the Acquisition based on Deutsche Bank's qualifications, expertise, reputation and experience in mergers and acquisitions and related transactions and Deutsche Bank's familiarity with Colfax. Pursuant to its engagement letter with Colfax, Deutsche Bank was entitled to receive \$2,000,000 upon delivery of its opinion. An additional fee, excluding any discretionary fee, of \$13,000,000, which is contingent upon consummation of the Acquisition, will be payable to Deutsche Bank for its services as financial advisor to Colfax in connection with the Acquisition, against which the amount payable for the opinion will be credited. If the Acquisition is not successful, Deutsche Bank will generally be entitled to 10% of any inducement fee to which Colfax is entitled under the Implementation Agreement, against which the amount payable for the opinion would be credited. Colfax also agreed to reimburse Deutsche Bank for its expenses, and to indemnify Deutsche Bank against certain liabilities, in connection with its engagement.

Deutsche Bank is an internationally recognized investment banking firm experienced in providing advice in connection with mergers and acquisitions and related transactions. Deutsche Bank is an affiliate of Deutsche Bank AG (together with its affiliates, the DB Group). One or more members of the DB Group have, from time to time, provided investment banking, commercial banking (including extension of credit) and other financial services to Charter and Colfax or their respective affiliates for which it has received compensation. One or more members of the DB Group have agreed to provide financing to Colfax in connection with the Acquisition. The DB Group may also provide investment and commercial banking services to Colfax and Charter in the future, for which DB Group would expect to receive compensation. In the ordinary course of business, members of the DB Group may actively trade in the securities and other instruments and obligations of Colfax and Charter for their own accounts and for the accounts of their customers. Accordingly, the DB Group may at any time hold a long or short position in such securities, instruments and obligations.

## **Reasons for the Proposed Acquisition; Recommendation by our Board**

In approving the Acquisition, including the issuance of the Acquisition Shares, our Board of Directors consulted with our management, as well as our legal and financial advisors, and considered a number of factors concerning the benefits of the proposed Acquisition. Without giving any relative or specific weight to the factors, our Board of Directors considered, among others, the following factors:

**Strategic attractiveness** – we consider Charter to be a leading player in key markets with an attractive business mix and strong technological capabilities. We believe Charter's air and gas handling business (Howden) would extend our existing fluid handling platform, and Charter's welding, cutting and automation (ESAB) business will establish a new growth platform.

**Global footprint** – we believe the Acquisition will accelerate our growth strategy and enable us to become a multi-platform business with a strong global footprint. We believe that the Acquisition will improve our business profile by providing considerable exposure to emerging markets, allowing the combined company to benefit from strong secular growth drivers and provide a balance of short and long cycle businesses.

**Compelling Financial Returns** – we believe the Acquisition will provide a meaningful recurring revenue stream, be significantly accretive to earnings and provide double digit returns on invested capital within three to five years.

Value creation opportunity we believe that, following the Acquisition, there are significant upside opportunities from applying our established management techniques to improve both margin and return on invested capital.

Portfolio impact we believe Charter will provide a platform for additional acquisitions in the fragmented welding and air handling markets.

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Our Board of Directors also considered the potential risks of the Acquisition and the issuance of the Securities in connection with the Acquisition, including those set forth in the section of this proxy statement entitled Risk Factors.

The foregoing discussion is not intended to be exhaustive, but is believed to include the material factors our Board of Directors considered with respect to the Acquisition. Our Board of Directors believes that the terms of the Acquisition and the Implementation Agreement and Purchase Agreements are in the best interests of Colfax.

## **Information about Colfax**

Colfax Corporation, a Delaware corporation headquartered in Fulton, Maryland, is engaged in the global supply of a broad range of fluid handling products, including pumps, fluid handling systems and controls and specialty valves. Colfax was founded in 1995 by Mitchell P. Rales and Steven M. Rales, who also co-founded Danaher Corporation. 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 end markets: commercial marine, oil and gas, power generation, global 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.

Over the last few years, we have successfully grown our systems business, providing our customers with complete fluid handling systems and solutions. In 2010, approximately 14% of total revenues (approximately \$80 million) were derived from systems (up from approximately 4% in 2006). Pumps, including aftermarket parts and services, contributed 82% of total revenues (approximately \$445 million) in 2010 (greater than 90% in 2006). Valves and other products accounted for approximately 4%.

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. 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 believe that one of our most significant competitive advantages comes through a comprehensive set of tools and processes we employ that we refer to as the Colfax Business System ( CBS ). CBS is a disciplined strategic planning and execution methodology 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.

Our Common Stock is traded on the NYSE under the symbol CFX .

Our principal executive offices are located at 8170 Maple Lawn Boulevard, Suite 180, Fulton, Maryland 20759, and our telephone number is (301) 323-9000. Our Internet address is [www.colfaxcorp.com](http://www.colfaxcorp.com). The information contained on our website is not part of this proxy statement.

## **Information about Bidco**

Colfax UK Holdings Ltd. (Bidco) is a newly incorporated English company which is a wholly-owned subsidiary of Colfax established to effect the Acquisition. Bidco has not engaged in any business prior to the date of this proxy

statement (except for entering into transactions relating to the Acquisition).

Bidco's registered office is located at 40 Bank Street, London E14 5DS, U.K.

## **Information about 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's global sales of £1,719.6 million for the year ended December 31, 2010 were split as follows: Europe (34%), North America (20%), Asia (18%), South America (16%) and the rest of the world (12%).

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### **ESAB**

ESAB is a leading international welding and cutting company. 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 and cutting equipment ranges from small retail uses to large bespoke equipment particularly in the energy and shipbuilding sectors.

### **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 principal products are fans, heat exchangers and compressors. The fans and heat exchangers are used mainly in the generation of electricity by coal-fired power stations, both in combustion and the control of emissions, and other large scale industrial plant. Howden's compressors are mainly used in the oil, gas and petrochemical industries.

Charter's ordinary stock is traded on the LSE under the symbol CHTR.

Charter's principal executive offices are located at 27 Northwood House, Northwood Park, Santry, Dublin, Co. Dublin 9, Ireland, and Charter's telephone number is +353 1 842 7190. Charter's Internet address is [www.charter.ie](http://www.charter.ie). The information contained on Charter's website is not part of this proxy statement.

## **Regulatory Approvals**

### **Antitrust in the United States**

Under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the HSR Act) and the related rules and regulations that have been issued by the Federal Trade Commission (the FTC), certain acquisition transactions may not be consummated until certain information and documentary material (Premerger Notification and Report Forms) have been furnished to the FTC and the Antitrust Division of the Department of Justice (the Antitrust Division) and certain waiting period requirements have been satisfied. These requirements of the HSR Act apply to our proposed acquisition of Charter ordinary shares.

Under the HSR Act, the Acquisition may not be completed until the expiration of a 30-day waiting period following our filing of a Premerger Notification and Report Form concerning the proposed Acquisition with the FTC and the Antitrust Division, unless the waiting period is earlier terminated by the FTC and the Antitrust Division. We filed a Premerger Notification and Report Form on September 30, 2011 with the FTC and the Antitrust Division in connection with the Acquisition and the required waiting period has expired.

At any time before or after the Acquisition, the Antitrust Division or the FTC 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 we 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. We 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.

### **Foreign Competition Law Filings**

Both Colfax and Charter sell products in a number of jurisdictions throughout the world (including in the European Union), where antitrust filings or approvals are required or advisable in connection with the completion of the Acquisition. We are currently submitting notifications and seeking approvals in the relevant jurisdictions. We believe that completion of the Acquisition will be approved without conditions in all such countries where approval is required. However, we cannot rule out the possibility that any foreign antitrust authority might seek to require remedial undertakings as a condition to its approval.

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We cannot assure you that all of the regulatory approvals described above will be obtained and, if obtained, we cannot assure you as to the timing of any approvals, our ability to obtain the approvals on satisfactory terms or the absence of any litigation challenging such approvals. We 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, we cannot assure you as to its result.

## **Implementation Agreement and Related Agreements**

The following is a summary of selected provisions of the Implementation Agreement and related agreements. The description of the Implementation Agreement in this proxy statement has been included to provide you with information regarding its terms. While we believe this description covers the material terms of the Implementation Agreement, it may not contain all of the information that is important to you and is qualified in its entirety by reference to the Implementation Agreement, which is attached as Annex I to this proxy statement and is incorporated by reference into this proxy statement. We urge you to read the entire Implementation Agreement and each of the related agreements attached as Annexes to this proxy statement carefully.

## **Implementation Agreement**

As we announced on September 12, 2011, we have reached an agreement with Charter under which our wholly-owned subsidiary, Bidco, will acquire the entire issued share capital of Charter for cash and newly-issued shares of our Common Stock. The terms of the Acquisition are set forth in the Implementation Agreement entered into by Colfax, Bidco and Charter on September 12, 2011.

### **Consideration for the Acquisition**

Under the terms of the Acquisition, Charter shareholders will be entitled to receive 730 pence in cash and 0.1241 newly-issued shares of our Common Stock in exchange for each share of Charter's ordinary stock. The Acquisition values Charter's fully diluted share capital at approximately £1,528 million (\$2,426 million), being 910 pence per Charter share on a fully diluted basis (based on the closing price of \$23.04 per share of our Common Stock on September 9, 2011, being the last business day before the Acquisition was announced and the foreign exchange rate of U.S.\$1.5881/£1 in effect on that date).

The exchange ratio of 0.1241 shares of Common Stock for each ordinary share of Charter will be subject to appropriate adjustment in the event of (a) the payment of any dividend or other distribution by us to our shareholders, (b) the reclassification, subdivision, consolidation or reorganization of our 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 newly-issued Common Shares pursuant to the Acquisition as compared to our existing shareholders (taken as a class).

We will be providing a mix and match facility in connection with the Acquisition, under which Charter's shareholders (other than certain residents or citizens in jurisdictions outside the U.S., U.K. or Jersey) may elect to vary the proportions in which they receive cash and Common Stock as a result of the Acquisition, subject to equal and opposite elections made by other Charter shareholders. However, the total number of shares of Common Stock 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.

We will also be providing a loan note alternative option whereby Charter shareholders (other than certain residents or citizens in jurisdictions outside the U.K. or Jersey, including U.S. persons or persons resident in the U.S.) may elect to receive unsecured floating rate loan notes of Bidco (the Loan Notes ) instead of some or all of the cash consideration to which they would otherwise be entitled in exchange for their shares in Charter. Under this alternative, applicable 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 at a rate per annum of the higher of (i) zero and (ii) 0.50% below LIBOR, payable semi-annually and 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 note holders on the date falling six months and one day after the date of issue of the Loan Notes and



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semi-annually on June 30 and December 31 each year thereafter. In certain circumstances, Bidco will have the right to redeem all of the Loan Notes and, if not previously redeemed, the final redemption date will be the date falling five years after the Scheme becomes effective. 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.

### **Implementation of the Acquisition**

Under the terms of the Implementation Agreement, we will acquire all of the issued and to be issued shares in Charter by way of a court-sanctioned Scheme under Article 125 of the Companies Act or, if Bidco elects, make a takeover offer under the Companies Act for all of the issued and to be issued shares in Charter. 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 set out in the Implementation Agreement, will require the sanction of the Royal Court of Jersey.

### **Recommendation of Charter's Board of Directors**

Charter agreed that its board of directors would unanimously recommend, without qualification, 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 as well as at 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, without qualification, to Charter's shareholders to accept the offer. The Charter directors have further agreed not to withdraw, qualify or adversely modify the recommendation of the Charter board of directors. However, the foregoing obligations shall 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.

### **Colfax Shareholders Meeting**

We have agreed to hold the special meeting of stockholders to which this proxy statement relates in order to approve the capital raising transactions contemplated by the Purchase Agreements entered into with each of the BDT Investor, Mitchell P. Rales, Steven M. Rales and Markel to finance part of the Acquisition.

### **Conduct Pending Completion of the Acquisition**

Charter has agreed, subject to the terms of the Implementation Agreement, to conduct its business in the ordinary and usual course consistent with past practice and not take certain corporate actions without our consent pending completion of the Acquisition.

### **Conditions to Closing Acquisition**

The Implementation Agreement states that the parties undertake to use their reasonable endeavors to implement the Acquisition in accordance with, and subject to, certain conditions. Among other things, 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 stockholders to be convened by the order of the Royal Court of Jersey for purposes of approving the Scheme (such approvals were obtained at the general meeting of Charter's stockholders held on November 14, 2011 and at the meeting of Charter's stockholders convened by the order of the Royal Court of Jersey, also held on November 14, 2011) 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 Purchase Agreements entered into with each of the BDT Investor, Mitchell P. Rales, Steven M. Rales and Markel.

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### **Termination**

The Implementation Agreement may be terminated:

as agreed in writing by the parties;

in the event the recommendation of the board of directors of Charter in favor of the Acquisition is no longer unanimous or is withdrawn, qualified or adversely modified at any time;

if the Acquisition has not occurred by March 30, 2012;

on the date on which the Scheme or takeover offer, as the case may be, lapses, terminates or is withdrawn or becomes effective in accordance with its terms;

if the Scheme is not approved at the general meeting of Charter shareholders to be convened to consider the Acquisition or the meeting of Charter shareholders to be convened by the order of the Royal Court of Jersey for purposes of approving the Scheme;

if the Royal Court of Jersey fails to sanction the Scheme and approve related matters;

if the capital raising transactions contemplated by the Purchase Agreements entered into with each of BDT, Mitchell P. Rales, Steven M. Rales and Markel to finance part of the Acquisition are not approved by the requisite majority at a meeting of our stockholders and we have not, within 10 business days, presented an adequate proposal for alternative funding for the Acquisition.

### **Inducement Fee**

Charter has agreed to pay an inducement fee of £15,275,000 (\$24,258,228 assuming the foreign exchange rate described above) to Bidco, subject to the terms and conditions set out in the Implementation Agreement, in circumstances where a competing offer (or similar proposal) is announced before the Acquisition lapses or is withdrawn and such competing offer (or similar proposal) or another third party offer (or similar proposal) becomes wholly unconditional or effective or is otherwise consummated.

In addition, Charter has agreed to pay an inducement fee of £7,638,000 (\$12,129,908 assuming the foreign exchange rate described above) to Bidco in certain other circumstances, subject to the terms and conditions set out in the Implementation Agreement. These circumstances include where: (a) the board of directors of Charter recommends a competing offer (or similar proposal); (b) the board of directors of Charter withdraws, qualifies or adversely modifies its recommendation of the Acquisition or such recommendation ceases to be unanimous; and (c) where Charter takes any steps to implement a competing offer (or similar proposal) or if Charter makes certain changes in respect of the timing of the Acquisition and as a result the Scheme is reasonably expected not to become effective by March 30, 2012.

## **Related Agreements**

The following is a summary of selected provisions of the Credit Agreement. While we believe this description covers the material terms of the Credit Agreement, it may not contain all of the information that is important to you and is qualified in its entirety by reference to the Credit Agreement which is attached to this proxy statement as Annex XII and is incorporated by reference in this proxy statement. We urge you to read the entire Credit Agreement carefully.

### **Credit Agreement**

For purposes of providing partial funding for the Acquisition, on September 12, 2011, we entered into the Credit Agreement, attached as Annex XII to this proxy statement, with Bidco, certain other subsidiaries of Colfax, 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, and the proceeds of the term loans will be used to (i) satisfy a portion of the consideration required for the Acquisition, (ii) to fund any fees and expenses incurred in relation to the Acquisition 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 \$200.0 million term A-1 facility (the Term A-1 Loans ), to be borrowed by Colfax, (ii) a

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\$700.0 million term A-2 facility (the Term A-2 Loans), and together with the Term A-1 Loans, the Term A Loans), to be borrowed by Bidco, and (iii) a \$900.0 million term B facility, to be borrowed by Colfax (the Term B Loans and, together with the Term A Loans, the Term Loans). In addition, the Credit Agreement has two revolving credit facilities which total \$300.0 million in commitments (the Revolver).

The Term Loans and the Revolver will bear interest, at the election of the Borrowers, 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 Term A Loans and the Revolver 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 our consolidated leverage ratio (the interest rates ranging from 3.25% to 2.50%, in the case of the LIBOR (or EURIBOR) margin, and 2.25% to 1.50% in the case of the base rate margin). The Term B Loans will bear interest at either LIBOR plus 4.00% or at base rate plus 3.00%, with LIBOR subject to a 1.25% floor and base rate subject to a 2.25% 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 any other currency available under the credit facility will bear interest at LIBOR (or in the case of Euros, EURIBOR) plus the interest rate margin calculated for the credit facility.

The Term Loans are repayable according to an amortization schedule which is set forth in the Credit Agreement but are required to be repaid in full by the date falling 5 years after the date of closing (as defined in the Credit Agreement) in the case of the Term A-1 Loans and the date falling 7 years after the closing date in the case of the Term B Loans. Amounts drawn under the Revolver are repayable in full on the date falling 5 years after the closing date.

As security for the obligations under the Credit Agreement, we have agreed to pledge substantially all of its and our domestic subsidiaries' assets to support both our obligations and those of Bidco under the Credit Agreement. In addition, we have 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 Bidco under the Credit Facility.

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 Term Loans and Revolver and foreclose on the collateral.

### **Voting Agreements between Messrs. Rales and Charter**

On September 12, 2011, each of Mr. Mitchell P. Rales and Mr. Steven M. Rales entered into a voting agreement with Charter, attached as Annex XIII and XIV to this proxy statement, in their capacities as stockholders of Colfax, pursuant to which Messrs. Rales agreed to vote the Common Stock beneficially owned by them in favor of the issuance of securities necessary to complete the Acquisition.

As of \_\_\_\_\_, 2011, the record date, Mitchell P. Rales and Steven M. Rales are entitled to vote, in the aggregate, 18,291,220 shares of Common Stock, representing \_\_\_\_\_% of the outstanding shares of Common Stock entitled to vote at the special meeting.

The voting agreements terminate on the earliest of (i) termination or completion of the Acquisition, (ii) any change or withdrawal of Charter's Board of Directors' recommendation in respect of the Acquisition and (iii) the termination of the Implementation Agreement.

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**Other Agreements**

For a description of the Purchase Agreements and other related agreements that we have entered into or will enter into in connection with the Acquisition and the financing of the Acquisition, see Proposal No. 1 Issuance of Securities to the BDT Investor The BDT Purchase Agreement and Related Agreements , Proposal No. 2 Issuance of Securities to the Other Investors The Other Purchase Agreements and Related Agreements and Proposal No. 4 Amendment and Restatement of Colfax s Certificate of Incorporation.

**Interests of Our Executive Officers and Directors in the Transaction**

When you consider our Board of Directors recommendation to vote in favor of the Proposals, you should be aware that our executive officers and directors may have interests in the transactions contemplated by the Purchase Agreements and the Implementation Agreement that may be different from, or in addition to, the interests of our other stockholders. In particular, pursuant to the MPR Purchase Agreement and SMR Purchase Agreement, Mitchell P. Rales, Chairman of the Colfax s Board of Directors, and his brother Steven M. Rales, will acquire 2,170,139 and 2,170,139 shares of Common Stock, respectively, and, when aggregated with their current holdings, will own approximately 13.37% and 13.37% of our outstanding Common Stock, respectively (representing approximately 11.69% and 11.69% of the total voting power of Colfax, respectively), immediately after giving effect to the issuance of the Securities in the Investments and the Acquisition, assuming we acquire Charter s entire fully-diluted share capital in the Acquisition. In addition, under the Amended and Restated Certificate of Incorporation, our ability to replace Mitchell P. Rales as Chairman of the Board of Directors would be subject to the written consent of the BDT Investor for so long as the BDT Investor and certain permitted transferees of the BDT Shares beneficially own, in the aggregate, at least 50% of the Series A Preferred Stock issued to the BDT Investor under the BDT Purchase Agreement. Pursuant to the Markel Purchase Agreement, Markel will acquire 1,085,070 shares of Common Stock, representing approximately 1.28% of our outstanding Common Stock after giving effect to the issuance of the Securities in the Investments and the Acquisition, assuming we acquire Charter s entire fully-diluted share capital in the Acquisition. Tom Gayner, a member of our Board of Directors, is the President and Chief Investment Officer of Markel.

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# SELECTED CONSOLIDATED HISTORICAL FINANCIAL DATA OF COLFAX

## (in thousands, except per share information)

*The following tables set forth selected historical consolidated financial data of Colfax. The selected consolidated financial data as of December 31, 2010 and 2009 and for the three years ended December 31, 2010, 2009 and 2008 is derived from our audited consolidated financial statements included elsewhere in this proxy statement. The unaudited selected consolidated financial data as of September 30, 2011 and October 1, 2010 and the nine months ended September 30, 2011 and October 1, 2010 have been derived from our unaudited condensed consolidated financial statements included elsewhere in this proxy statement, and which, in the opinion of our management, include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the unaudited periods. Our audited and unaudited consolidated financial statements included elsewhere in this proxy statement have been prepared in accordance with U.S. generally accepted accounting principles, or U.S. GAAP.*

*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.*

*The data below is only a summary and should be read in conjunction with our consolidated financial statements and accompanying notes, as well as Colfax's management's discussion and analysis of financial condition and results of operations, all of which can be found elsewhere in this proxy statement or in publicly available documents as filed with the SEC.*

	Nine Months Ended		Year Ended December 31,				
	September 30, 2011	October 1, 2010	2010	2009	2008	2007	2006
<b>Statement of Operations Data</b>							
Net sales	\$515,601	\$375,336	\$541,987	\$525,024	\$604,854	\$506,305	\$393,604
Cost of sales	337,046	243,502	350,579	339,237	387,667	330,714	256,806
Gross profit	178,555	131,834	191,408	185,787	217,187	175,591	136,798
Selling, general and administrative expenses	116,920	87,829	119,426	112,503	124,105	97,426	78,964
Restructuring and other related charges	7,518	9,515	10,323	18,175			
Initial public offering-related costs					57,017		
Research and development expenses	4,540	4,731	6,205	5,930	5,856	4,162	3,336
Asbestos liability and defense costs (income)	7,644	4,179	7,876	(2,193 )	(4,771 )	(63,978 )	21,783
Asbestos coverage litigation expenses	8,454	10,763	13,206	11,742	17,162	13,632	12,033
Operating income	33,479	14,817	34,372	39,630	17,818	124,349	20,682
Interest expense	4,507	5,075	6,684	7,212	11,822	19,246	14,186
Provision for income taxes	28,972	9,742	11,473	8,621	5,465	39,457	4,298

SELECTED CONSOLIDATED HISTORICAL FINANCIAL DATA OF COLFAX (in thousands, except per share information)



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Income from continuing operations	8,337	2,177	16,215	23,797	531	65,646	2,198
Net income <sup>(1)</sup>	\$20,635	\$7,565	\$16,215	\$23,797	\$531	\$65,646	\$801
	\$20,635	\$7,565					
Net income (loss) per share from continuing operations basic	\$0.47	\$0.17	\$0.37	\$0.55	\$(0.08)	) \$1.82	\$0.10
Net income (loss) per share from continuing operations diluted	\$0.47	\$0.17	\$0.37	\$0.55	\$(0.08)	) \$1.82	\$0.10

	December 31,						
	September 30, 2011	October 1, 2010	2010	2009	2008	2007	2006
<b>Balance Sheet Data</b>							
Cash and cash equivalents	\$64,447	\$42,778	\$60,542	\$49,963	\$28,762	\$48,093	\$7,608
Goodwill and intangibles, net	184,119	173,112	200,636	175,370	175,210	181,517	150,395
Asbestos insurance asset, including current portion	353,585	385,020	374,351	389,449	304,015	305,228	297,106
Total assets	\$1,038,887	\$1,004,205	1,022,077	1,006,301	907,550	899,522	792,018
Asbestos liability, including current portion	413,335	438,637	429,651	443,769	357,258	376,233	388,920
Total debt, including current portion <sup>(2)</sup>	75,000	85,000	82,500	91,485	97,121	206,493	188,720

(1) Includes net loss from discontinued operations of \$1.4 million in the year ended December 31, 2006.

(2) See Note 12 to our Consolidated Financial Statements for information regarding the refinancing of our debt in conjunction with our initial public offering in May 2008.

We completed the acquisitions of Baric Group in 2010, PD-Technik in 2009 and Fairmount and LSC in 2007. See Note 4 to our Consolidated Financial Statements for further information.

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# SELECTED CONSOLIDATED HISTORICAL FINANCIAL DATA OF CHARTER

## (in £ millions, except per share information)

The following tables set forth Charter's selected financial information. The selected consolidated financial data as of December 31, 2010 and 2009 and for the three years ended December 31, 2010, 2009 and 2008 is derived from Charter's audited consolidated financial statements included elsewhere in this proxy statement. The summary consolidated financial data as of September 30, 2011 and for the nine months ended September 30, 2010 and 2011 have been derived from Charter's unaudited condensed consolidated interim financial statements included elsewhere in this proxy statement. The audited and unaudited consolidated financial statements included elsewhere in this proxy statement have been prepared in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board, or IASB. The financial data as of and for the year ended December 31, 2007 and 2006 and as of September 30, 2010 and December 31, 2008, 2007, and 2006, which has been prepared in accordance with IFRS, is derived from Charter's publicly available financial information and is not included in the audited and unaudited consolidated financial statements that are included elsewhere in this proxy statement.

	Nine months ended September 30,		Year ended December 31,				
	2011	2010	2010	2009	2008	2007	2006
	(unaudited)						
<b>Statement of Operations Data</b>							
Revenue	1,444.2	1,255.6	1,719.6	1,659.2	1,887.0	1,451.1	1,257.9
Cost of sales	(1,034.7)	(874.2)	(1,188.5)	(1,206.5)	(1,353.2)	(1,014.5)	(870.6)
Gross profit	409.5	381.4	531.1	452.7	533.8	436.6	387.3
Selling and distribution costs	(178.4)	(152.3)	(206.3)	(191.6)	(182.7)	(138.7)	(125.0)
Administrative expenses	(195.1)	(134.9)	(186.4)	(165.1)	(150.1)	(124.6)	(117.7)
Operating profit	36.0	94.2	138.4	96.0	201.0	173.3	144.6
Net financing credit (charge)/credit	(15.6)	(0.1)	1.9	(6.8)	(6.5)	1.6	(4.4)
Share of post-tax profits of associates	3.2	2.8	3.8	3.5	3.2	3.2	5.8
Profit before tax	23.6	96.9	144.1	92.7	197.7	178.1	146.0
Taxation charge	(12.9)	(18.3)	(25.2)	(17.9)	(39.0)	(33.3)	(16.9)
Profit for the period	10.7	78.6	118.9	74.8	158.7	144.8	129.1
Earnings per share basic	1.2 p	42.4 p	63.9 p	38.1 p	90.1 p	82.7 p	74.4 p
Earnings per share diluted	1.2 p	42.2 p	63.7 p	37.9 p	90.0 p	82.5 p	73.9 p
			September 30,	December 31,			
			2011	2010	2009	2008	2007
			(unaudited)				
<b>Balance Sheet Data</b>							
Cash and cash deposits		96.4	83.3	75.6	95.7	118.5	62.3
Intangible assets		219.6	149.2	139.1	133.4	80.2	48.7

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Total assets	1,647.7	1,467.4	1,315.4	1,524.8	1,077.8	781.6
Current liabilities	597.9	511.1	486.3	655.7	461.6	337.9

	September 30, 2011	2010	December 31, 2010	2009	2008	2007	2006
Share capital							
Authorized:							
Number of ordinary shares of 2 pence each issued:	300,000,000	300,000,000	300,000,000	300,000,000	230,000,000	230,000,000	230,000,000
Fully-paid shares	167,087,473	167,021,060	167,021,060	166,955,167	166,751,581	166,699,142	166,688,855
Dividends							
Dividends per share (pence)	8.0p	(2) 7.5p	(2) 23.0p	21.5p	21.0p	12.0p	0.0p

(1) On October 22, 2008, Charter became the new ultimate holding company of Charter plc. The selected financial date of Charter prior to October 22, 2008 reflects the results and financial position of Charter plc.

(2) Reflects interim dividend for the six months ended June 30.

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## **SELECTED UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL DATA**

The following selected unaudited pro forma balance sheet data assumes that the Acquisition took place on September 30, 2011 and combines our September 30, 2011 Condensed Consolidated Balance Sheet with Charter's September 30, 2011 consolidated balance sheet. The selected unaudited pro forma financial data for the year ended December 31, 2010 and the nine months ended September 30, 2011 assumes that the Acquisition took place on January 1, 2010.

The information in the following table is based upon the historical financial statements of Colfax and Charter and on Charter's publicly available information and certain assumptions which we believe to be reasonable, which are described more fully in the section of this proxy statement entitled "Colfax Corporation Unaudited Pro Forma Condensed Combined Financial Information."

Charter's financial statements have historically been prepared in accordance with IFRS. The information presented below reflects certain adjustments to Charter's financial statements to align with our U.S. GAAP accounting policies. See the section of this proxy statement entitled "Colfax Corporation Unaudited Pro Forma Condensed Combined Financial Information" for further description of these adjustments.

The Unaudited Pro Forma Condensed Combined Financial Statements have been translated from pounds to U.S. dollars using the average historical exchange rate for the unaudited condensed combined statements of operations and the spot rate as of September 30, 2011 for the unaudited condensed combined balance sheet, as described in the section of this proxy statement entitled "Colfax Corporation Unaudited Pro Forma Condensed Combined Financial Information."

The following table should be read in connection with the section of this proxy statement entitled "Colfax Corporation Unaudited Pro Forma Condensed Combined Financial Information" and other information included in or incorporated by reference into this proxy statement.

The following pro forma financial information has been prepared for informational purposes only and is not necessarily indicative of what the Combined Group's financial position or results of operations actually would have been had the Acquisition been completed as of the dates indicated above. In addition, the information presented below does not purport to project the future financial position or operating results of the combined company. The following table should be relied on only for the limited purpose of presenting what the results of operations and financial position of the combined businesses of Colfax and Charter might have looked like had the Acquisition been consummated at an earlier date.

For the  
nine months  
ended  
September  
30, 2011  
Pro Forma Combined  
(in millions, except percentages and  
share data)

For the  
year ended  
December 31, 2010

### **Statement of Operations Data**

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Net sales	\$ 2,848	\$ 3,205
Cost of sales	1,971	2,193
Gross profit	877	1,012
Selling, general and administrative expenses	662	804
Research and development expenses	30	38
Restructuring and other related charges	48	26
Asbestos liability and defense costs	8	8
Asbestos coverage litigation expenses	8	13
Operating income	121	123
Interest expense	84	79
Provision for income taxes	11	9
Income from continuing operations	26	35
Net loss available to Colfax common shareholders <sup>(1)</sup>	\$ (3 )	\$ (4 )
Net loss per share basic and diluted	\$ (0.03 )	\$ (0.04 )

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	For the nine months ended September 30, 2011 Pro Forma Combined (in millions)
<b>Balance Sheet Data</b>	
Cash and cash equivalents	\$ 247
Goodwill and intangible assets, net	2,260
Asbestos insurance asset, including current portion	354
Total assets	5,418
Asbestos liability, including current portion	416
Total debt, including current portion	1,773

Net loss available to Colfax common shareholders reflects \$14 million and \$19 million of net income attributable (1) to noncontrolling interest and \$15 million and \$20 million of dividends on preferred stock for the nine months ended September 30, 2011 and the year ended December 31, 2010, respectively.

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TABLE OF CONTENTS**HISTORICAL AND PRO FORMA PER SHARE DATA**

The table set forth below depicts the basic and diluted earnings per share, cash dividends declared per share and book value per share for (a) Colfax and Charter on a historical basis, (b) the combination of Colfax and Charter on a pro forma combined basis and (c) Charter's equivalent pro forma net income and book value per share attributable to 0.1241 of a share of Colfax Common Stock that would have been received for each Charter ordinary share exchanged in the Charter Acquisition, based on the average and ending exchange rates for the period. For a discussion regarding the basis of presentation, assumptions used and adjustments made in preparing the pro forma financial information presented in this proxy statement see the section entitled "Colfax Corporation Unaudited Pro Forma Condensed Combined Financial Information."

Charter's financial statements have historically been prepared in accordance with IFRS, which differs from U.S. GAAP. The pro forma financial information presented below reflects certain adjustments to Charter's financial statements to align with Colfax's U.S. GAAP accounting policies, see the section of this proxy statement entitled "Colfax Corporation Unaudited Pro Forma Condensed Combined Financial Information" for further description of these adjustments.

The following table should be read in connection with the section of this proxy statement entitled "Colfax Corporation Unaudited Pro Forma Condensed Combined Financial Information" and other information included in or incorporated by reference into this proxy statement. This information is unaudited and is presented for illustrative purposes only.

	As of and for the nine months ended September 30, 2011 Pro Forma Combined	As of and for the year ended December 31, 2010
<b>Colfax historical data:</b>		
Earnings per share from continuing operations – basic and diluted	\$ 0.47	\$ 0.37
Cash dividends declared per share		
Book value per share	5.63	4.98
<b>Charter historical data:</b>		
Earnings per share from continuing operations:		
Basic	1.2 p	63.9 p
Diluted	1.2 p	63.7 p
Cash dividends declared per share	8.0 p	23.0 p
Book value per share	£ 3.20	£ 3.81
<b>Unaudited pro forma combined:</b>		
Loss per share from continuing operations – basic and diluted	\$ (0.03 )	\$ (0.04 )
Cash dividends declared per share		
Book value per share	19.63	n/a
<b>Equivalent basis unaudited combined:</b>		
Loss per share from continuing operations – basic and diluted	(1.92)p	(6.19)p
Cash dividends declared per share		
Book value per share	£ 12.56	n/a





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## **ADDITIONAL INFORMATION ABOUT CHARTER**

### **Description of Charter s Business**

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 s global sales of £1,719.6 million for the year ended December 31, 2010 were split 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. The merged companies assets were initially comprised mainly of mining investments and its strategy was to develop as a mining finance house actively engaged in mineral exploration and the development of mines throughout the world. From 1979, Charter Consolidated placed increased emphasis on the development of its British based industrial operations, resulting in the disposal of investments in South Africa and other countries outside Europe, and the acquisition of investment interests in Europe, including a 28% interest in Johnson Matthey. Over the following years, Charter Consolidated made further acquisitions in the industrial field including in the mining equipment manufacture, open-cast coal mining and quarrying industries.

Charter plc was created in 1993 following a reconstruction of Charter Consolidated. On its creation, Charter plc held investments in a diverse range of companies spanning a variety of activities. A new strategy for Charter plc to focus on fewer but larger businesses was agreed by the then board. 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 engineering business.

Charter is listed on the London Stock Exchange.

On October 22, 2008, Charter, which is registered in Jersey and has its headquarters and tax residence in the Republic of Ireland, became the new ultimate holding company of Charter plc.

### **ESAB**

ESAB is a leading international welding and cutting company. 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 and cutting equipment ranges from small retail uses to large bespoke equipment particularly in the energy and shipbuilding sectors.

ESAB s sales of £1,157.6 million for the year ended December 31, 2010 were split as follows: Europe (39%), South America (21%), North America (19%), Asia (15%), and the rest of the world (6%). In 2010, ESAB derived over 80% of its sales from welding consumables and equipment and the remainder from cutting and automation solutions.

ESAB's manufacturing facilities are located predominantly in low cost locations, in particular in Central and Eastern Europe, South America and Asia.

### **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 principal products are fans, heat exchangers and compressors. The fans and heat exchangers are used mainly in the generation of electricity by coal-fired power stations, both in combustion and the control of emissions, and other large scale industrial plant. Howden's compressors are mainly used in the oil, gas and petrochemical industries.

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Howden's sales of £562.0 million for the year ended December 31, 2010 were split as follows: Asia (25%), Europe (23%), North America (22%), South America (7%), and the rest of the world (23%). In 2010 aftermarket accounted for over one third of revenue.

**Markets**

ESAB's products may be 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'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 U.S.  
South America: Argentina and Brazil

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

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 U.S.  
Other: Australia, Brazil and South Africa

Charter's ordinary stock is traded on the LSE under the symbol CHTR.

Charter's principal executive offices are located at 27 Northwood House, Northwood Park, Santry, Dublin, Co. Dublin 9, Ireland, and Charter's telephone number is +353 1 842 7190. Charter's Internet address is [www.charter.ie](http://www.charter.ie). The information contained on Charter's website is not part of this proxy statement.

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# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF CHARTER

*The following discussion and analysis are based principally on the audited consolidated financial statements of Charter as of December 31, 2010 and 2009 and for the years ended December 31, 2010, 2009 and 2008, and the unaudited consolidated financial statements of Charter as of September 30, 2011 and for the nine-month periods ended September 30, 2011 and 2010, which appear elsewhere in this proxy statement. The discussion and analysis should also be read in conjunction with the Selected Unaudited Pro Forma Condensed Combined Financial Data, Pro Forma Information, Risk Factors and the financial statements and related notes included in this proxy statement.*

*The following discussion includes forward-looking statements. These forward-looking statements are subject to risks, uncertainties and other factors that could cause the actual results of Charter to differ materially from those expressed or implied by the forward-looking statements relating to Charter. For a discussion of important factors that could cause actual results to differ materially from the results referred to in the forward-looking statements, see Cautionary Statement Concerning Forward-Looking Statements.*

*The audited consolidated financial statements of Charter as of December 31, 2010 and 2009 and for the years ended December 31, 2010, 2009 and 2008, and Charter's unaudited consolidated financial statements as of September 30, 2011 and for the nine-month periods ended September 30, 2011 and 2010, have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS). The financial information and related discussion and analysis contained in this section are presented in pounds sterling except as otherwise specified. References contained in this section to R\$ refer to the Brazilian real.*

## Overview of Charter

Charter International plc (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. On October 22, 2008, Charter, which is registered in Jersey and has its headquarters and tax residence in the Republic of Ireland, became the new ultimate holding company of Charter plc. Charter is listed 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 investment in research and development of its employees has taken place. 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.

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### **ESAB**

ESAB is a leading international welding and cutting company. 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 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. Charter expects further growth to come through ESAB increasing its sales of welding consumables, particularly in emerging economies.

### **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 Compression Systems BV, 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 where Charter expects the long term dynamics to remain positive, and to other industries where Howden's applications engineering expertise offers significant opportunities. Charter expects aftermarket sales opportunities to increase as the installed base increases.

## **Results of Operations**

### **Non-GAAP Measures**

The Board of Directors of Charter believes that adjusted operating profit, as defined below, is a key performance measure, and is useful to investors as it excludes items which do not impact the day-to-day operations and which management in some cases does not directly control or influence, and therefore provides users with a better understanding of the underlying business performance. The Board of Directors of Charter 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 Board of Directors of Charter 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.

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## 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 nine months ended September 30, 2011, Charter made three business acquisitions:

On March 3, 2011, ESAB acquired 100% of the issued share capital of LLC Sychevsky Electroodny Zavod ( Sychevsky ), a leading Russian electrode manufacturer based in the Smolensk region for a cash consideration of \$19.2 million (approximately £11.8 million). The acquisition costs of £0.2 million have been expensed. The revenue and profit after tax of Sychevsky for the nine months ended September 30, 2011 were £8.7 million and £1.3 million respectively of which £1.6 million and £0.2 million respectively were for the period prior to acquisition.

On March 28, 2011, Howden acquired 100% of the issued share capital of Thomassen Compression Systems BV ( 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). The acquisition costs of £0.8 million have been expensed. The revenue and profit after tax (including the amortisation of acquired intangibles) of Thomassen for the nine months ended September 30, 2011 were £73.0 million and £6.0 million respectively of which £28.3 million and £4.4 million respectively were for the period prior to acquisition.

On July 1, 2011, ESAB acquired a 60% shareholding in Condor Equipamentos Industriais Ltda ( Condor ), a leading Brazilian manufacturer of gas apparatus used in welding applications, for cash consideration of R\$25.2 million (approximately £10.0 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 £7.0 million) being payable in January 2012. The acquisition costs of £0.4 million have been expensed. The revenue and profit after tax of Condor for the nine months ended September 30, 2011 were £6.4 million and £0.4 million respectively of which £4.1 million and £0.2 million respectively were 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.



TABLE OF CONTENTS**Nine months ended September 30, 2011 and September 30, 2010**

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

	Nine Months Ended	
	September 30, 2011	September 30, 2010
	(unaudited)	
	(In millions except per share amounts)	
Revenue	£ 1,444.2	£ 1,255.6
Cost of sales	(1,034.7)	(874.2 )
Gross profit	409.5	381.4
Selling and distribution costs	(178.4 )	(152.3 )
Administrative expenses	(195.1 )	(134.9 )
Operating profit	36.0	94.2
Analyzed as:		
Adjusted operating profit	110.0	99.5
Acquisition costs	(1.8 )	(0.1 )
Amortization and impairment of acquired intangibles and goodwill	(23.8 )	(4.5 )
Exceptional items		
- restructuring	(25.2 )	(9.1 )
- post retirement benefits	6.2	8.4
- disposal of business	0.5	
- advisor fees and associated costs and expenses relating to the Acquisition	(29.9 )	
	36.0	94.2
Net financing charge retirement benefit obligations	(1.1 )	(3.2 )
Other financing charge before exchange losses on retranslation of intercompany loan balances	(6.0 )	(3.5 )
Other financing income before exchange gains on retranslation of intercompany loan balances	2.4	2.4
Net exchange gains on retranslation of intercompany loan balances	(10.9 )	4.2
Net financing charge	(15.6 )	(0.1 )
Share of post tax profits of associates	3.2	2.8
Profit before tax	23.6	96.9
Taxation charge	(12.9 )	(18.3 )
Analyzed as:		
Taxation charge on profits	(18.6 )	(18.2 )
Taxation on exceptional items and acquisition costs	3.3	(1.6 )
Taxation on amortization and impairment of acquired intangibles and goodwill	1.1	1.0
Taxation on net finance charge retirement benefit obligations	0.3	0.7
Taxation on retranslation of intercompany loan balances	1.0	(0.2 )
	(12.9 )	(18.3 )
Profit for the period	10.7	78.6
Attributable to:		

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Equity shareholders	2.0	70.7
Non-controlling interests	8.7	7.9
	10.7	78.6
Earnings per share		
Basic	1.2p	42.4p
Adjusted	48.5p	44.9p
Dividend per share	8.0p*	7.5p*

\*

Interim dividend for the six months ended June 30.

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**Nine months ended September 30, 2011 compared to nine months ended September 30, 2010**

Charter's revenue for the first three quarters of 2011 increased by 15.0% to £1,444.2 million (2010: £1,255.6 million). The increase was due to higher revenue in both ESAB and Howden. ESAB saw improved revenue, as volumes of both welding consumables and standard equipment increased. ESAB's adjusted operating profit was slightly lower than the profit achieved in the first three quarters of 2010. For Howden, revenue, operating profit and operating margin were all ahead of the same period in 2010. Factors affecting the financial performance of ESAB and Howden are further discussed within the respective sections for ESAB and Howden set out below.

Charter's gross profit for the first three quarters of 2011 increased by 7.4% to £409.5 million (2010: £381.4 million). The increase was due to higher gross profit in both ESAB and Howden.

The operating profit for the first three quarters of 2011 was £36.0 million, a decrease of 61.8% over the first three quarters of 2010 (2010: £94.2 million), principally due to higher amortization and impairment of acquired intangibles and goodwill, restructuring costs (mainly attributable to ESAB) and advisor fees and associated costs and expenses relating to the Acquisition.

Adjusted operating profit was £110.0 million, an increase of 10.6% over the first three quarters of 2010 (2010: £99.5 million), due to an increased adjusted operating profit at Howden (adjusted operating profit at ESAB was below the same period last year).

The share of post tax profits of associates was slightly ahead at £3.2 million (2010: £2.8 million) due to higher profits in ESAB SeAH.

Profit before tax was £23.6 million, a decrease of 75.6% (2010: £96.9 million), due to a lower operating profit in ESAB, advisor fees and associated costs and expenses relating to the Acquisition and a higher net financing charge (principally due to losses on the re-translation of intercompany loan balances), partly offset by a higher operating profit in Howden.

The tax on profits was £18.6 million (2010: £18.2 million). The effective tax rate for the period was 54.7%, compared with a rate of 18.9% for the first nine months of 2010, as certain items charged against profit before tax in the first nine months of 2011 are not expected to be tax deductible.

The profit attributable to equity shareholders was £2.0 million (2010: £70.7 million), a decrease of 97.2%. The decrease was due to a fall in profit before tax, which was due to lower operating profit in ESAB, advisor fees and associated costs and expenses relating to the Acquisition and a higher net financing charge, partly offset by higher operating profit in Howden.

TABLE OF CONTENTS**Three years ended December 31, 2010, 2009 and 2008**

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

	Year Ended December 31,		
	2010	2009	2008
	(In millions, except per share amounts)		
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 gain	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

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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

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**Twelve months ended December 31, 2010 compared to twelve months 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. Factors affecting the financial performance of ESAB and Howden are further discussed within the respective sections for ESAB and Howden set out below.

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 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 profit before tax 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.

**Twelve months ended December 31, 2009 compared to twelve months 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 steep 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 Board of Directors of Charter at the start of the year.

Factors affecting the financial performance of ESAB and Howden are further discussed within the respective sections for ESAB and Howden set out below.

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.

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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****Nine months ended September 30, 2011 and September 30, 2010**

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

ESAB records revenue in two segments, being welding (comprising consumables and standard equipment) and cutting and automation.

	Nine Months Ended			
	September 30, 2011	September 30, 2010		
	(In millions)			
Welding	£ 876.7	£ 752.8		
Cutting and automation	122.8	94.8		
Revenue	999.5	847.6		
Welding	66.2	72.3		
Cutting and automation	(3.0 )	(3.4 )		
Adjusted operating profit	63.2	68.9		
Operating profit	17.3	64.7		
Share of profits of associates (post tax)	3.3	2.8		
Operating margin	1.7 %	7.6 %		
Adjusted operating margin:				
Welding	7.6 %	9.6 %		
Cutting and automation	(2.4 )%	(3.6 )%		
Overall	6.3 %	8.1 %		
ESAB: revenue by destination				
Europe	397.9	319.8		
North America	190.0	162.4		
South America	195.8	179.3		
Asia	153.6	132.2		
Rest of world	62.2	53.9		
Total	999.5	847.6		



## **Nine months ended September 30, 2011 compared to nine months ended September 30, 2010**

ESAB generated revenues of £999.5 million during the nine months ended September 30, 2011 (2010: £847.6 million), an increase of 17.9%. This increase was a result of higher volumes of welding consumables which was seen in all regions in which ESAB operates. The increases in volume were weighted toward welding wire products, reflecting the stronger recovery seen among sectors which use this product. The increase in revenue also reflected price rises of welding consumables as higher steel prices were passed on to customers. Revenue also increased due to higher volumes of standard equipment as there was a continuing recovery among end-users and as customers responded well to ESAB's new product range.

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Adjusted operating profit decreased by 8.3% to £63.2 million (2010: £68.9 million). This decrease was primarily a result of lower adjusted operating profit in the European welding business, which in part reflected additional costs incurred as ESAB adopted a new distribution network, and higher overheads. The loss generated by the cutting and automation remained similar to that incurred in 2010 as trading in the division generally remained subdued. Adjusted operating margin of 6.3% was below the margin of 8.1% achieved in the first three quarters of 2010. The lower adjusted operating margin particularly reflected conditions in Europe with adverse mix and weakening demand for higher margin products, and also higher overheads.

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

**Years ended December 31, 2010, 2009 and 2008**

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

	Year Ended December 31,		
	2010	2009	2008
	(In millions)		
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

**Twelve months ended December 31, 2010 compared to twelve months 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 due to seasonal factors, adverse changes in mix (as the rate of volume increases in lower margin welding wire products

exceeded those in higher margin electrodes) and, in certain instances (mainly in Europe), increases in steel prices were not fully recovered through higher selling prices. In addition, as anticipated, the cutting and automation segment made an operating loss for the year as a whole, reflecting much reduced demand for these types of equipment, and only returned to profit in the second half as the restructuring measures started to deliver cost savings and as aftermarket revenues increased.

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

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trading environment as the global economy recovered from recession (although the recovery was more evident in some regions and end-user segments than others), and as the business benefited from recently-implemented restructuring measures.

ESAB's adjusted operating margin for the year increased to 7.7% (2009: 6.4%), which reflected the benefit of higher volumes of welding consumables and standard equipment sold during the year. The increase in welding consumables volumes was driven by increased volumes of solid welding wire as ESAB increased its market share in the vehicle segment. Standard equipment volumes benefited generally from higher levels of steel consumption, and also from a new range of equipment introduced during the year. 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 which reflected the recovery in the vehicle segment, 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, reflecting the recovery in steel consumption. ESAB continued to expand its presence in Russia, where revenue increased to £72 million, with continued focus on the energy industry.

## **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).

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ESAB saw volume growth in consumables weighted towards welding wires and a pick-up in standard equipment volumes later in the year, in each case reflecting a recovery in general economic conditions.

### **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 where ESAB believes it is well established as a market leader. 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).

## **Twelve months ended December 31, 2009 compared to twelve months 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 U.S. 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.

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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 steep declines in industrial production in the global economy, 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).

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After a relatively quiet start to 2009, trading performance improved in the second half of 2009, 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, as increased management focus was given to this region.

**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**

**Nine months ended September 30, 2011 and September 30, 2010**

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

Howden records revenue in two segments, 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.

	Nine Months Ended	
	September 30, 2011	September 30, 2010
	(In millions)	
New equipment	£ 267.5	£ 260.4
Aftermarket	177.2	147.6
Revenue	444.7	408.0

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Order book	604.2	437.9		
Operating profit	55.9	38.4		
Adjusted operating profit	54.8	39.5		
Share of post tax profits of associates	(0.1 )			
Operating margin	12.6 %	9.4 %		
Adjusted operating margin	12.3 %	9.7 %		
Howden: revenue by destination				
Europe	106.1	100.7		
North America	83.4	95.5		
South America	30.1	24.4		
Asia	116.9	92.7		
Rest of world	108.2	94.7		
Total	444.7	408.0		

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Revenue, operating profit and operating margin in the first three quarters of 2011 were all ahead of the same period in 2010. The results in the first three quarters of 2011 included Thomassen Compression Systems which contributed revenue and profit after tax (including the amortization of acquired intangibles) of £44.7 million and £1.6 million respectively following its acquisition in March 2011.

For the nine months ended September 30, 2011, revenue was £444.7 million (2010: £408.0 million), an increase of 9.0%. Of this, new equipment revenue was £267.5 million (2010: £260.4 million), whilst aftermarket revenue increased to £177.2 million (2010: £147.6 million).

The increase in new equipment revenue was due to the acquisition of Thomassen. The increase in aftermarket revenue was in part due to the acquisition of Thomassen and in part due to increased revenue across the regions in which Howden operates, in particular the Southern Hemisphere and China.

Adjusted operating profit was £54.8 million (2010: £39.5 million), an increase of 38.7%. Howden's adjusted operating margin for the period was 12.3% compared to 9.7% 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.

As at September 30, 2011, Howden's order book amounted to £604.2 million, compared with £437.9 million at September 30, 2010 and with £423.8 million at December 31, 2010. This represents an increase of £180.4 million from January 1, 2011 (of which an immaterial amount was due to exchange movements), which reflected generally stronger order intake, as well as the acquisition of Thomassen.

**Years ended December 31, 2010, 2009 and 2008**

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

	Year Ended December 31,		
	2010	2009	2008
	(In millions)		
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

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**Twelve months ended December 31, 2010 compared to twelve months 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.

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.

The adjusted operating margin was 12.1% (2009: 11.4%), an increase of 0.7 percentage points, which in part reflected the increased proportion of higher-margin aftermarket revenue.

**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) due to sales in the year exceeding net orders booked. 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% mainly reflecting the recovery in orders from customers in the power industry in China, and much higher levels of orders from India, reflecting Howden's enhanced market presence.

**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).

The decrease in revenue 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 decreased, reflecting 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, albeit from relatively low levels.

Howden enhanced its presence in India through a joint venture with Larsen & Toubro, which was established principally in order to supply fans for use in electricity generation.

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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.

**Twelve months ended December 31, 2009 compared to twelve months 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 aftermarket revenues, which 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 2009 were £513.6 million (2008: £659.0 million), a reduction of 23%.

Reduction in orders booked resulted from 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 Indústria e Comércio 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.

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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 September 30, 2011 of £137.6 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 September 30, 2011 and December 31, 2010, 2009 and 2008.

	September 30, 2011	December 31, 2010	December 31, 2009	December 31, 2008
	(In millions)			
Cash and cash equivalents				
Cash at bank and on hand	£90.2	£65.1	£65.5	£76.1
Short-term bank deposits	1.1	10.3	0.6	13.8

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Bank deposits with original maturity of more than three months and balances held as cash collateral	5.1	7.9	9.5	5.8
Cash and cash equivalents in the balance sheet	96.4	83.3	75.6	95.7

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	September 30, 2011	December 31, 2010	2009	2008
	(In millions)			
Borrowings				
Non-current				
Bank loans secured	£ 3.5	£ 3.4	£ 4.2	£ 3.8
Bank loans unsecured	203.8	29.0		2.3
Other loans unsecured		0.2	0.4	0.4
Finance lease obligations	0.5	0.3	0.3	0.2
	207.8	32.9	4.9	6.7
Current				
Other bank loans secured	0.1		0.9	
Other bank loans unsecured	7.1	33.4	5.0	8.2
Bank overdrafts secured		0.2	0.2	1.0
Bank overdrafts unsecured	18.4	14.4	12.8	27.5
Finance lease obligations	0.6	0.6	0.9	0.5
	26.2	48.6	19.8	37.2
Total borrowings	<b>234.0</b>	<b>81.5</b>	<b>24.7</b>	<b>43.9</b>

**Cash flows**

The cash flow generated by Charter in the nine month periods ended September 30, 2011 and September 30, 2010 and for the years ended December 31, 2010, 2009 and 2008 are as follows:

	9 Months Ended September 30,		Year Ended December 31,		
	2011	2010	2010	2009	2008
	(In millions)				
Cash flow					
Net cash flow from operating activities	£49.5	£3.9	£48.1	£125.0	£107.8
Net cash flow from investing activities	(144.4 )	(46.7 )	(58.6 )	(63.7 )	(107.0 )
Net cash flow from financing activities	111.2	31.5	14.3	(63.9 )	(32.2 )
Currency variations on cash, cash equivalents and bank overdrafts	(4.3 )	4.1	3.9	(5.7 )	3.0
Net movements in cash, cash equivalents and bank overdrafts	<b>12.0</b>	<b>(7.2)</b>	<b>7.7</b>	<b>(8.3)</b>	<b>(28.4)</b>
Cash flow from debt and lease financing	(147.3 )	(69.9 )	(53.9 )	4.4	(4.8 )
(Decrease)/increase in cash on deposits	(3.5 )	(2.6 )	(2.3 )	4.0	(0.8 )
New finance leases	(0.5 )	(0.1 )	(0.4 )	(1.3 )	(0.4 )
Movement in interest accrual	(0.2 )	(0.1 )			(0.1 )
Currency variations on borrowings and cash deposits	0.1		(0.2 )	0.3	(1.9 )
Movement in net cash in the period	<b>(139.4)</b>	<b>(79.9)</b>	<b>(49.1)</b>	<b>(0.9)</b>	<b>(36.4)</b>

## **Net cash flow from operating activities**

In the nine months ended September 30, 2011, Charter recorded a net cash inflow from operating activities of £49.5 million, compared to a net cash inflow of £3.9 million in the nine months ended September 30, 2010. This difference reflects the increase in operating profit and the net cash inflow from movements in working capital in 2011 compared to an outflow in 2010.

In the twelve months 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 twelve months ended December 31, 2009. This decrease principally reflects the absorption of cash into working capital (compared to a release of cash in 2009), partly offset by increased operating profit.

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In the twelve months 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 twelve months ended December 31, 2008. This was due to a net release of cash from working capital in 2009 compared to an outflow in 2008, partly offset by a decrease in operating profit.

### **Net cash flow from investing activities**

In the nine months ended September 30, 2011, Charter recorded a net cash outflow from investing activities of £144.4 million, compared to a net cash outflow of £46.7 million in the nine months ended September 30, 2010. The increase was mainly due to the acquisitions of Thomassen, Sychevsky and Condor (there were no material acquisitions in 2010).

In the twelve months 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 twelve months ended December 31, 2009. The decrease principally reflects lower capital expenditure.

In the twelve months 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 twelve months ended December 31, 2008. The decrease principally reflects lower cash outflows in respect of acquisitions.

### **Net cash flow from financing activities**

In the nine months ended September 30, 2011, Charter recorded a net cash inflow from financing activities of £111.2 million, compared to a net cash inflow of £31.5 million in the nine months ended September 30, 2010. The increase primarily relates to the increase in long-term borrowings to fund the acquisitions of Thomassen, Sychevsky and Condor.

In the twelve months 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 twelve months ended December 31, 2009. This principally reflects the drawdown of additional cash under Charter's borrowing facilities, which took place because Charter's net cash flow from operating activities was insufficient to cover the net cash flow from investing activities, and the payment of dividends to Charter shareholders and minority interests.

In the twelve months 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 twelve months ended December 31, 2008. The increase principally reflects the drawdown of additional cash under Charter's borrowing facilities in 2008 (to fund a portion of the costs of acquisitions made in 2008) and the settlement of net investment hedges in 2009.

### **Movements in net cash**

In the nine months ended September 30, 2011, Charter recorded a net cash outflow of £139.4 million compared to a net cash outflow of £79.9 million in the nine months ended September 30, 2010. This principally reflects the cash outflow of £97.0 million in respect of the acquisitions of Thomassen, Sychevsky and Condor (there were no material acquisitions in 2010), partly offset by increased net cash inflow from operating activities of £49.5 million (2010: £3.9 million).

In the twelve months 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 twelve months 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 twelve months 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 twelve months 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 in 2008. Cash outflow in respect to acquisitions in 2009 was £2.6 million compared £39.4 million in 2008.

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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 <sup>(1)</sup>	£ 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 <sup>(2)</sup>	24.8	12.3	12.5		
Deferred Income Tax Liabilities <sup>(3)</sup>	38.4	7.4			31.0
Provisions for Other Liabilities and Charges <sup>(4)</sup>	60.6	41.4			19.2
Other Liabilities <sup>(5)</sup>	404.5	398.7			5.8
Total	659.7	523.9	61.6	7.9	66.3

The figures related to Long-Term Debt Obligations include future interest payments assuming both fixed and (1) 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, in the normal course of business. It is not expected that the potential liability, if any, that may result from such arrangements will have a material adverse effect on its financial condition, results of operations or liquidity. Charter has not engaged in any off-balance sheet financing arrangements through special purpose entities.



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## **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 of 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 totalled £170 million with maturity dates between 2011 and 2013.

Between January 1, 2011 and September 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. On October 3, 2011, one facility was increased by £25 million for a period of one year and a different facility, also for £25 million, and due to expire in 2011, was cancelled on October 5, 2011. The total of committed facilities remains £285 million, with maturity dates that range between 2012 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 Charter and to avoid unnecessary borrowing.

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### **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 Charter'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 capitalized goodwill was £99.6 million (2009: £92.7 million).

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**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).

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# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF COLFAX

*The following discussion of the financial condition and results of operations of Colfax Corporation ( Colfax, the Company, we, our, and us ) should be read in conjunction with the Selected Consolidated Historical Financial Data of Colfax , Selected Unaudited Pro Forma Condensed Combined Financial Data , Pro Forma Information , Risk Factors and the financial statements and related notes included in this proxy statement. The following discussion includes forward-looking statements. For a discussion of important factors that could cause actual results to differ materially from the results referred to in the forward-looking statements, see Cautionary Statement Concerning Forward-Looking Statements .*

## Overview

We are 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 U.S. 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.

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### **Recent developments**

As we announced on September 12, 2011, we have reached an agreement with Charter under which our wholly-owned subsidiary Bidco will acquire by way of a court-sanctioned scheme of arrangement, or if Bidco elects, effect a takeover offer for, the entire issued share capital of Charter for cash and newly-issued shares of our Common Stock. The Acquisition is intended to be implemented by way of a court-sanctioned scheme of arrangement under Article 125 of the Companies Act.

### **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 U.S. 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-U.S. markets are made by subsidiaries located outside the United States, though we also sell into non-U.S. markets through various representatives and distributors and directly from the U.S. 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 U.S. 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.

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During the third quarter and nine months ended September 30, 2011, we recognized increased costs related to advisory, legal, audit, valuation and other professional service fees incurred in connection with the Acquisition. Due to the relative scale of Charter's operations in comparison to ours, upon closing, the Acquisition will significantly transform our business and materially affect our operations, financial results, liquidity and employee headcount which may make period to period comparisons difficult.

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 70% and 71%, respectively, for the three and nine months ended September 30, 2011, are derived from operations outside the U.S., with the majority of those sales denominated in currencies other than the U.S. dollar, especially the Euro. Because much of our manufacturing and employee costs are outside the U.S., a significant portion of our costs are also denominated in currencies other than the U.S. 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.

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TABLE OF CONTENTS**Results of operations nine-months ended September 30, 2011 compared to nine-months ended October 1, 2010****Restructuring and other related charges**

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

(Millions)	Nine Months Ended	
	September 30, 2011	October 1, 2010
Restructuring and other related charges	\$ 7.5	\$ 9.5
Cash payments	4.5	13.9

During the nine months ended September 30, 2011, we relocated 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, we have 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 our 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 we 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.

We expect to incur an additional \$2.0 million of employee termination benefit costs, operating lease exit costs and other relocation expenses related to our restructuring initiatives during the remainder of 2011. It is anticipated that net annual savings of approximately \$4.1 million pre-tax will be realized beginning in the first quarter of 2012 as a result of our restructuring initiatives.

**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)	Nine Months Ended	
	September 30, 2011	October 1, 2010
Asbestos liability and defense costs	\$ 7.6	\$ 4.2

Asbestos liability and defense costs increased by \$3.4 million during the nine months ended September 30, 2011 compared to the comparable 2010 period primarily due to a \$2.1 million provision related to a court judgment

received for one of our subsidiaries litigation against a number of its insurers and former parent. Additionally, lower levels of legal spending in 2010 and a higher level of projected insurance recovery driven by insurance policies triggered during the 2010 periods contributed to the fluctuation in comparison to the comparable 2010 periods.

TABLE OF CONTENTSAsbestos 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)	Nine Months Ended	
	September 30, 2011	October 1, 2010
Asbestos coverage litigation expense	\$ 8.5	\$ 10.8

Legal costs related to our subsidiaries' actions against their asbestos insurers decreased by \$2.3 million during the nine months ended September 30, 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 concluded during the third quarter of 2011 for one of our subsidiaries and is expected to conclude during 2011 for the other subsidiary.

**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 <sup>(1)</sup>		Backlog at Period End	
As of and for the nine months ended October 1, 2010	\$ 375.3		\$ 399.2		\$ 351.2	
<i>Components of Change:</i>						
Existing businesses <sup>(2)</sup>	52.6	14.0 %	53.2	13.3 %	(17.3 )	(4.9 )%
Acquisitions <sup>(3)</sup>	65.7	17.5 %	55.2	13.8 %	40.6	11.5 %
Foreign currency translation <sup>(4)</sup>	22.0	5.9 %	21.9	5.5 %	(1.1 )	(0.3 )%

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	140.3	37.4 %	130.2	32.6 %	22.2	6.3 %
As of and for the nine months ended September 30, 2011	515.6		529.4		373.4	

(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.

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(Millions)	Nine Months Ended	
	September 30, 2011	October 1, 2010
<b>Net Sales by Product:</b>		
Pumps, including aftermarket parts and services	\$ 387.4	\$ 313.4
Systems, including installation services	112.4	48.8
Valves	11.2	10.3
Other	4.6	2.8
Net sales	515.6	375.3

As detailed above, net sales increased by \$140.3 million, or 37.4%, during the nine months ended September 30, 2011 compared to the comparable 2010 period. The increase in net sales from existing businesses for the period was attributable to an increase in demand in all end markets, except power generation. 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 nine months ended September 30, 2011 in comparison to the nine months ended October 1, 2010 due to increased demand in the oil and gas, commercial marine, general industrial and power generation end markets. Additionally, we experienced a decline in commercial marine order cancellations from \$10.1 million during the nine months ended October 1, 2010 to \$5.0 million in the nine months ended September 30, 2011 primarily due to the impact of improved economic conditions. The \$22.2 million increase in order backlog from October 1, 2010 to September 30, 2011 was primarily due to the Rosscor acquisition, which resulted in a \$40.6 million increase, partially offset by a decrease of \$17.3 million in backlog related to existing businesses.

**Gross profit**

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

	Nine Months Ended	
	September 30, 2011	October 1, 2010
Gross profit	\$ 178.6 million	\$ 131.8 million
Gross profit margin	34.6 %	35.1 %

The \$46.8 million increase in gross profit during the nine months ended September 30, 2011 in comparison to the nine months ended October 1, 2010 was attributable to increases of \$21.7 million from existing businesses and \$16.1 million due to the acquisitions of Rosscor and Baric. Additionally, changes in foreign exchange rates had a \$9.0 million positive impact on gross profit for the nine months ended September 30, 2011 in comparison to the nine months ended October 1, 2010.

Gross profit margin for the nine months ended September 30, 2011 decreased compared to the nine months ended October 1, 2011 primarily due to the lower gross profit margin associated with the foremarket sales of Rosscor and Baric during the period, partially offset by positive leverage of fixed costs given substantially higher sales volume in 2011.





TABLE OF CONTENTS**Selling, general and administrative expenses**

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

	Nine Months Ended			
	September 30, 2011	October 1, 2010		
Selling, general and administrative expense	\$ 116.9 million	\$ 87.8 million		
Selling, general and administrative expense as a percentage of net sales	22.7	%	23.4	%

Selling, general and administrative expense increased \$29.1 million during the nine months ended September 30, 2011 in comparison to the comparable 2010 period, \$12.9 million of which resulted from the acquisitions of Rosscor and Baric. Selling, general and administrative expense from existing businesses increased \$11.2 million in the nine months ended September 30, 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 \$5.7 million of advisory, legal, audit, valuation and other professional service fees incurred in connection with the Acquisition. Additionally, changes in foreign exchange rates resulted in an increase to selling, general and administrative expense of \$5.0 million in the nine months ended September 30, 2011 in comparison to the comparable 2010 period. The decrease in selling, general and administrative expense as a percentage of net sales during the nine months ended September 30, 2011 in comparison to the nine months ended October 1, 2010 resulted primarily from higher sales volumes, partially offset by the increased costs associated with the Acquisition.

**Operating income**

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

	Nine Months Ended			
	September 30, 2011	October 1, 2010		
Operating income	\$ 33.5 million	\$ 14.8 million		
Operating margin	6.5	%	3.9	%

Operating income increased by \$18.7 million in the nine months ended September 30, 2011 in comparison to the nine months ended October 1, 2010. This increase was primarily attributable to the \$46.8 million increase in gross profit, the \$2.3 million decrease in asbestos coverage litigation expense and the \$2.0 million decrease in restructuring and other related charges, partially offset by the \$29.1 million increase in selling, general and administrative expense, which includes \$5.7 million of costs related to the Acquisition, and the \$3.4 million increase in asbestos liability and defense cost.

For the nine months ended September 30, 2011, the components of operating income were negatively impacted by a total of \$5.8 million in increased acquisition-related amortization expense as a result of our Baric and Rosscor acquisitions.

**Provision for income taxes**

The effective income tax rate for the nine months ended September 30, 2011 was 28.8% as compared to an effective tax rate of 22.3% for the nine months ended October 1, 2010. Our effective tax rate for the nine months ended September 30, 2011 was lower than the U.S. federal statutory rate primarily due to foreign earnings where international tax rates are lower than the U.S. tax rate and the impact of the change in the estimate annual tax rate. During the nine months ended October 1, 2010, the effective tax rate was lower than the U.S. federal statutory rate due to a net decrease in our liability for unrecognized income tax benefits, primarily due to the successful resolution of 2003 German tax audit issues, and the effect of international tax rates which are lower than the U.S. tax rate.

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TABLE OF CONTENTS**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, we 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 our 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 our 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	2009
Asbestos liability and defense costs	\$ 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, we 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	2009
Asbestos coverage litigation liability and defense costs	\$ 13.2	\$ 11.7

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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 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		Backlog at Period End	
Year ended December 31, 2009	\$525.0		\$462.4		\$290.9	
<i>Components of Change:</i>						
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 %
<b>Year ended December 31, 2010</b>	<b>542.0</b>		<b>532.8</b>		<b>313.5</b>	

(Millions)	Year ended December 31,	
	2010	2009
<b>Net Sales by Product:</b>		
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
<b>Total net sales</b>	<b>542.0</b>	<b>525.0</b>

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 U.S. 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 %

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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 our 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 table below presents 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 a description of our outstanding indebtedness, please refer to the section headed *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 U.S. 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 U.S. 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.

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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.

TABLE OF CONTENTS**Sales, orders and backlog**

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		Backlog at Period End	
Year ended December 31, 2008	\$604.9		\$682.1		\$349.0	
<i>Components of Change:</i>						
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)%
<b>Year ended December 31, 2009</b>	<b>525.0</b>		<b>462.4</b>		<b>290.9</b>	

(Millions)	Year ended December 31,	
	2009	2008
<b>Net Sales by Product:</b>		
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 U.S. 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	%
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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.

TABLE OF CONTENTS**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	\$ 17.8		
	million	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 U.S. federal statutory rate primarily due to international tax rates which are lower than the U.S. 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 2008 Credit Agreement ). The 2008 Credit Agreement, led by Banc of America

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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 2008 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 September 30, 2011 and December 31, 2010, the term credit facility bore interest of 2.47% and 2.76%, respectively, which included a margin of 2.25% and 2.50%, respectively. There was \$75.0 million and \$82.5 million outstanding under the term credit facility as of September 30, 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.

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 were no amounts outstanding on the revolving credit facility as of both September 30, 2011 and December 31, 2010. As of September 30, 2011 and December 31, 2010, there was \$14.5 million and \$14.1 million, respectively, outstanding on the letter of credit sub-facility, resulting in available capacity of \$129.5 million and \$129.9 million, respectively. We are also party to additional letter of credit facilities with total capacity of \$48.8 million and \$7.1 million outstanding as of September 30, 2011.

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 decreased 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 2008 Credit Agreement. Certain European assets are pledged against borrowings directly made to our European subsidiary. The 2008 Credit Agreement contains customary covenants limiting our ability to, among other things, pay cash dividends, incur debt or liens, redeem or repurchase our stock, enter into transactions with affiliates, make investments, merge or consolidate with others or dispose of assets. In addition, the 2008 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 2008 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 September 30, 2011, respectively, and expect to be in compliance for the next 12 months.



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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 (in millions):

(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 <sup>(1)</sup>	6.0
Total	150.0

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 2008 Credit Agreement was amended on (1) 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 Investments, new debt facilities under the Credit Agreement, our existing cash resources and the issuance of the Acquisition Shares.

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 Credit Agreement in order to fund part of the Acquisition.

Further details of the terms of the debt financing of the Acquisition can be found at Information on the Charter Acquisition Implementation Agreement and Related Agreements Credit Agreement .

The Investments

The BDT Investor has agreed to purchase, six business days after our Acquisition of Charter becomes wholly unconditional or effective in accordance with the terms of the Implementation Agreement, 13,877,552 shares of Series A Preferred Stock, which are convertible into Common Stock, and 14,756,944 shares of Common Stock for \$680 million in the aggregate. In addition, Mitchell P. Rales, Steven M. Rales and Markel (an entity in which Tom Gayner, a member of our Board of Directors is an officer) have agreed to purchase, six business days after our Acquisition of Charter becomes wholly unconditional or effective in accordance with the terms of the Implementation Agreement, the Other Shares for \$125 million in the aggregate. The net proceeds of these issuances of Series A Preferred Stock

and Common Stock will be used by us to fund a portion of the Acquisition. All these subscriptions for shares of Common Stock are being made at \$23.04 per share, which is the closing price of our Common Stock on September 9, 2011, being the last business day before the Acquisition was announced. The exchange ratio in the Acquisition has also been determined on this basis and so the 0.1241 Common Stock which Charter shareholders will receive for each Charter ordinary share held are valued at 180 pence accordingly.

Further details of the terms of the Investments can be found in Proposal No.1 Issuance of Securities to the BDT Investor and Proposal No. 2 Issuance of Securities to the Other Investors .

TABLE OF CONTENTS**Cash flows**

As of September 30, 2011, we had \$64.4 million of cash and cash equivalents, an increase of \$3.9 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
<b>Net cash provided by (used in) operating activities</b>	\$ 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 )
<b>Net cash used in investing activities</b>	<b>(40.4)</b>	<b>(12.5)</b>	<b>(19.1)</b>
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 )
<b>Net cash (used in) provided by financing activities</b>	<b>(8.0)</b>	<b>(5.4)</b>	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 nine months ended September 30, 2011, we had net cash inflows of \$1.7 million for asbestos-related costs paid, net of insurance settlements received compared to net cash outflows of \$7.6 million during the nine months ended October 1, 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 nine months ended September 30, 2011 and October 1, 2010, cash contributions for defined benefit plans were \$6.3 million and \$10.7 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 our restructuring initiatives.

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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 nine months ended September 30, 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 positively impacted cash flows from operating activities during the nine months ended October 1, 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 nine months ended September 30, 2011, we used \$3.3 million less cash in our investing activities in comparison to the nine months ended October 1, 2010. The decrease in cash flows related to acquisitions was partially offset by a \$1.4 million increase in capital expenditures during the nine months ended September 30, 2011 in comparison to the nine months ended October 1, 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 nine months ended September 30, 2011, we had net repayments of \$7.5 million in comparison to \$6.3 million during the nine months ended October 1, 2010. See the section headed *Borrowing Arrangements* above for additional information regarding our outstanding indebtedness as of September 30, 2011.

TABLE OF CONTENTS**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 (in millions):

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

(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, we do not believe that any such liabilities will have a material adverse effect on our financial condition, results of operations or liquidity.



TABLE OF CONTENTS**Capitalization and indebtedness**

The following table shows the capitalization and indebtedness of Colfax at September 30, 2011. The financial information has been extracted from our unaudited consolidated financial statements for the nine months ended September 30, 2011.

**Capitalization and indebtedness**

(Thousands) <sup>(1)</sup>	
<b>Total Current debt</b>	\$ 10,000
- Guaranteed	
- Secured	10,000
- Unguaranteed / Unsecured	
Total Non-Current debt (excluding portion of long-term debt)	\$ 65,000
- Guaranteed	
- Secured	65,000
- Unguaranteed / Unsecured	
<b>Shareholders equity:</b>	
a Share capital	44
b Legal Reserve	413,013 <sup>(2)</sup>
c Other Reserves	
<b>Total</b>	\$ 413,057

(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.

The following table shows the net indebtedness of Colfax at September 30, 2011.

**Net Indebtedness**

(Thousands) <sup>(1)</sup>	
Cash	\$ 52,071
Cash equivalent	12,376
Trading securities	
Liquidity	\$ 64,447
<b>Current financial receivable</b>	
Current bank debt	
Current portion of non current debt	10,000
Other current financial debt	
<b>Current financial debt</b>	\$ 10,000
Net current financial indebtedness	(54,447 )
Non current bank loans	65,000
Bonds issued	
Other non current loans	
Non current financial indebtedness	\$ 65,000
<b>Net financial indebtedness</b>	\$ 10,553 <sup>(2)</sup>



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

(2) Colfax has indirect and contingent indebtedness of \$48.8 million related to letters of credit, performance bonds and bank guarantees not included above.

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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 our 2010 audited consolidated financial statements.

**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.

Claims activity related to asbestos is as follows<sup>(1)</sup>:

	Year ended December 31,		
	2010	2009	2008
Claims unresolved at the beginning of the period	25,295	35,357	37,554
Claims filed <sup>(2)</sup>	3,692	3,323	4,729
Claims resolved <sup>(3)</sup>	(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 <sup>(4)</sup>	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

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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, we 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 our evaluation of the insurance asset, we used differing insurance allocation methodologies for each subsidiary based upon the applicable law pertaining to the affected subsidiary.



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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, we increased our insurance asset by \$7.0 million attributable to resolution of a dispute concerning certain pre-1966 insurance policies and recorded a corresponding pretax gain. We reimbursed the primary insurer for \$7.6 million in deductibles and retrospective premiums in the fourth quarter of 2008 and have 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 we expect to be reimbursed for asbestos-related costs incurred in future periods. As a result, in the fourth quarter of 2009, we increased our receivable for past costs by \$11.9 million and decreased our 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, we 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

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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.

We have 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 we believe the subsidiaries will pay through the next 15 years. We have 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, we have 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. We have 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*. We have also 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 ourselves against asbestos-related liability claims and legal action against our 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. See Note 11 to our 2010 audited consolidated financial statements for further 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.

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During the year ended December 31, 2010, we changed the date of our 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. We 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 our 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 U.S. GAAP, we 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 Colfax 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. See Note 10 to our 2010 audited consolidated financial statements for further 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 U.S. deferred tax assets we believe 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 total U.S. 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.

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## **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 of Directors 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

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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 September 30, 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 nine months ended September 30, 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 U.S. dollar and against the currencies of other countries in which we manufacture and sell products and services. During the nine months ended September 30, 2011, approximately 71% of our sales were derived from operations outside the U.S., with approximately 58% 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 U.S. 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.

On September 12, 2011 and in conjunction with the Acquisition, we entered into a foreign exchange option contract with Deutsche Bank in order to mitigate the potential foreign exchange risk from September 12, 2011 through the closing date of the Acquisition. The notional amount of the contract is 1.5 billion GBP, or \$2.9 billion, the fair value as of September 30, 2011 is \$5.4 million and the settlement date is March 28, 2012. To illustrate the potential impact of changes in foreign currency exchange rates, assuming a 10% increase in average foreign exchange rates compared to the U.S. dollar, Income before income taxes would have increased by \$4.1 million during the nine months ended September 30, 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 September 30, 2011, we had no open commodity futures contracts.



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# **PROPOSAL NO. 1 ISSUANCE OF SECURITIES TO THE BDT INVESTOR**

## **Proposal**

We are asking stockholders to approve (i) the issuance to the BDT Investor of 14,756,945 shares of Common Stock and 13,877,552 shares of Series A Preferred Stock, in accordance with the terms of the BDT Purchase Agreement in order to raise a portion of the funds required to complete the Acquisition and (ii) the issuance of shares of our Common Stock upon conversion of such Series A Preferred Stock. The aggregate purchase price for the shares of Common Stock and Series A Preferred Stock under the BDT Purchase Agreement is \$680 million (representing \$23.04 per share of Common Stock and \$24.50 per share of Series A Preferred Stock, with an initial conversion price of \$27.93 per share, subject to adjustment).

## **Required Stockholder Approval**

The affirmative vote of the majority of shares of Common Stock present or represented by proxy at the special meeting and entitled to vote is necessary under our Bylaws and Rule 312.03 of the NYSE Rules to approve the issuance of the BDT Shares to the BDT Investor in accordance with the terms of the BDT Purchase Agreement and the issuance of shares of our Common Stock upon conversion of the Series A Preferred Stock to be issued in the BDT Investment.

In addition, approval of the Amended and Restated Certificate of Incorporation is a condition to the issuance of the BDT Shares to the BDT Investor. The affirmative vote of the holders of a majority of the outstanding shares of Common Stock entitled to vote at the special meeting is necessary to approve the issuance of the Amended and Restated Certificate of Incorporation. See Proposal No. 4 Amendment and Restatement of Colfax's Certificate of Incorporation.

## **Amount, Title & Description of Securities to be Issued**

Pursuant to the BDT Purchase Agreement, we propose to issue the following securities:

13,877,552 shares of a newly created series of perpetual convertible preferred stock, designated as the Series A Preferred Stock, of Colfax; and

14,756,945 shares of Common Stock.

Immediately after the issuance of the Securities in the Investments and the Acquisition, the shares of the Common Stock and Series A Preferred Stock owned by the BDT Investor will represent approximately 27.8% of the voting power in Colfax, assuming we acquire Charter's entire fully-diluted share capital in the Acquisition.

The BDT Shares to be issued pursuant to the BDT Purchase Agreement will be issued pursuant to the exemption provided by Section 4(2) of the Securities Act and/or Rule 506 of Regulation D promulgated thereunder.



### **Series A Preferred Stock and the Certificate of Designations**

In connection with the transactions contemplated by the BDT Purchase Agreement, our Board of Directors will create a new class of preferred stock, pursuant to the authority conferred upon the Board of Directors in accordance with our Certificate of Incorporation and Bylaws, designated as the Series A Perpetual Convertible Preferred Stock, par value \$0.001; all 13,877,552 shares of which will be issued to the BDT Investor. The terms of the Series A Preferred Stock are set forth in the form of Certificate of Designations of Series A Perpetual Convertible Preferred Stock (the Certificate of Designations ) attached to this proxy statement as Annex VII, which we will file with the Secretary of the State of Delaware immediately before the closing of the transactions contemplated by the Purchase Agreements and Implementation Agreement.

In addition, so long as the BDT Investor and certain permitted transferees beneficially own at least 50% of the Series A Preferred Stock issued pursuant to the BDT Purchase Agreement, the BDT Investor will have consent rights in respect of a number corporate actions, including mergers, consolidations or similar transactions exceeding specified thresholds, under the Amended and Restated Certificate of Incorporation attached to this proxy statement as Annex VI, which we will file with the Secretary of the State of Delaware immediately before the closing of the transactions contemplated by the Purchase Agreements and

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Implementation Agreement. For a detailed description of the rights of the BDT Investor with respect to their ownership of the BDT Shares under the Amended and Restated Certificate of Incorporation, see Proposal No. 4 Amendment and Restatement of Colfax's Certificate of Incorporation Changes in respect of Colfax's Board of Directors & Nomination Rights of the BDT Investor and Proposal No. 4 Amendment and Restatement of Colfax's Certificate of Incorporation Voting and Consent Rights of the BDT Investor.

The following is a summary of selected provisions of the Certificate of Designations, which has been included in this proxy statement to provide you with information regarding the terms of the Series A Preferred Stock. While we believe this description covers the material terms of the Certificate of Designations, it may not contain all of the information that is important to you and is qualified in its entirety by reference to the Certificate of Designations, which is attached as Annex VII to this proxy statement and is incorporated by reference into this proxy statement. We urge you to read the entire Certificate of Designations carefully.

**Voting Rights**

Each share of Series A Preferred Stock entitles its holder to vote on all matters submitted to the holders of the 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 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 any (i) amendment of the Amended and Restated Certificate of Incorporation, the Certificate of Designations or any document amendatory or supplemental thereto that would adversely affect the rights of the Series A Preferred Stock or (ii) 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 the shares of Series A Preferred Stock are issued into fully paid and nonassessable shares of Common Stock at a conversion rate determined by dividing the Liquidation Preference by a number equal to 114% of the Liquidation Preference, subject to adjustment as set forth in the form of Certificate of Designations (the Conversion Rate). 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 Common Stock at the Conversion Rate if, among other things:

for the preceding thirty trading days, the closing price of our 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

we have 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*. We are required to reserve a sufficient number of shares of our authorized Common Stock for the purpose of effecting the conversion of all outstanding Series A Preferred Stock.

In addition, we have 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 U.S. dollar amount equal to the Liquidation Preference divided by the Conversion Rate.



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**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, provided that the dividend rate shall be increased to a per annum rate of 8% if we fail to pay the full amount of any dividend required to be paid on such shares until the date that full payment is made. Neither we nor our subsidiaries shall declare or pay any dividends or other distributions in respect of the Common Stock or any other class of Colfax stock ranking lower than the Series A Preferred Stock with respect to dividends and distributions ( 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 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 Common Stock or convertible into Common Stock, in accordance with the number of shares of 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 Common Stock or convertible into Common Stock, as otherwise determined in good faith by our Board of Directors 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 the company 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 Common Stock immediately prior to the liquidation, dissolution or winding-up before any distribution is made to the holders of Common Stock or other capital stock of Colfax that ranking junior or subordinated to the Series A Preferred Stock with respect to the payment of dividends or distributions. Prior to the conversion or redemption or retirement and cancellation of all shares of the Series A Preferred Stock, we 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 Common Stock in the event we wish to issue any shares of capital stock or securities convertible into or exchangeable for our capital stock at a price less than the Liquidation Preference to any person (a Dilutive Issuance ). If 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 Common Stock equal to the proportion of outstanding Common Stock beneficially owned by the holder and certain permitted transferees (on a fully-diluted basis) at the same price and on the same terms and conditions as the Dilutive Issuance. If 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 Common Stock that is double the proportion of outstanding Common Stock beneficially owned by the holder and certain permitted transferees (on a fully-diluted basis) 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 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 Common Stock into a larger number of shares of Common Stock and (iv) the issuance of capital stock as consideration for a merger, acquisition, joint venture, strategic alliance, or similar non-financing transaction.

**Common Stock**

Subject to the rights of the holders of any series of preferred stock (including the Series A Preferred Stock), the holders of shares of 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. 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 Common Stock are entitled to receive ratably the dividends, if any, as may be declared from time to time by the Board of Directors out of funds

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legally available therefore. In the event that we liquidate, dissolve or wind up, the holders of outstanding shares of Common Stock are entitled to share ratably in all of our 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. The holders of outstanding shares of Common Stock do not have any preemptive, subscription, redemption or sinking fund rights. The outstanding shares of Common Stock are, and the shares to be issued in the Investments and the Acquisition will be, duly authorized, validly issued, fully paid and nonassessable.

In addition, the Amended and Restated Certificate of Incorporation provides the BDT Investor certain rights, including a consent right in respect of certain corporation actions, including mergers, consolidations or similar transactions exceeding specified thresholds, and the right to exclusively nominate up to two members of our Board of Directors depending on its beneficial ownership of Colfax securities from time to time. For a detailed description of the rights of the BDT Investor with respect to their ownership of the BDT Shares under the Amended and Restated Certificate of Incorporation, see Proposal No. 4 Amendment and Restatement of Colfax's Certificate of Incorporation Changes in respect of Colfax's Board of Directors & Nomination Rights of the BDT Investor and Proposal No. 4 Amendment and Restatement of Colfax's Certificate of Incorporation Voting and Consent Rights of the BDT Investor.

Our Common Stock is listed on the New York Stock Exchange under the trading symbol CFX. On , 2011, the last practicable day before the printing of this proxy statement, the closing sale price of our Common Stock was \$ per share.

## **Use of Proceeds**

We will use the proceeds from the sale of the BDT Shares to fund a portion of the Acquisition of Charter pursuant to the Implementation Agreement.

## **The BDT Purchase Agreement and Related Agreements**

### **The BDT Purchase Agreement**

The following is a summary of selected provisions of the BDT Purchase Agreement. While we believe this description covers the material terms of the BDT Purchase Agreement, it may not contain all of the information that is important to you and is qualified in its entirety by reference to the BDT Purchase Agreement which is attached to this proxy statement as Annex II and is incorporated by reference in this proxy statement. We urge you to read the entire BDT Purchase Agreement carefully.

In connection with the financing of the proposed Acquisition of Charter, on September 12, 2011, we entered into the BDT Purchase Agreement with the BDT Investor, as well as BDT Capital Partners Fund I, L.P. and BDT Capital Partners Fund I-A, L.P. (together, the BDT Fund ), and Mitchell P. Rales, Chairman of Colfax's board, and his brother, Steven M. Rales, for the limited purposes as described below.

The BDT Investor is a newly formed entity controlled by BDT Capital Partners. BDT Capital Partners, which is based in Chicago, Illinois, provides entrepreneur and family owned companies with long-term capital, solutions-based advice and access to an extensive network of world-class family businesses. BDT Capital Partners is a merchant bank structured to provide advice and capital that address the unique needs of closely held businesses. The firm has an investment fund as well as an investor base with the ability to co-invest additional capital. The investment fund's

portfolio includes investments in Pilot Flying J, City Beverage, Tudor, Pickering, Holt & Co. and Weber-Stephen Products Co.

### **The Securities Purchase**

Under the terms of the BDT Purchase Agreement, at the closing, we will issue and sell to the BDT Investor (i) 14,756,945 newly-issued shares of Common Stock, and (ii) 13,877,552 shares of newly created 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 Common Stock).

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**Closing**

Subject to the conditions to closing set forth in the BDT Purchase Agreement, the closing of the issuance and sale of the BDT Shares will occur on the date falling six business days after our Acquisition of Charter becomes wholly unconditional or effective in accordance with the terms of the Implementation Agreement. See Proposal No. 1 Issuance of Securities to the BDT Investor The BDT Purchase Agreement Conditions to Closing below.

**Representations and Warranties**

The BDT Purchase Agreement contains representations made by Colfax to the BDT Investor relating to a number of matters, including the following:

our organization and good standing, corporate authority to enter into the BDT Purchase Agreement and the documents related thereto and absence of conflicts between the BDT Purchase Agreement and our organizational documents, material agreements and applicable law;

authorized and outstanding shares of our capital stock and other securities;

absence of pre-emptive rights, rights of first offer, or similar rights with respect to the BDT Shares (except as set forth in the Certificate of Designations or Amended and Restated Certificate of Incorporation);

absence of consents required by governmental authorities in connection with the BDT Purchase Agreement or the transactions contemplated by the BDT Purchase Agreement;

tax matters;

compliance with legal requirements, including the Sarbanes-Oxley Act of 2002 and the rules and regulations of the SEC with respect to the reports filed by us with the SEC;

the accuracy and conformity to generally accepted accounting principles of our financial statements filed with the SEC;

absence of undisclosed liabilities;

availability of exemption from the registration requirements of the Securities Act for the issuance of the BDT Shares; brokers and finders;

absence of registration rights granted or agreed to be granted, other than under the Registration Rights Agreements to be entered into with the BDT Investor and each of the Other Investors;

absence of restrictions on our ability to pay cash dividends; and  
execution and effectiveness of the Credit Agreement.

The BDT Purchase Agreement contains representations made by the BDT Investor to us relating to a number of matters, including the following:

organization and good standing of the BDT Investor, authority to enter into the BDT Purchase Agreement and the documents related thereto and absence of conflicts between the BDT Purchase Agreement and the BDT Investor's organizational documents, material agreements and applicable law;

purchase of the BDT Shares for investment purposes, status of the BDT Investor as an accredited investor and its experience as an investor and an acknowledgment that the BDT Shares will be restricted securities;

brokers and finders;

accuracy of the equity commitment letters between BDT Investor and third parties provided to us; and  
ownership interest of the BDT Investor in Charter.



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**Stockholder Meeting and Board Recommendation**

The BDT Purchase Agreement requires us to present and recommend at a special meeting of our stockholders a proposal to approve the issuance of the BDT Shares to the BDT Investor and the Amended and Restated Certificate of Incorporation, which will provide the BDT Investor with a consent right in respect of certain corporate actions for so long as the BDT Investor and certain permitted transferees of the BDT Shares beneficially own 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 exclusively nominate up to two members of our Board of Directors depending on its beneficial ownership in our Common Stock on a converted and fully-diluted basis from time to time.

**Other Covenants and Agreements**

**Standstill**

Without our prior approval, the BDT Investor has agreed to not, directly or indirectly, or in concert with any person or as participants in a group as defined in Section 13 of the Exchange Act:

make any public announcement or submit to us or our affiliates any proposal for the acquisition of any of our voting stock or with respect to any merger, consolidation, business combination or purchase of any substantial portion of our assets;

call or seek to call a special meeting of our stockholders or our subsidiaries stockholders, (ii) make or participate in any solicitation of proxies as defined or used in Regulation 14A under the Exchange Act to vote any of our voting stock or (iii) become a participant in any election contest as such terms are defined or used in Rule 14a-11 under the Exchange Act with respect to any of our voting stock, except in each case for actions taken by Colfax directors affiliated with the BDT Investor in their capacities as directors and actions taken for the purpose of electing the BDT Investor's nominees to our Board of Directors in accordance with the Amended and Restated Certificate of Incorporation; or

effect or seek any recapitalization, reclassification, liquidation or dissolution or other extraordinary transaction that would have the effect of any of the matters described above.

The BDT Investor's foregoing obligations shall terminate on the first date that the BDT Investor either has beneficial ownership (as defined in Rule 13d-3 promulgated under the Exchange Act) of less than 5% of our outstanding

Common Stock (including securities convertible into Common Stock) or no longer has the right to nominate for election at least one member of our Board of Directors under the Amended and Restated Certificate of Incorporation.

**Credit Agreement**

Pursuant to the BDT Purchase Agreement, we have agreed that we will not and will cause our subsidiaries not to amend or waive any material term or condition of the Credit Agreement without the prior written consent of the BDT Investor. Furthermore, we have agreed to use our best efforts to cause all conditions precedent to the effectiveness of the Credit Agreement to be satisfied on or before closing. See Information on the Charter Acquisition Implementation Agreement and Related Agreements Credit Agreement .

**Transfer Restrictions: Tag-along Rights**

The BDT Investor has agreed not to sell or transfer any of the Common Shares issued pursuant to the BDT Purchase Agreement for the first 180 days from closing and no more than 50% of such Common Shares thereafter until the first anniversary of the closing of the BDT Purchase Agreement. The BDT Investor has also agreed not to sell or transfer

any of the Common Shares issued upon conversion of the Series A Preferred Stock for the first 180 days following conversion and no more than 50% of such Common Shares thereafter until the first anniversary of the conversion of such shares into Common Stock. 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.

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### Additional Covenants

Colfax and the BDT Investor have agreed to other covenants relating to, among others, publicity, certain tax matters, access to information, and the making of certain filings with governmental authorities. The BDT Purchase Agreement also includes a number of covenants from us in connection with the Acquisition of Charter.

### **Conditions to Closing**

Consummation of the transactions contemplated by the BDT Purchase Agreement is conditional upon, among other things, (i) approval by our stockholders of the transactions contemplated by the BDT Purchase Agreement and the Amended and Restated 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 for the Acquisition of Charter by the Royal Court of Jersey (or in the case of a takeover offer, such offer becoming unconditional) and (iv) the Credit Agreement being in full force and effect.

### **Termination**

Prior to the closing, the BDT Purchase Agreement may be terminated:

- by the BDT Investor, if our offer for Charter is withdrawn, lapses or terminates;
  - by the BDT Investor or Colfax, if the issuance of the BDT Shares has not been completed before the Termination Date (provided that the right to so terminate the BDT Purchase Agreement shall not be available to any party if such party's action or inaction was a principal cause of or resulted in the failure to complete the issuance of the BDT Shares and constitutes a breach of the BDT Purchase Agreement);
  - by the BDT Investor or Colfax, if any applicable governmental authority has issued a non-appealable final order, decree or ruling or taken any other action having the effect of permanently restraining, enjoining or otherwise prohibiting the consummation of the issuance of the BDT Shares and other transactions contemplated by the BDT Purchase Agreement;
  - by the BDT Investor at any time prior to completion of the issuance of the BDT Shares, if Colfax (i) has breached certain material representations or undertakings under the BDT Purchase Agreement and failed to cure such breach by the earlier of the Termination Date and 20 days from written notice of such breach and (ii) such breach, if not cured, would give rise to the failure to meet a condition to closing;
  - by Colfax at any time prior to completion of the issuance of the BDT Shares, if the BDT Investor has (i) breached their representations, warranties and covenants under the BDT Purchase Agreement and failed to cure such breach by the earlier of the Termination Date and 20 days from written notice of such breach and (ii) such breach, if not cured, would give rise to the failure to meet a condition to closing; and
- by mutual written agreement of the BDT Investor and Colfax.

### **Assignment**

The BDT Purchase Agreement may not be assigned or transferred without the prior written consent of the other parties, except in certain circumstances by the BDT Investor to partners or members of the BDT Investor or BDT Fund, certain co-investors or any affiliate of the foregoing (in each case other than competitors of Colfax).

## **Certain Agreements and Documents Related to the BDT Investment**

## **BDT Registration Rights Agreement**

We have also agreed to enter into a registration rights agreement with the BDT Investor at closing, in the form attached as Annex VIII to this proxy statement, pursuant to which we will file a registration statement covering the resale of Common Stock issued at closing to the BDT Investor 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.

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**Shelf Registration and Demand Registration**

We have agreed to provide the BDT Investor with shelf registration rights. No later than three months after the closing under the BDT Purchase Agreement, we must file a registration statement covering the resale of the shares of Common Stock and the shares of Common Stock issuable upon conversion of the Series A Preferred Stock ( Registerable Securities ). We must use our reasonable best efforts to cause such shelf registration statement to be declared effective under the Securities Act no later than the date that is six months after the closing under the BDT Purchase Agreement. If we are unable to file, cause to be effective or maintain the effectiveness of a shelf registration statement, the BDT Investor may require us to register the number of Registrable Securities beneficially owned by the BDT Investor or any permitted transferee of Registrable Securities under the Securities Act; provided, that the sale of the securities to be registered is reasonably expected to result in aggregate gross cash proceeds in excess of \$70,000,000 (without regard to any underwriting discount or commission), subject to certain customary cut-backs.

**Piggyback Registration**

If at any time we have determined to register any of our equity securities, with certain exceptions, we have agreed to give the BDT Investor notice of such registration and include in such registration all securities held by the BDT Investor or any permitted transferee of Registrable Securities, included by such persons in a written request, subject to certain customary cut-backs.

**Expenses**

We have agreed to pay all fees and expenses in connection with the registration rights set forth above, including the reasonable fees or disbursements of one counsel for the BDT Investor or its permitted transferees, as selling holders of the Registrable Securities, but excluding any other expenses of the selling holders or underwriting commissions.

**Indemnification**

Subject to certain qualifications and limitations, we will indemnify the BDT Investor and any permitted transferee of Registrable Securities and their officers, directors, employees and each underwriter and certain related parties for losses they incur as a result of acts or omissions by us or our subsidiaries in connection with any such registration.

**Voting Agreements between the BDT Investor and Messrs. Rales**

On September 12, 2011, the BDT Investor entered into voting agreements with each of Mitchell P. Rales and Steven M. Rales, attached as Annex XV and Annex XVI to this proxy statement, in their capacities as stockholders of Colfax, pursuant to which Messrs. Rales agreed to vote the Common Stock held by them in favor of the issuance of the BDT Shares to the BDT Investor, the Amended and Restated Certificate of Incorporation and the other transactions contemplated by the BDT Purchase Agreement.

The voting agreements terminate on the earlier to occur of the date the BDT Purchase Agreement is validly terminated in accordance with its terms or the closing date under the BDT Purchase Agreement.

As of \_\_\_\_\_, 2011, the record date, Mitchell P. Rales and Steven M. Rales are entitled to vote, in the aggregate, 18,291,220 shares of the Common Stock, representing \_\_\_\_\_ % of the outstanding Common Stock entitled to vote at the special meeting.

## Other

In addition, immediately prior to the closing of the transactions contemplated by the BDT Purchase Agreement, we will file the Amended and Restated Certificate of Incorporation and Certificate of Designations with the Secretary of State of the State of Delaware. See Proposal No. 1 Issuance of Securities to the BDT Investor Amount, Title and Description of Securities to be Issued.

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## **Directors of Colfax Following the Transaction**

Our Board of Directors is currently comprised of nine directors, each serving a one-year term. If the transactions contemplated by the Purchase Agreements are completed, effective as of the closing of the issuance of the BDT Shares to the BDT Investor, the number of authorized directors will be increased from 9 to 11 and the BDT Investor will have the right to exclusively nominate for election 2 of the 11 directors to serve as members of our Board of Directors and certain of its committees (subject to applicable law and NYSE Rules) pursuant to the Amended and Restated Certificate of Incorporation. Our Board of Directors has the ability to elect persons to fill the two newly created directorships without stockholder approval, until a successor is elected and qualified at our next annual meeting of stockholders. Any such appointment will be made by our Board of Directors in compliance with applicable law and the NYSE Rules.

The Amended and Restated Certificate of Incorporation sets forth the rights under which the BDT Investor may elect members to our Board of Directors. See Proposal No. 4 Amendment and Restatement of Colfax's Certificate of Incorporation .

## **Interests of Colfax's Executive Officers and Directors in the Transaction**

When you consider our Board of Directors' recommendation to vote in favor of the Proposals, you should be aware that our executive officers and directors may have interests in the transactions contemplated by the Purchase Agreements and the Implementation Agreement that may be different from, or in addition to, the interests of other Colfax stockholders. In particular, pursuant to the MPR Purchase Agreement and SMR Purchase Agreement, Mitchell P. Rales, Chairman of our Board of Directors, and his brother Steven M. Rales, will acquire 2,170,139 and 2,170,139 shares of Common Stock, respectively, and, when aggregated with their current holdings, will own 11,315,749 and 11,315,749 shares of our outstanding Common Stock, respectively, which will represent approximately 13.37% and 13.37% of our outstanding Common Stock, respectively (representing approximately 11.69% and 11.69% of the total voting power of Colfax, respectively), after giving effect to the issuance of the Securities in the Investments and the Acquisition, assuming we acquire Charter's entire fully-diluted share capital in the Acquisition. In addition, under the Amended and Restated Certificate of Incorporation to be filed with the Secretary of State of Delaware immediately prior to closing of the Investments, the replacement of Mitchell P. Rales as Chairman of the Board of Directors would be subject to the written consent of the BDT Investor for so long as the BDT Investor and certain permitted transferees of the BDT Shares beneficially own, in the aggregate, at least 50% of the Series A Preferred Stock issued to the BDT Investor under the BDT Purchase Agreement. Pursuant to the Markel Purchase Agreement, Markel will acquire 1,085,070 shares of Common Stock, representing approximately 1.28% of our outstanding Common Stock after giving effect to the issuance of the Securities in the Investments and the Acquisition, assuming we acquire Charter's entire fully-diluted share capital in the Acquisition. Tom Gayner, a member of our Board of Directors, is the President and Chief Investment Officer of Markel.

## **Regulatory Approval**

Under the HSR Act and the related rules and regulations that have been issued by the FTC, certain acquisition transactions may not be consummated until Premerger Notification and Report Forms have been furnished to the FTC and the Antitrust Division of the Department of Justice and certain waiting period requirements have been satisfied. These requirements of the HSR Act apply to the proposed BDT Investment.

Under the HSR Act, the BDT Investment may not be completed until the expiration of a 30-day waiting period following our and the BDT Investor's separate filing of a Premerger Notification and Report Form concerning the proposed BDT Investment with the FTC and the Antitrust Division, unless the waiting period is earlier terminated by the FTC and the Antitrust Division. We and the BDT Investor filed the Premerger Notification and Report Forms on October 3, 2011 with the FTC and the Antitrust Division in connection with the BDT Investment and the required waiting period has expired.

At any time before or after the completion of the BDT Investment, the Antitrust Division or the FTC could take such action under the antitrust laws as it deems necessary or desirable in the public interest, including seeking to enjoin the BDT Investment or seeking the divestiture of BDT Shares or the divestiture of substantial assets of Colfax or its subsidiaries.



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In addition, the BDT Investment may be reviewed by the attorneys general in the various states in which we and the BDT Investor 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 BDT Investment under the circumstances and based upon the review set forth in applicable state laws and regulations. We cannot assure you that one or more state attorneys general will not attempt to file an antitrust action to challenge the BDT Investment. Private parties also may seek to take legal action under the antitrust laws in some circumstances.

In addition, the BDT Investment may require antitrust filings or approvals in other jurisdictions outside the United States. The BDT Investor is expected to submit the relevant notifications and seek approvals in the relevant jurisdictions in cooperation with Colfax and Charter. We believe that completion of the BDT Investment will be approved without conditions in all such countries where approval is required. However, we cannot rule out the possibility that any foreign antitrust authority might seek to require remedial undertakings as a condition to its approval.

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# **PROPOSAL NO. 2 ISSUANCE OF SECURITIES TO THE OTHER INVESTORS**

## **Proposal**

We are asking stockholders to approve the issuance of 2,170,139 shares of Common Stock to Mitchell P. Rales, 2,170,139 shares of Common Stock to Steven M. Rales and 1,085,070 shares of Common Stock to Markel in accordance with the terms of the Other 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. The purchase price of each share of Common Stock under each of the Other Purchase Agreements is \$23.04 per share of Common Stock (based on the closing price of our Common Stock on the last business day before the announcement of the Acquisition of Charter).

## **Required Stockholder Approval**

The affirmative vote of the majority of shares of Common Stock present or represented by proxy at the special meeting and entitled to vote is necessary under our Bylaws and Rule 312.03 of the NYSE Rules to approve the issuance of the Other Shares to the Other Investors in accordance with the terms of the Other Purchase Agreements. In addition, the approval of the Amended and Restated Certificate of Incorporation is a condition to the issuance of the Other Shares to each of the Other Investors. The affirmative vote of the holders of a majority of the outstanding shares of Common Stock entitled to vote at the special meeting is necessary to approve the Amended and Restated Certificate of Incorporation. See Proposal No. 4 Amendment and Restatement of Colfax's Certificate of Incorporation.

## **Amount, Title & Description of Securities to be Issued**

Pursuant to the MPR Purchase Agreement, we propose to issue 2,170,139 shares of Common Stock to Mitchell P. Rales.

Pursuant to the SMR Purchase Agreement, we propose to issue 2,170,139 shares of Common Stock to Steven M. Rales.

Pursuant to the Markel Purchase Agreement, we propose to issue 1,085,070 shares of Common Stock to Markel.

The Other Shares to be issued pursuant to the Other Purchase Agreements will be issued pursuant to the exemption provided by Section 4(2) of the Securities Act and/or Rule 506 of Regulation D promulgated thereunder.

For a detailed description of our Common Stock, see Proposal No. 1 Issuance of Securities to the BDT Investor Amount, Title & Description of Securities to be Issued.

## **Use of Proceeds**

We will use the proceeds from the sale of the Other Shares to fund in part the Acquisition of Charter pursuant to the Implementation Agreement.

## **The Other Purchase Agreements and Related Agreements**

### **The MPR Purchase Agreement**

The following is a summary of selected provisions of the MPR Purchase Agreement. While we believe this description covers the material terms of the MPR Purchase Agreement, it may not contain all of the information that is important to you and is qualified in its entirety by reference to the MPR Purchase Agreement which is attached to this proxy statement as Annex III and is incorporated by reference in this proxy statement. We urge you to read the entire MPR Purchase Agreement carefully.

In connection with the financing of the proposed Acquisition of Charter, on September 12, 2011, we entered into the MPR Purchase Agreement with Mitchell P. Rales.

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Mr. Mitchell P. Rales is a co-founder of Colfax and has served as a director of Colfax since its founding in 1995. He is the Chairman of our Board of Directors and a current beneficial owner of 21.0% of our Common Stock. Mr. Mitchell P. Rales served as a member of the Board of Directors of Danaher Corporation since 1983 and as Chairman of Danaher Corporation'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 companies for over 25 years. He was instrumental in the founding of Colfax and has played a key leadership role on our Board of Directors 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 our growth.

### **The Securities Purchase**

Under the terms of the BDT Purchase Agreement, at the closing, we will issue and sell to Mitchell P. Rales 2,170,139 newly-issued shares of Common Stock for an aggregate payment of \$50 million, representing a purchase price of \$23.04 per share of Common Stock.

### **Closing**

Subject to the conditions to closing set forth in the MPR Purchase Agreement, the closing of the issuance and sale of the MPR Shares will occur on the date falling six business days after the Acquisition of Charter becomes wholly unconditional or effective in accordance with the terms of the Implementation Agreement. See Proposal No. 2 Issuance of Securities to the Other Investors The MPR Purchase Agreement Conditions to Closing below.

The parties have also agreed to enter into the MPR Registration Rights Agreement at closing, pursuant to which we will file a registration statement covering the resale of the MPR Shares 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.

### **Representations, Warranties and Covenants**

The MPR Purchase Agreement contains representations made by Colfax to Mitchell P. Rales relating to a number of matters, including the following:

our organization and good standing, corporate authority to enter into the MPR Purchase Agreement and absence of conflicts between the MPR Purchase Agreement and our organizational documents, material agreements and applicable law;

authorized and outstanding shares of our capital stock and other securities;

absence of pre-emptive rights, rights of first offer or similar rights with respect to the MPR Shares (except as set forth in the Certificate of Designations or Amended and Restated Certificate of Incorporation);

absence of consents required by governmental authorities in connection with the MPR Purchase Agreement or the transactions contemplated by the MPR Purchase Agreement;

tax matters;

compliance with legal requirements, including the rules and regulations of the SEC with respect to the reports filed by us with the SEC;

the accuracy and conformity to generally accepted accounting principles of our financial statements filed with the SEC;

absence of undisclosed liabilities;

availability of exemption from the registration requirements of the Securities Act for the issuance of the BDT Shares; brokers and finders

absence of registration rights granted or agreed to be granted, other than under the registration rights agreements to be entered into with the BDT Investor and the Other Investors;

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absence of restrictions on our ability to pay cash dividends; and  
execution and effectiveness of the Credit Agreement;

The MPR Purchase Agreement contains representations made by Mitchell P. Rales to Colfax relating to a number of matters, including the following:

authority to enter into the MPR Purchase Agreement and enforceability of the MPR Purchase Agreement against Mitchell P. Rales;  
the purchase of the MPR Shares for investment purposes, status of Mitchell P. Rales as an accredited investor and his experience as an investor and an acknowledgment that the MPR Shares will not be registered under the Securities Act. In addition, the MPR Purchase Agreement requires each of the parties to use reasonable best efforts to take or cause to be taken all actions that are necessary, proper or advisable to consummate and make effective the transactions contemplated there.

## **Conditions to Closing**

Consummation of the transactions contemplated by the MPR Purchase Agreement is conditional upon, among other things, (i) approval by our stockholders of the issuance of the MPR Shares and the Amended and Restated Certificate of Incorporation and (ii) filing of the Amended and Restated Certificate of Incorporation and the Certificate of Designations with the Secretary of the State of Delaware.

## **Termination**

Prior to the closing, the MPR Purchase Agreement may be terminated:

by the Mitchell P. Rales, if our offer for Charter is withdrawn, lapses or terminates;  
by either party, if the issuance of the MPR Shares has not been completed before the Termination Date (provided that the right to so terminate the MPR Purchase Agreement shall not be available to any party if such party's action or inaction was a principal cause of or resulted in the failure to complete the issuance of the MPR Shares and constitutes a breach of the MPR Purchase Agreement);

by Mitchell P. Rales at any time prior to completion of the issuance of the MPR Shares, if we (i) have breached certain material representations under the MPR Purchase Agreement and failed to cure such breach by the earlier of the Termination Date and 20 days from written notice of such breach and (ii) such breach, if not cured, would give rise to the failure to meet a condition to closing; and

by mutual written agreement of the parties.

## **MPR Registration Rights Agreement**

We have also agreed to enter into a registration rights agreement with Mitchell P. Rales at closing, in the form attached as Annex IX to this proxy statement, pursuant to which we will file a registration statement covering the resale of the MPR Shares issued at closing to Mitchell P. Rales and Mitchell P. Rales will have demand registration rights and piggyback registration rights under certain circumstances.

## **Shelf Registration and Demand Registration**

We have agreed to provide Mitchell P. Rales with shelf registration rights. No later than three months after the closing under the MPR Purchase Agreement, we must file a registration statement covering the resale of the shares of Common Stock issued to Mitchell P. Rales under the MPR Purchase Agreement ( Registerable Securities ). We must use our reasonable best efforts to cause such shelf registration statement to be declared effective under the Securities

Act no later than the date that is six months after the closing under the MPR Purchase Agreement. If we are unable to file, cause to be effective or maintain the effectiveness of a shelf registration statement, Mitchell P. Rales may require us to register the number of Registrable Securities beneficially owned by Mitchell P. Rales or any permitted transferee of Registrable

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Securities under the Securities Act; provided, that if the sale of such securities to be registered is in respect of less than all of the Registrable Securities beneficially owned by Mitchell P. Rales or his permitted transferees, then the sale of the Registrable Securities requested to be registered must be reasonably expected to result in aggregate gross cash proceeds in excess of \$50,000,000 (without regard to any underwriting discount or commission), subject to certain customary cut-backs.

### **Piggyback Registration**

If at any time we have determined to register any of our equity securities, with certain exceptions, we have agreed to give Mitchell P. Rales notice of such registration and include in such registration all Registrable Securities held by Mitchell P. Rales or any permitted transferee of Registrable Securities, included by such persons in a written request, subject to certain customary cut-backs.

### **Expenses**

We have agreed to pay all fees and expenses in connection with the registration rights set forth above, including the reasonable fees or disbursements of one counsel for Mitchell P. Rales or his permitted transferees, as selling holders of the Registrable Securities, but excluding any other expenses of the selling holders or underwriting commissions.

### **Indemnification**

Subject to certain qualifications and limitations, we will indemnify Mitchell P. Rales and any permitted transferee of Registrable Securities and their officers, directors, employees and each underwriter and certain related parties for losses they incur as a result of acts or omissions by us or our subsidiaries in connection with any such registration.

## **The SMR Purchase Agreement**

In connection with the financing of the proposed Acquisition of Charter, on September 12, 2011, we entered into the SMR Purchase Agreement with Steven M. Rales, which is attached to this proxy statement as Annex IV. Under the terms of the SMR Purchase Agreement, at the closing, we will issue and sell to Steven M. Rales 2,170,139 newly-issued shares of Common Stock for an aggregate payment of \$50 million, representing a purchase price of \$23.04 per share of Common Stock. The SMR Purchase Agreement contains the same terms, conditions, representations, warranties and covenants as the MPR Purchase Agreement described above. See Proposal No. 2 Issuance of Securities to the Other Investors The Other Purchase Agreements and Related Agreements The MPR Purchase Agreement .

Mr. Steven M. Rales is a co-founder of Danaher Corporation and has served on its Board of Directors since 1983, serving as Chairman of the Board since 1984. He was also CEO of the Danaher Corporation from 1984 to 1990. In addition, for more than the past five years he has been a principal in private business entities in the areas of manufacturing and film production. Mr. Rales is a brother of Mitchell P. Rales.

## **SMR Registration Rights Agreement**

We have also agreed to enter into a registration rights agreement with Steven M. Rales at closing, in the form attached as Annex X to this proxy statement, pursuant to which we will file a registration statement covering the resale of the SMR Shares issued at closing to Steven M. Rales and Steven M. Rales will have demand registration rights and piggyback registration rights under certain circumstances. The SMR Registration Rights Agreement contains the same



terms, conditions, representations, warranties and covenants as the MPR Registration Rights Agreement described above. See Proposal No. 2 Issuance of Securities to the Other Investors The Other Purchase Agreements and Related Agreements MPR Registration Rights Agreement .

## **The Markel Purchase Agreement**

In connection with the financing of the proposed Acquisition of Charter, on September 12, 2011, we entered into the Markel Purchase Agreement with Markel, which is attached to this proxy statement as Annex V. Under the terms of the Markel Purchase Agreement, at the closing, we will issue and sell to Markel 1,085,070 newly-issued shares of Common Stock for an aggregate payment of \$25 million, representing a

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purchase price of \$23.04 per share of Common Stock. The Markel Purchase Agreement contains the same terms, conditions, representations, warranties and covenants as the MPR Purchase Agreement described above. See Proposal No. 2 Issuance of Securities to the Other Investors The Other Purchase Agreements and Related Agreements .

Markel Corporation (NYSE: MKL) markets and underwrites specialty insurance products and programs. Markel operates in three segments: the Excess and Surplus lines, the Specialty Admitted and the London Insurance Markets. It also owns interests in various businesses that operate outside of the specialty insurance marketplace. Markel's Excess and Surplus Lines segment writes property and casualty insurance outside of the standard market for hard-to-place risks, including catastrophe-exposed property, professional liability, products liability, general liability, commercial umbrella and other coverages tailored for exposures. Its Specialty Admitted segment writes risks that must remain with an admitted insurance company for marketing and regulatory reasons. Markel's London Insurance Market segment writes specialty property, casualty, professional liability, equine and marine insurance and reinsurance. Tom Gayner, a member of our Board of Directors, is the President and Chief Investment Officer of Markel.

## **Markel Registration Rights Agreement**

We have also agreed to enter into a registration rights agreement with Markel at closing, in the form attached as Annex XI to this proxy statement, pursuant to which we will file a registration statement covering the resale of the Markel Shares issued at closing to Markel and Markel will have demand registration rights and piggyback registration rights under certain circumstances. The Markel Registration Rights Agreement contains the same terms, conditions, representations, warranties and covenants as the MPR Registration Rights Agreement described above, provided, that Markel's right to demand registration in respect of a sale of less than all of the Registrable Securities beneficially owned by Markel or its permitted transferees in the event that we are unable to file, cause to be effective or maintain the effectiveness of a shelf registration statement, is limited to sales reasonably expected to result in aggregate gross cash proceeds in excess of \$25,000,000 (without regard to any underwriting discount or commission), subject to certain customary cut-backs. See Proposal No. 2 Issuance of Securities to the Other Investors The Other Purchase Agreements and Related Agreements MPR Registration Rights Agreement .

## **Interests of Colfax's Executive Officers and Directors in the Transactions**

When you consider our Board of Directors' recommendation to vote in favor of the Proposals, you should be aware that our executive officers and directors may have interests in the transactions contemplated by the Purchase Agreements and the Implementation Agreement that may be different from, or in addition to, the interests of other Colfax stockholders. In particular, pursuant to the MPR Purchase Agreement and SMR Purchase Agreement, Mitchell P. Rales, Chairman of our Board of Directors, and his brother Steven M. Rales, will acquire 2,170,139 and 2,170,139 shares of Common Stock, respectively, and, when aggregated with their current holdings, will own 11,315,749 and 11,315,749 shares of our outstanding Common Stock, respectively, which will represent approximately 13.37% and 13.37% of our outstanding Common Stock, respectively (representing approximately 11.69% and 11.69% of the total voting power of Colfax, respectively), after giving effect to the issuance of the Securities in the Investments and the Acquisition, assuming we acquire Charter's entire fully-diluted share capital in the Acquisition. In addition, under the Amended and Restated Certificate of Incorporation to be filed with the Secretary of State of Delaware immediately prior to closing of the Investments, the replacement of Mitchell P. Rales as Chairman of the Board of Directors would be subject to the written consent of the BDT Investor for so long as the BDT Investor and certain permitted transferees of the BDT Shares beneficially own, in the aggregate, at least 50% of the Series A Preferred Stock issued to the BDT Investor under the BDT Purchase Agreement. Pursuant to the Markel Purchase Agreement, Markel will acquire

1,085,070 shares of Common Stock, representing approximately 1.28% of our outstanding Common Stock after giving effect to the issuance of the Securities in the Investments and the Acquisition, assuming we acquire Charter's entire fully-diluted share capital in the Acquisition. Tom Gayner, a member of our Board of Directors, is the President and Chief Investment Officer of Markel. See Proposal No. 1 Issuance of Securities to the BDT Investor Interests of Colfax's Executive Officers and Directors in the Transaction.

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# **PROPOSAL NO. 3 ISSUANCE OF SECURITIES IN THE ACQUISITION OF CHARTER**

## **Proposal**

We are asking stockholders to approve the issuance of up to 20,832,469 shares of Common Stock to security holders of Charter in connection with the Acquisition of Charter in accordance with the terms of the Implementation Agreement.

Under the terms of the Acquisition, Charter shareholders will be entitled to receive 730 pence in cash and 0.1241 newly-issued shares of our Common Stock for each share of Charter's ordinary stock. The Acquisition values Charter's fully diluted share capital at approximately £1,528 million (\$2,426 million), being 910 pence per Charter share on a fully diluted basis (based on the closing price of \$23.04 per share of our Common Stock on September 9, 2011, being the last business day before the Acquisition was announced and assuming a foreign exchange rate of U.S.\$1.5881/£1 in effect on that date).

We intend to cause the Acquisition Shares to be authorized for listing on the NYSE, subject to notice of issuance.

## **Required Stockholder Approval**

The affirmative vote of the majority of shares of Common Stock present or represented by proxy at the special meeting and entitled to vote is necessary under our Bylaws and Rule 312.03 of the NYSE Rules to approve the issuance of the Acquisition Shares in connection with the Acquisition in accordance with the terms of the Implementation Agreement.

The approval of Proposal No. 3 is a condition to the issuance of the Acquisition Shares. Since the issuance of the Acquisition Shares and proceeds from the issuance of the Investor Securities will be used to fund in part the Acquisition, the approval of Proposals No. 1, No. 2, No. 3 and No. 4 are conditions to the Acquisition described in this proxy statement.

## **Amount, Title & Description of Securities to be Issued**

Pursuant to Implementation Agreement, we propose to issue up to 20,832,469 shares of our Common Stock in connection with the Acquisition.

For a detailed description of our Common Stock, see Proposal No. 1 Issuance of Securities to the BDT Investor Amount, Title & Description of Securities to be Issued.

The Common Stock to be issued pursuant to the Acquisition implemented by way of the Scheme will not be registered under the Securities Act, and will be issued pursuant to the exemption provided by Section 3(a)(10) under the Securities Act. If Bidco exercises its right to implement the Acquisition by way of a takeover offer, such offer will be made in compliance with applicable U.S. laws and regulations.

## **Use of Proceeds**

We will issue the Acquisition Shares as part consideration for the Acquisition of Charter pursuant to the Implementation Agreement.

## **Implementation Agreement and Related Agreements**

For a detailed description of the Acquisition, the Implementation Agreement and certain related agreements, see Information on the Charter Acquisition.

## **Interests of Colfax's Executive Officers and Directors in the Transactions**

When you consider our Board of Directors' recommendation to vote in favor of the Proposals, you should be aware that our executive officers and directors may have interests in the transactions contemplated by the Purchase Agreements and the Implementation Agreement that may be different from, or in addition to, the interests of other Colfax stockholders. In particular, pursuant to the MPR Purchase Agreement and SMR Purchase Agreement, Mitchell P. Rales, Chairman of our Board of Directors, and his brother Steven M. Rales, will acquire 2,170,139 and 2,170,139 shares of Common Stock, respectively, and, when aggregated with their current holdings, will own 11,315,749 and 11,315,749 shares of our outstanding Common Stock, respectively,

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which will represent approximately 13.37% and 13.37% of our outstanding Common Stock, respectively (representing approximately 11.69% and 11.69% of the total voting power of Colfax, respectively), after giving effect to the issuance of the Securities in the Investments and the Acquisition, assuming we acquire Charter's entire fully-diluted share capital in the Acquisition. In addition, under the Amended and Restated Certificate of Incorporation to be filed with the Secretary of State of Delaware immediately prior to closing of the Investments, the replacement of Mitchell P. Rales as Chairman of the Board of Directors would be subject to the written consent of the BDT Investor for so long as the BDT Investor and certain permitted transferees of the BDT Shares beneficially own, in the aggregate, at least 50% of the Series A Preferred Stock issued to the BDT Investor under the BDT Purchase Agreement. Pursuant to the Markel Purchase Agreement, Markel will acquire 1,085,070 shares of Common Stock, representing approximately 1.28% of our outstanding Common Stock after giving effect to the issuance of the Securities in the Investments and the Acquisition, assuming we acquire Charter's entire fully-diluted share capital in the Acquisition. Tom Gayner, a member of our Board of Directors, is the President and Chief Investment Officer of Markel. See Proposal No. 1 Issuance of Securities to the BDT Investor Interests of Colfax's Executive Officers and Directors in the Transaction and Proposal No. 2 Issuance of the Securities to the Other Investors Interests of Colfax's Executive Officers and Directors in the Transactions.

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# **PROPOSAL NO. 4 AMENDMENT AND RESTATEMENT OF COLFAX S CERTIFICATE OF INCORPORATION Proposal**

Our stockholders are also being asked to approve an Amended and Restated Certificate of Incorporation to increase our authorized share capital, as needed for us to issue the Series A Preferred Stock to the BDT Investor and to provide for additional authorized shares of our Common Stock to issue for various business purposes in the future, and to grant certain rights to the BDT Investor in connection with the BDT Investment. The description of the Amended and Restated Certificate of Incorporation in this proxy statement has been included to provide you with information regarding its terms. We urge you to read the entire Amended and Restated Certificate of Incorporation carefully, which is attached as Annex VI to this proxy statement.

The Amended and Restated Certificate of Incorporation, which we will file with the Secretary of the State of Delaware immediately before the closing of the transactions contemplated by the Purchase Agreements and the Implementation Agreement, will amend and restate in its entirety our Certificate of Incorporation.

## **Increase in Authorized Share Capital**

Once filed with the Secretary of State of Delaware, the Amended and Restated Certificate of Incorporation will amend Article 4.1 of our Certificate of Incorporation in order to increase the total shares authorized to 420,000,000 shares, of which 400,000,000 of such shares shall be Common Stock, par value \$0.001 per share, and 20,000,000 of such shares shall be preferred stock, par value \$0.001 per share. The Certificate of Incorporation currently authorizes 210,000,000 shares, consisting of 200,000,000 shares of Common Stock, par value \$0.001 per share, and 10,000,000 shares of undesignated preferred stock, par value \$0.001 per share.

We do not currently have sufficient authorized shares of preferred stock to complete the issuance of the Series A Preferred Stock to the BDT Investor as described in Proposal No. 1. To issue the Series A Preferred Stock to the BDT Investor, we need to increase the number of shares of our preferred stock authorized for issuance under our Certificate of Incorporation. It is a condition to the completion of the transactions contemplated by the Purchase Agreements and Implementation Agreement that our stockholders approve Proposal No 4. We have proposed increasing the authorized number of shares of preferred stock from 10,000,000 to 20,000,000 shares to permit completion of the issuance of the Series A Preferred Stock to the BDT Investor pursuant to the BDT Purchase Agreement. In addition, we have proposed increasing the number of shares of our Common Stock from 200,000,000 to 400,000,000 shares to provide for additional authorized shares of Common Stock to issue in the future. The additional shares may be issued for various purposes without further stockholder approval, except to the extent required by applicable NYSE Rules. The purposes may include raising capital, providing equity incentives to employees, officers, directors or consultants, establishing strategic relationships with other companies, expanding our business or product lines through the acquisition of other businesses or products and other corporate purposes.

If the issuance of Securities to the Investors and as part consideration in the Acquisition is completed, 14,756,945 shares of our Common Stock would be issued to the BDT Investor, excluding shares issued upon conversion of the Series A Preferred Stock, 2,170,139 shares of our Common Stock would be issued to Mitchell P. Rales, 2,170,139 shares of our Common Stock would be issued to Steven M. Rales and 1,085,070 shares of our Common Stock would

be issued to Markel. In addition, up to 20,832,469 shares of our Common Stock would be issued to Charter s existing shareholders as part consideration in the Acquisition. Accordingly, after the proposed increase in the number of authorized shares of our Common Stock to 400,000,000 and the issuance of the Securities, shares of our Common Stock would be authorized, but unissued and not reserved for issuance.

**Changes in respect of Colfax s Board of Directors & Nomination Rights of the BDT Investor**

Once filed with the Secretary of State of Delaware, the Amended and Restated Certificate of Incorporation will also amend Article 5.1 of our Certificate of Incorporation in order to provide the BDT Investor with the right to exclusively nominate for election up to 2 members to our Board of Directors and certain committees thereof (subject to applicable law and the NYSE Rules) depending on the percentage of



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Common Stock the BDT Investor and certain permitted transferees under the BDT Purchase Agreement ( Permitted Transferees ) beneficially own from time to time, calculated on a fully-diluted basis, assuming conversion or exercise of all outstanding convertible securities (including the Series A Preferred Stock) and existing warrants at the then-existing conversion or exercise price, but excluding any convertible securities outstanding as of closing of the BDT Investment or any options, restricted stock units or similar awards issued to officers, employees, consultants or directors of us or our subsidiaries, in each case, in the form of Common Stock or entitling the holder thereof to receive shares of Common Stock upon exercise or conversion. Specifically, the Amended and Restated Certificate of Incorporation provides that:

where the BDT Investor and its Permitted Transferees beneficially own, in the aggregate, more than 20% of the outstanding Common Stock (as calculated above), (i) our Board of Directors will consist of 11 directors, (ii) the BDT Investor will have the exclusive right to nominate 2 members of the Board of Directors and (iii) the BDT Investor will be entitled to select one of its nominees, once elected, to serve on the audit committee of the Board of Directors and one of its nominees, once elected, to serve on the compensation committee of the Board of Directors, subject to applicable law and the NYSE Rules; and

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 Common Stock (as calculated above), (i) our Board of Directors will consist of 10 directors, (ii) the BDT Investor will have the exclusive right to nominate 1 member of the Board of Directors 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 Board of Directors, subject to applicable law and the NYSE Rules.

**Voting and Consent Rights of the BDT Investor**

Once filed with the Secretary of State of Delaware, the Amended and Restated Certificate of Incorporation will further amend the Certificate of Incorporation by adding new Article 4.4, which provides that 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 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 us (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 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 Board of Directors;

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 Colfax's equity market capitalization;

any amendments to our organizational or governing documents, including the Amended and Restated Certificate of Incorporation and our Bylaws; and



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any change in the size of our Board of Directors.

The Amended and Restated Certificate of Incorporation will also amend Article 7 of our Certificate of Incorporation such that, so long as the BDT Investor and its Permitted Transferees beneficially own at least 10% of our outstanding Common Stock (on a fully-diluted basis as described above), the written consent of the BDT Investor is required to alter, amend or repeal the provisions of Article 5.1 of the Amended and Restated Certificate of Incorporation, which, as described above, sets forth the authorized number of members of the Board of Directors and the BDT Investor's nomination rights in respect of members of the Board of Directors.

### **Additional Amendments**

Once filed with the Secretary of State of Delaware, the Amended and Restated Certificate of Incorporation will also amend our existing Certificate of Incorporation in order to confirm that the Common Stock shall be subject to all of the rights, privileges, preferences, priorities and restrictions set forth in the Certificate of Designations and any certificate of designations relating to any series of preferred stock that may be designated and issued from time to time.

## **Required Stockholder Approval**

The affirmative vote of the holders of a majority of the outstanding shares of our Common Stock entitled to vote thereon is required to approve and adopt the Amended and Restated Certificate of Incorporation.

**The approval of Proposals No. 1, No. 2, No. 3 and No. 4 is required for the issuance of the Securities described in this proxy statement. Since the issuance of the Acquisition Shares and proceeds from the issuance of the Investor Securities will be used to fund in part the Acquisition of Charter, the approval of each of Proposal No. 1, No. 2, No. 3 and No. 4 is also a condition to the Acquisition described in this proxy statement.**

## **Reasons for the Increase in Authorized Stock and Recommendation of our Board of Directors**

We do not currently have sufficient authorized shares of preferred stock to complete the issuance of the Series A Preferred Stock to the BDT Investor as described in Proposal No. 1. To issue the Series A Preferred Stock to the BDT Investor, we need to increase the number of shares of our preferred stock authorized for issuance under our Certificate of Incorporation. It is a condition to the completion of the transactions contemplated by the Purchase Agreements and Implementation Agreement that our stockholders approve Proposal No. 4. In addition, we have proposed increasing the number of shares of our Common Stock to provide for additional authorized shares of Common Stock to issue in the future for various purposes, including raising capital, providing equity incentives to employees, officers, directors or consultants, establishing strategic relationships with other companies, expanding our business or product lines through the acquisition of other businesses or products and other corporate purposes.

**Our Board of Directors has unanimously approved the Amended and Restated Certificate of Incorporation, has concluded that it is advisable, fair to and in the best interest of Colfax and its stockholders and unanimously recommends that you vote FOR the approval of the Amended and Restated Certificate of Incorporation.**

## Principal Effects on Outstanding Capital Stock

We are seeking to amend our Certificate of Incorporation to increase the number of authorized shares of our Common Stock from 200,000,000 to 400,000,000 shares, and as a result, the interests of the holders of our Common Stock could be diluted substantially. Any future issuance of additional authorized shares of our Common Stock could dilute future earnings per share, book value per share and voting power of existing stockholders. If our stockholders approve the issuance of the Securities, the Common Stock issued will represent up to approximately 48.47% of the outstanding shares of Common Stock immediately following the issuance of the Securities, and together with the Series A Preferred Stock issued to the BDT Investor, will represent approximately 54.95% of the voting power of Colfax. As a result, the voting interests of our current stockholders will be significantly diluted. For example, a holder of 1,000,000 shares of Common Stock on September 30, 2011 would have owned approximately 2.3% of the voting power of Colfax. Immediately after

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the issuance of the Securities (excluding any conversion of the Series A Preferred Stock), such holder would own approximately 1.0% of the total voting power of Colfax. In addition, the increase to the authorized stock will allow us to issue additional shares in the future, which will further dilute the voting interests of our stockholders.

We are also seeking to amend our Certificate of Incorporation to make other changes in connection with the BDT Investment, including amendments granting the BDT Investor with certain voting and corporate governance rights in Colfax as described herein. In addition to the dilution described above, the rights that will be granted to the BDT Investor under the Amended and Restated Certificate of Incorporation, once filed with the Secretary of State of Delaware, will limit the ability of our other stockholders to take action in respect of certain matters without the written consent of the BDT Investor or to nominate directors to the Board of Directors.

## **Interests of Colfax's Executive Officers and Directors in the Transactions**

When you consider our Board of Directors' recommendation to vote in favor of the Proposals, you should be aware that our executive officers and directors may have interests in the transactions contemplated by the Purchase Agreements and the Implementation Agreement that may be different from, or in addition to, the interests of other Colfax stockholders. In particular, pursuant to the MPR Purchase Agreement and SMR Purchase Agreement, Mitchell P. Rales, Chairman of our Board of Directors, and his brother Steven M. Rales, will acquire 2,170,139 and 2,170,139 shares of Common Stock, respectively, and, when aggregated with their current holdings, will own 11,315,749 and 11,315,749 shares of our outstanding Common Stock, respectively, which will represent approximately 13.37% and 13.37% of our outstanding Common Stock, respectively (representing approximately 11.69% and 11.69% of the total voting power of Colfax, respectively), after giving effect to the issuance of the Securities in the Investments and the Acquisition, assuming we acquire Charter's entire fully-diluted share capital in the Acquisition. In addition, under the Amended and Restated Certificate of Incorporation to be filed with the Secretary of State of Delaware immediately prior to closing of the Investments, the replacement of Mitchell P. Rales as Chairman of the Board of Directors would be subject to the written consent of the BDT Investor for so long as the BDT Investor and certain permitted transferees of the BDT Shares beneficially own, in the aggregate, at least 50% of the Series A Preferred Stock issued to the BDT Investor under the BDT Purchase Agreement. Pursuant to the Markel Purchase Agreement, Markel will acquire 1,085,070 shares of Common Stock, representing approximately 1.28% of our outstanding Common Stock after giving effect to the issuance of the Securities in the Investments and the Acquisition, assuming we acquire Charter's entire fully-diluted share capital in the Acquisition. Tom Gayner, a member of our Board of Directors, is the President and Chief Investment Officer of Markel. See Proposal No. 1 Issuance of Securities to the BDT Investor and Proposal No. 2 Issuance of Securities to the Other Investors.

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## **PROPOSAL NO. 5    ADJOURNMENT OF SPECIAL MEETING**

### **Proposal**

Although it is not currently expected, the special meeting may be adjourned to solicit additional proxies if there are not sufficient votes to adopt Proposals No. 1, No. 2, No. 3 or No. 4. In this proposal, we are asking you to authorize the holder of any proxy solicited by our Board of Directors to vote in favor of granting authority to the proxy holders to adjourn or postpone the special meeting to a later date or time, if necessary or appropriate, to solicit additional proxies in the event there are insufficient votes at the time of such adjournment or postponement to approve the other proposals. We could use the additional time to solicit additional proxies, including the solicitation of proxies from stockholders that have previously returned properly executed proxies or authorized a proxy by telephone or via the Internet. Additionally, we may seek to adjourn the special meeting if a quorum is not present at the special meeting. Any adjournment or postponement of the special meeting will allow our stockholders who have already sent in their proxies to revoke them at any time prior to their use at the special meeting as adjourned or postponed.

### **Required Stockholder Vote and Recommendation of our Board of Directors**

Approval of the proposal to adjourn the special meeting to solicit additional proxies requires the affirmative vote of the holders of a majority of the shares of Common Stock represented in person or by proxy and entitled to vote at the special meeting, whether or not a quorum exists.

**Our Board of Directors unanimously recommends that you vote FOR the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies.**

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# **Report of Independent Registered Public Accounting Firm, on Internal Control over Financial Reporting**

The Board of Directors and Shareholders of Colfax Corporation

We have audited 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 (the COSO criteria). Colfax Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting.

Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Colfax Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 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 of Colfax Corporation and our report dated February 25, 2011 expressed an unqualified opinion



thereon.

/s/ Ernst & Young LLP

Richmond, Virginia  
February 25, 2011

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# Report of 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. 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.

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

TABLE OF CONTENTS**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.

TABLE OF CONTENTS**COLFAX CORPORATION****CONSOLIDATED BALANCE SHEETS****Dollars in thousands, except per share amounts**

	December 31,	
	2010	2009
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
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
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
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

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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.

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**COLFAX CORPORATION**

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS  
EQUITY AND  
COMPREHENSIVE INCOME (LOSS)  
Years ended December 31, 2010, 2009 and 2008  
Dollars in thousands**

See accompanying notes to consolidated financial statements.

TABLE OF CONTENTS**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 )

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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.



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## **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.

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**COLFAX CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2009, 2008 and 2007**  
**Dollars in thousands, unless otherwise noted**

**2. Summary of Significant Accounting Policies (continued)**

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.

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**COLFAX CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2009, 2008 and 2007**

**Dollars in thousands, unless otherwise noted**

**2. Summary of Significant Accounting Policies (continued)**

**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

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**COLFAX CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**Dollars in thousands, unless otherwise noted**

**2. Summary of Significant Accounting Policies (continued)**

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 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,	
	2010	2009
Medical insurance	\$ 702	\$ 697
Workers compensation	153	189
Total self-insurance reserves	\$ 855	\$ 886

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2009, 2008 and 2007**  
**Dollars in thousands, unless otherwise noted**

**2. Summary of Significant Accounting Policies (continued)****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 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 \$(0.4) million, \$(1.4) million, and \$0.3 million for the years ended December 31, 2010, 2009 and 2008, respectively.

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**COLFAX CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2009, 2008 and 2007**  
**Dollars in thousands, unless otherwise noted**

**2. Summary of Significant Accounting Policies (continued)**

**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 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.

**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	

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2009, 2008 and 2007**  
**Dollars in thousands, unless otherwise noted**

**4. Acquisitions (continued)**

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 U.S. 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 )

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\$ 11,473      \$ 8,621      \$ 5,465

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,		
	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

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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	
	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)	(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

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**5. Income Taxes (continued)**

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	\$ 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
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.

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**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, 2010
	Restructuring Liability at Dec. 31, 2009	Provisions	Payments	Foreign Currency Translation	
<b>Restructuring and Other Related Charges:</b>					
Termination benefits <sup>(1)</sup>	\$ 9,473	\$7,610	\$(14,169 )	\$ (734 )	\$ 2,180
Furlough charges <sup>(2)</sup>		327	(319 )	(8 )	
Facility closure charges <sup>(3)</sup>		909	(909 )		
Consulting costs <sup>(4)</sup>		903	(903 )		
	\$ 9,473	\$9,749	\$(16,300 )	\$ (742 )	\$ 2,180
Non-cash termination benefits <sup>(5)</sup>		574			
<b>Total</b>		<b>10,323</b>			

(1) Includes severance and other termination benefits such as outplacement services.

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**6. Restructuring and Other Related Charges (continued)**

- (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 potentially dilutive securities <sup>(1)</sup>	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

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**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,		2009	
	2010			
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated 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 )

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**10. Goodwill and Intangible Assets (continued)**

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:

Year ended December 31,	Pension Benefits		Other Post-retirement Benefits	
	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			

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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		

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**11. Retirement and Benefit Plans (continued)**

Year ended December 31,	Pension Benefits		Other Post-retirement Benefits	
	2010	2009	2010	2009
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:

Year ended December 31,	Pension Benefits	
	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

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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

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**11. Retirement and Benefit Plans (continued)**

Year ended December 31,	Pension Benefits	
	2010	2009
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		Target Allocation
	December 31, 2010	2009	
United States Plans:			
Equity securities:			

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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.

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**11. Retirement and Benefit Plans (continued)**

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 <sup>(a)</sup>	6,028		6,028	
	\$ 231,240	\$ 175,350	\$ 19,548	\$ 36,342

(a) This class includes diversified portfolio funds maintained for certain foreign plans.

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**11. Retirement and Benefit Plans (continued)**

	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 <sup>(a)</sup>	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

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**11. Retirement and Benefit Plans (continued)**

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

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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

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**11. Retirement and Benefit Plans (continued)**

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%			

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**11. Retirement and Benefit Plans (continued)**

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,	December 31,
2010	2009

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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 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.

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**12. Debt (continued)**

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  
Total62,500  
\$ 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

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**13. Shareholders Equity (continued)**

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.

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**13. Shareholders Equity (continued)****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.

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**13. Shareholders Equity (continued)****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.



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**13. Shareholders Equity (continued)**

Stock option activity for the years ended December 31, 2010 and 2009 is as follows:

	Shares	Weighted-Average Exercise Price	Remaining Contractual Term (Years)	Aggregate Intrinsic Value
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.

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**13. Shareholders Equity (continued)****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	
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Grant Date Fair Value
		\$		\$
Nonvested shares				
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.

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**13. Shareholders Equity (continued)**

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.

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**14. Financial Instruments (continued)**

**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 decreased 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.

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**14. Financial Instruments (continued)**

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.

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**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.

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**18. Commitments and Contingencies (continued)**

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<sup>(1)</sup> :

	Years Ended December 31,		
	2010	2009	2008
Claims unresolved at the beginning of the period	25,295	35,357	37,554
Claims filed <sup>(2)</sup>	3,692	3,323	4,729
Claims resolved <sup>(3)</sup>	(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 <sup>(4)</sup>	\$ 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

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**18. Commitments and Contingencies (continued)**

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.

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**18. Commitments and Contingencies (continued)**

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

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**18. Commitments and Contingencies (continued)**

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

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**Dollars in thousands, unless otherwise noted**

**18. Commitments and Contingencies (continued)**

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

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**Dollars in thousands, except per share amounts  
(Unaudited)**

	Three Months Ended		Nine Months Ended	
	September 30, 2011	October 1, 2010	September 30, 2011	October 1, 2010
Net sales	\$ 170,294	\$ 132,397	\$ 515,601	\$ 375,336
Cost of sales	109,667	85,300	337,046	243,502
Gross profit	60,627	47,097	178,555	131,834
Selling, general and administrative expense	40,972	29,927	116,920	87,829
Research and development expense	1,439	1,583	4,540	4,731
Restructuring and other related charges	5,299	2,441	7,518	9,515
Asbestos liability and defense cost	4,391	2,202	7,644	4,179
Asbestos coverage litigation expense	3,086	2,339	8,454	10,763
Operating income	5,440	8,605	33,479	14,817
Interest expense	1,218	1,544	4,507	5,075
Income before income taxes	4,222	7,061	28,972	9,742
Provision for income taxes	532	1,210	8,337	2,177
Net income	\$ 3,690	\$ 5,851	\$ 20,635	\$ 7,565
Net income per share basic and diluted	\$ 0.08	\$ 0.13	\$ 0.47	\$ 0.17

See Notes to Condensed Consolidated Financial Statements.

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**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**Dollars in thousands, except share amounts**  
**(Unaudited)**

	September 30, 2011	December 31, 2010
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$64,447	\$60,542
Trade receivables, less allowance for doubtful accounts of \$2,707 and \$2,562	104,789	98,070
Inventories, net	79,183	57,941
Deferred income taxes, net	6,364	6,108
Asbestos insurance asset	32,848	34,117
Asbestos insurance receivable	30,430	46,108
Prepaid expenses	12,156	11,851
Other current assets	14,742	6,319
Total current assets	344,959	321,056
Deferred income taxes, net	48,026	52,385
Property, plant and equipment, net	91,413	89,246
Goodwill	184,119	172,338
Intangible assets, net	33,200	28,298
Long-term asbestos insurance asset	320,737	340,234
Long-term asbestos insurance receivable	7,063	5,736
Other assets	9,370	12,784
Total assets	\$1,038,887	\$1,022,077
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current portion of long-term debt	\$10,000	\$10,000
Accounts payable	53,865	50,896
Accrued asbestos liability	36,709	37,875
Accrued payroll	23,168	21,211
Advance payment from customers	13,583	17,250
Accrued taxes	6,451	6,173
Accrued restructuring liability	4,899	2,180
Other accrued liabilities	63,352	45,925
Total current liabilities	212,027	191,510
Long-term debt, less current portion	65,000	72,500
Long-term asbestos liability	376,626	391,776
Pension and accrued post-retirement benefits	107,029	112,257

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Deferred income tax liability	15,927	13,529
Other liabilities	16,782	24,134
Total liabilities	793,391	805,706
Shareholders' equity:		
Common stock, \$0.001 par value; 200,000,000 shares authorized; 43,602,712 and 43,413,553 issued and outstanding	44	43
Additional paid-in capital	413,013	406,901
Accumulated deficit	(39,423 )	(60,058 )
Accumulated other comprehensive loss	(128,138 )	(130,515 )
Total shareholders' equity	245,496	216,371
Total liabilities and shareholders' equity	\$1,038,887	\$1,022,077

See Notes to Condensed Consolidated Financial Statements.

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**CONDENSED CONSOLIDATED STATEMENTS OF  
CASH FLOWS  
Dollars in thousands  
(Unaudited)**

	Nine Months Ended	
	September	October 1,
	30,	2010
	2011	
Cash flows from operating activities:		
Net income	\$20,635	\$ 7,565
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and fixed asset impairment charges	17,618	11,242
Stock-based compensation expense	3,885	1,872
Amortization of deferred loan costs	548	508
Deferred income tax expense (benefit)	2,193	(4,377 )
Changes in operating assets and liabilities, net of acquisitions:		
Trade receivables, net	1,800	925
Inventories, net	(11,229)	12,327
Accounts payable and accrued expenses, excluding asbestos-related accrued expenses	(1,489 )	6,044
Other current assets	(2,088 )	509
Asbestos liability and asbestos-related accrued expenses, net of asbestos insurance asset and receivable	17,787	7,386
Changes in other operating assets and liabilities	(7,982 )	(8,701 )
Net cash provided by operating activities	41,678	35,300
Cash flows from investing activities:		
Purchases of fixed assets, net	(10,717)	(9,285 )
Acquisitions, net of cash received	(22,299)	(27,011 )
Net cash used in investing activities	(33,016)	(36,296 )
Cash flows from financing activities:		
Payments under term credit facility	(7,500 )	(6,250 )
Proceeds from borrowings on revolving credit facilities	78,646	
Repayments of borrowings on revolving credit facilities	(78,646)	
Payments on capital leases		(203 )
Proceeds from stock-based awards	2,195	995
Repurchases of common stock		(191 )
Net cash used in financing activities	(5,305 )	(5,649 )
Effect of foreign exchange rates on cash and cash equivalents	548	(540 )



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Increase (decrease) in cash and cash equivalents	3,905	(7,185 )
Cash and cash equivalents, beginning of period	60,542	49,963
Cash and cash equivalents, end of period	\$64,447	\$ 42,778

See Notes to Condensed Consolidated Financial Statements.

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## **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 nine months ended September 30, 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.

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL  
STATEMENTS  
(Unaudited)**

**3. Recently Issued Accounting Pronouncements**

In September 2011, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2011-08, Intangibles Goodwill and Other ( ASU No. 2011-08 ). ASU 2011-08 was intended to reduce the complexity and cost by providing an option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. ASU 2011-08 is effective for interim and annual goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The Company intends to early adopt ASU 2011-08 in conjunction with its October 1, 2011 Goodwill impairment analysis and is currently evaluating the impact of adoption, but does not expect the adoption to have a material impact on the Company's Condensed Consolidated Financial Statements.

In October 2009, the Financial Accounting Standards Board issued 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. Acquisitions**

**Charter International plc**

On September 12, 2011, Colfax Corporation entered into an agreement with Charter International plc ( Charter ) pursuant to which, subject to certain terms and conditions, Charter will become a wholly owned subsidiary of Colfax (the Acquisition ). 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 Corporation Common stock in exchange for each share of Charter's ordinary stock.

In connection with the financing of the proposed Acquisition of Charter, on September 12, 2011, Colfax entered into a securities purchase agreement (the BDT Purchase Agreement ) with BDT CF Acquisition Vehicle, LLC (the BDT Investor ) as well as BDT Capital Partners Fund I-A, L.P., and Mitchell P. Rales, Chairman of Colfax's Board of Directors, and his brother, Steven M. Rales (for the limited purpose of tag-along sales rights provided to the BDT Investor in the event of a sale or transfer of shares of Colfax Common stock by either or both of Mitchell P. Rales and Steven M. Rales). 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 newly created Series A

perpetual convertible preferred stock, referred to as the 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 Common stock). Under the terms of the Series A Preferred Stock, 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 antidilution 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.

The Series A Preferred Stock is convertible, in whole or in part, at the option of the holders at any time after the date the shares are issued into shares of Colfax Common stock at a conversion rate determined by dividing the liquidation preference by a number equal to 114% of the liquidation preference, subject to certain adjustments. 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 at the same conversion rate if, among other things: (i) for the preceding thirty trading days, the closing price of Colfax Common stock on the New York Stock Exchange exceeds 133% of the applicable conversion price and (ii) Colfax has declared and paid or set apart for payment all accrued but unpaid dividends on the Series A Preferred Stock.

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**4. Acquisitions (continued)**

On September 12, 2011, Colfax entered into separate securities purchase agreements with Mitchell P. Rales, Chairman of Colfax's Board of Directors, and his brother Steven M. Rales, each of whom were beneficial owners of 20.9% of Colfax's Common stock, and Markel Corporation, a Virginia corporation ( "Markel" ). Thomas S. Gayner, a member of Colfax's Board of Directors, is President and Chief Investment Officer of Markel. Pursuant to these agreements, Colfax agreed to sell 2,170,139 to each of Mitchell P. Rales and Steven M. Rales and 1,085,070 to Markel of newly issued Colfax Common stock at \$23.04 per share, for a total aggregate of \$125 million.

On September 12, 2011, Colfax and certain of its subsidiaries entered into a credit agreement (the "Deutsche Bank Credit Agreement" ) with Deutsche Bank Securities Inc. and HSBC Securities (USA) Inc. The Deutsche Bank Credit Agreement has three tranches of term loans: (i) a \$200 million term A-1 facility, (ii) a \$700 million term A-2 facility and (iii) a \$900 million term B facility. In addition, the Deutsche Bank Credit Agreement has two revolving credit facilities which total \$300 million in commitments (the "Revolver" ). The Revolver includes a \$200 million letter of credit sub-facility and a \$50 million swingline loan sub-facility.

The completion of the Acquisition and the consummation of the transactions contemplated by the BDT Purchase Agreement, the securities purchase agreements with Mitchell P. Rales, Steven M. Rales and Markel Corporation and the Deutsche Bank Credit Agreement depends on a number of conditions being satisfied. These conditions include, among others, the receipt of approval of Charter stockholders of the Acquisition (such approval was obtained on November 14, 2011), the receipt of approval of Colfax stockholders of (i) the issuance of securities to the BDT Investor, (ii) the issuance of securities to Mitchell P. Rales, Steven M. Rales and Markel, (iii) the issuance of securities under the terms of the Acquisition and (iv) amendment and restatement of Colfax's certificate of incorporation to increase the number of authorized shares of the Company's Common stock and preferred stock and to provide the BDT Investor certain approval rights and director nomination rights in Colfax. The Acquisition is currently expected to close in the first quarter of 2012.

During both the three and nine months ended September 30, 2011, the Company incurred \$5.7 million of advisory, legal, audit, valuation and other professional service fees in connection with the Acquisition, which are included in Selling, general and administrative expense in the Condensed Consolidated Statements of Operations.

See Note 14, "Financial Instruments" for a discussion of a foreign exchange option agreement entered into in conjunction with the Acquisition.

## **Rosscor Holding, B.V.**

On February 14, 2011, the Company completed the acquisition of Rosscor Holding, B.V. ( Rosscor ) for \$22.3 million, net of cash acquired. 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.

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(Unaudited)****4. Acquisitions (continued)**

The following table summarizes the aggregate estimated fair value of the assets acquired and liabilities assumed at the date of acquisition:

	February 14, 2011 (in thousands)
Trade receivables	\$ 8,475
Inventories	11,439
Property, plant and equipment	1,121
Goodwill <sup>(1)</sup>	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 \$11.8 million from \$172.3 million as of December 31, 2010 to \$184.1 million as of September 30, 2011, of which \$10.2 million relates to the acquisition of Rosscor detailed above and the remaining \$1.6 million increase represents the effect of foreign currency translation.

The following table summarizes the Intangible assets acquired, excluding Goodwill:

	Intangible Asset (in thousands)	Weighted- Average Amortization Period (years)
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		Nine Months Ended	
	September 30, 2011	October 1, 2010	September 30, 2011	October 1, 2010
	(In thousands, except share data)			
Net income	\$3,690	\$5,851	\$20,635	\$7,565
Weighted-average shares of Common stock outstanding basic	43,682,698	43,390,849	43,598,692	43,328,091
Net effect of potentially dilutive securities <sup>(1)</sup>	729,272	228,403	700,465	211,281
Weighted-average shares of Common stock outstanding diluted	44,411,970	43,619,252	44,299,157	43,539,372
Net income per share basic and diluted	\$0.08	\$0.13	\$0.47	\$0.17

(1) Potentially dilutive securities consist of stock options and restricted stock units.

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**5. Net Income Per Share (continued)**

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 September 30, 2011 and October 1, 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 nine months ended September 30, 2011 and October 1, 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 taxes plus the tax effect of any significant unusual items, discrete items or changes in tax law.

During the three and nine months ended September 30, 2011, Income before income taxes was approximately \$4.2 million and \$29.0 million, respectively, and the Provision for income taxes was \$0.5 million and \$8.3 million, respectively. The effective tax rates of 12.6% and 28.8% for the three and nine months ended September 30, 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, and changes in the estimated annual tax rate. The estimated annual tax rate declined primarily due to the impact of changes in anticipated pre-tax income for the year ended December 31, 2011 in various tax jurisdictions that the Company operates in. The cumulative impact of this adjustment during the three months ended September 30, 2011 resulted in an effective tax rate of 12.6%. The change in the estimated annual tax rate resulted in an increase of approximately \$0.7 million in Net income for both the three and nine months ended September 30, 2011, or \$0.01 and \$0.02 per share, respectively.

During the three and nine months ended October 1, 2010, Income before income taxes was approximately \$7.1 million and \$9.7 million, respectively, and the Provision for income taxes was \$1.2 million and \$2.2 million, respectively. The effective tax rates of 17.1% and 22.3% for the three and nine months ended October 1, 2010, respectively, differ from the U.S. federal statutory tax rate due to a net decrease in the Company's liability for unrecognized income tax benefits primarily due to the successful resolution of 2003 German tax audit issues and 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 the tax year ending in 2003 that has 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. During the three and nine months ended September 30, 2011, previously unrecognized tax benefits of \$5.2 million were recognized due to the expiration of certain statutes of limitations.

The Company considers each of the four sources of taxable income proscribed in FASB's Accounting Standard Codification 740 Income Taxes when determining the appropriate level of its deferred tax valuation allowance.

Unrecognized tax positions related to existing deferred tax assets represent a future source of taxable income considered in the Company's analysis of the realizability of its deferred tax assets on a more likely than not basis. As a result of the expiration of certain statutes of limitations, as noted above, the Company has adjusted its sources of future taxable income estimate available to utilize its deferred tax asset. This change in estimate caused the Company to increase its valuation allowance by \$5.2 million to reflect additional deferred tax assets that may not be realized on a more likely than not basis.

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(Unaudited)****6. Income Taxes (continued)**

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 in amounts ranging from zero to \$0.5 million.

**7. Comprehensive (Loss) Income**

	Three Months Ended		Nine Months Ended	
	September 30, 2011	October 1, 2010	September 30, 2011	October 1, 2010
	(In thousands)			
Net income	\$3,690	\$ 5,851	\$20,635	\$ 7,565
Other comprehensive (loss) income:				
Foreign currency translation, net of tax	(15,216)	16,057	(2,470 )	(4,152 )
Unrealized loss on hedging activities	(13 )	(292 )	(146 )	(1,151 )
Amounts reclassified to Net income:				
Realized loss on hedging activities	251	490	1,231	1,951
Net pension and other postretirement benefit cost, net of tax	1,161	777	3,762	2,337
Other comprehensive (loss) income	(13,817)	17,032	2,377	(1,015 )
Comprehensive (loss) income	\$(10,127)	\$22,883	\$23,012	\$ 6,550

**8. Inventories, Net**

Inventories, net consisted of the following:

	September 30, 2011	December 31, 2010
	(in thousands)	
Raw materials	\$ 29,805	\$ 23,758

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Work in process	40,579	32,224
Finished goods	27,126	20,121
	97,510	76,103
Less: customer progress billings	(10,284 )	(10,385 )
Less: allowance for excess, slow-moving and obsolete inventory	(8,043 )	(7,777 )
Inventories, net	\$ 79,183	\$ 57,941

Certain prior period amounts in the table above have been reclassified to conform to current year presentation.

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(Unaudited)****9. Debt**

Long-term debt consisted of the following:

	September 30, 2011	December 31, 2010
	(in thousands)	
Term credit facility	\$ 75,000	\$ 82,500
Total Debt	75,000	82,500
Less: current portion of the term credit facility	(10,000 )	(10,000 )
Long-term debt	\$ 65,000	\$ 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 September 30, 2011 and December 31, 2010, the interest rate was 2.47% 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 September 30, 2011 and December 31, 2010, the commitment fee was 0.4% and 0.5%, respectively, and there was \$14.5 million and \$14.1 million outstanding on the letter of credit sub-facility, respectively. As of September 30, 2011, the Company's availability under the revolving credit facility was \$129.5 million.

The Company is also party to additional letter of credit facilities with total capacity of \$48.8 million and \$7.1 million outstanding as of September 30, 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 September 30, 2011.

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(Unaudited)****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:

	Three Months Ended		Nine Months Ended	
	September 30, 2011	October 1, 2010	September 30, 2011 <sup>(1)</sup>	October 1, 2010 <sup>(2)</sup>
	(In thousands)			
Stock-based compensation expense	\$ 1,058	\$ 151	\$ 3,885	\$ 1,872
Deferred tax benefits	371	41	1,360	655

Includes approximately \$0.2 million of stock-based compensation expense included in Restructuring and other (1)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.

Includes approximately \$0.6 million of stock-based compensation expense included in Restructuring and other (2)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 September 30, 2011, the Company had \$8.8 million of unrecognized compensation expense related to stock-based awards that will be recognized over a weighted-average period of approximately 2.1 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 nine months ended September 30, 2011.



	Nine Months Ended September 30, 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)	2.10 %
Volatility	52.50 %
Dividend yield	
Weighted-average fair value of options granted	\$ 9.68

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.

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(Unaudited)****10. Share-Based Payments (continued)**

Stock option activity for the nine months ended September 30, 2011 is as follows:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value <sup>(1)</sup> (in thousands)
Outstanding at December 31, 2010	1,540,656	\$ 12.34		
Granted	385,682	21.55		
Exercised	(181,834 )	11.86		
Forfeited	(101,670 )	11.35		
Expired	(5,001 )	20.83		
Outstanding at September 30, 2011	1,637,833	\$ 14.60	5.16	\$ 9,851
Vested or expected to vest at September 30, 2011	1,429,785	\$ 15.29	5.17	\$ 7,632
Exercisable at September 30, 2011	715,580	\$ 13.14	4.19	\$ 5,104

- (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 of 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 nine months ended September 30, 2011 is as follows:

PRSUs		RSUs	
Number of Units	Weighted-Average Grant Date Fair	Number of Units	Weighted-Average

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		Value		Grant Date Fair Value
Nonvested at December 31, 2010	283,495	\$ 13.33	83,793	\$ 11.35
Granted	115,922	21.78	28,311	22.40
Vested			(47,841)	13.38
Forfeited	(37,829 )	13.88		
Nonvested at September 30, 2011	361,588	\$ 15.97	64,263	\$ 14.71

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(Unaudited)****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 consisted of the following:

	Nine Months Ended	
	September 30, 2011	October 1, 2010
	(in thousands)	
Warranty liability, beginning of period	\$ 2,963	\$ 2,852
Accrued warranty expense	2,278	1,266
Changes in estimates related to pre-existing warranties	684	(553 )
Cost of warranty service work performed	(1,777 )	(723 )
Acquisitions	452	
Foreign exchange translation effect	22	(67 )
Warranty liability, end of period	\$ 4,622	\$ 2,775

**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 nine months ended September 30, 2011, the Company relocated its Richmond, Virginia 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. The Company also 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's Condensed Consolidated Statements of Operations reflect the following amounts related to its restructuring activities:

	Three Months Ended		Nine Months Ended	
	September	October 1,	September	October 1,
	30,	2010	30,	2010 <sup>(2)</sup>
	2011		2011 <sup>(1)</sup>	
	(In millions)			
Restructuring and other related charges	\$ 5.3	\$ 2.4	\$ 7.5	\$ 9.5

(1) Includes \$0.2 million of non-cash stock-based compensation expense.

(2) Includes \$0.6 million of non-cash stock-based compensation expense related to the departure of the Company's former Chief Executive Officer ( CEO ) in January 2010.

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(Unaudited)****12. Restructuring and Other Related Charges (continued)**

A summary of the activity in the Company's restructuring liability included in Accrued restructuring liability in the Condensed Consolidated Balance Sheets is as follows:

	Nine Months Ended September 30, 2011				
	Balance				
	at			Foreign	Balance at
	Beginning	Provisions	Payments	Currency	End
	of			Translation	of Period
	Period				
Restructuring and other related charges:					
Termination benefits <sup>(1)</sup>	\$2,180	\$ 6,607	\$(4,088 )	\$ (135 )	\$ 4,564
Facility closure costs <sup>(2)</sup>		438	(285 )		153
Other related charges		294	(98 )	(14 )	182
	\$2,180	7,339	\$(4,471 )	\$ (149 )	\$ 4,899
Non-cash termination benefits <sup>(3)</sup>		179			
		\$ 7,518			

(1) Includes severance and other termination benefits, including outplacement services. 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.

(2) Includes the cost of relocating and training associates and relocating equipment in connection with the closing of the Portland, Maine facility.

(3) Represents non-cash stock-based compensation expense.

The Company expects to incur an additional \$2.0 million of employee termination benefits, facility closure costs, relocation expense and operating lease exit costs during the remainder of 2011 related to its restructuring activities.

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(Unaudited)****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:

	Three Months Ended		Nine Months Ended	
	September 30, 2011	October 1, 2010	September 30, 2011	October 1, 2010
	(In thousands)			
<b>Pension Benefits U.S. Plans:</b>				
Service cost	\$	\$	\$	\$
Interest cost	2,845	3,174	8,537	9,283
Expected return on plan assets	(4,164 )	(4,599 )	(12,493 )	(13,555 )
Amortization	1,313	1,054	3,939	3,157
Net periodic benefit credit	\$ (6 )	\$ (371 )	\$ (17 )	\$ (1,115 )
<b>Pension Benefits Non U.S. Plans:</b>				
Service cost	\$ 304	\$ 293	\$ 926	\$ 897
Interest cost	1,255	1,025	3,742	3,083
Expected return on plan assets	(354 )	(321 )	(1,070 )	(913 )
Amortization	151	87	464	259
Settlement loss <sup>(1)</sup>			1,476	
Net periodic benefit cost	\$ 1,356	\$ 1,084	\$ 5,538	\$ 3,326
<b>Other Post-Retirement Benefits:</b>				
Service cost	\$	\$	\$	\$
Interest cost	172	168	517	502
Amortization	214	121	640	361
Net periodic benefit cost	\$ 386	\$ 289	\$ 1,157	\$ 863

<sup>(1)</sup> During the nine months ended September 30, 2011, the Company terminated a frozen pension plan of one of its non-U.S. subsidiaries.

Employer contributions to the pension plans during the nine months ended September 30, 2011 were \$6.3 million, and the Company expects to contribute an additional \$1.8 million during the remainder of 2011.





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(Unaudited)****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 debt of \$75.0 million and \$81.6 million as of September 30, 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:

	September 30, 2011			Total
	Level One	Level Two	Level Three	
	(in thousands)			
Assets:				
Cash equivalents	\$ 12,376	\$	\$	\$ 12,376
Foreign currency contracts acquisition-related		5,386		5,386
Foreign currency contracts primarily related to customer sales contracts		2		2
	\$ 12,376	\$ 5,388	\$	\$ 17,764
Liabilities:				
Interest rate swap	\$	\$ 704	\$	\$ 704
Foreign currency contracts primarily related to customer sales contracts		115		115
	\$	\$ 819	\$	\$ 819

	December 31, 2010			Total
	Level One	Level Two	Level Three	
	(in thousands)			
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 nine months ended September 30, 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.

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**14. Financial Instruments (continued)**

**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 September 30, 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 in the Condensed Consolidated Balance Sheets 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 September 30, 2011, the Company expects to reclassify \$0.7 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. The Company primarily uses foreign currency contracts to mitigate the risk associated with customer forward sale agreements denominated in currencies other than the applicable local currency. As of September 30, 2011 and December 31, 2010, the Company had foreign currency contracts used primarily to mitigate the risk associated with forward sale agreements with notional values of \$6.7 million and \$13.1 million, respectively. Additionally, on September 12, 2011 and in conjunction with the Acquisition, the Company entered into a foreign exchange option contract with Deutsche Bank in order to mitigate the potential foreign exchange risk from September 12, 2011 through the expected closing date of the Acquisition. The notional amount of the contract is 1.5 billion GBP, or \$2.9 billion, the fair value as of September 30, 2011 is \$5.4 million and the settlement date is March 28, 2012. See Note 3, Acquisitions for additional discussion regarding the Company's agreement to acquire Charter International plc. The fair values of the foreign exchange 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.

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TABLE OF CONTENTS**COLFAX CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)****14. Financial Instruments (continued)**

The Company recognized the following in its Condensed Consolidated Financial Statements related to its derivative instruments:

	Three Months Ended		Nine Months Ended	
	September 30, 2011	October 1, 2010	September 30, 2011	October 1, 2010
	(In thousands)			
Contract Designated as a Cash Flow Hedge:				
Interest Rate Swap:				
Unrealized loss	\$(13 )	\$ (292 )	\$(146 )	\$(1,151 )
Realized loss	(251)	(490 )	(1,231)	(1,951 )
Contracts Not Designated in a Hedge Relationship:				
Foreign Currency Contracts				
Acquisition-Related:				
Unrealized loss, net	(684)		(684 )	
Foreign Currency Contracts				
Primarily Related to Customer Sales Contracts:				
Unrealized gain, net	36	701	210	43
Realized gain (loss), net	(545)	(100 )	155	(838 )

**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 22,512 pending claims as of September 30, 2011, approximately 3,600 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 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 100 claims have been brought in various federal and state courts in Mississippi. The remaining pending claims have been filed in various other state and federal courts.

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TABLE OF CONTENTS**COLFAX CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)****15. Commitments and Contingencies (continued)**

Claims activity related to asbestos is as follows<sup>(1)</sup>:

	Nine Months Ended	
	September 30, 2011	October 1, 2010
	(Number of Claims)	
Claims unresolved, beginning of period	24,764	25,295
Claims filed <sup>(2)</sup>	2,799	2,952
Claims resolved <sup>(3)</sup>	(5,051 )	(3,448 )
Claims unresolved, end of period	22,512	24,799

(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.

For this subsidiary, during the three months ended October 1, 2010, an insolvent carrier that had written approximately \$1.4 million in limits for which the 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.



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**COLFAX CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL  
STATEMENTS  
(Unaudited)**

**15. Commitments and Contingencies (continued)**

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. A final judgment at the trial court level in this litigation was rendered during the three months ended September 30, 2011, but appeals may follow. As a result of this judgment, the Company recorded a provision for \$2.1 million during the three months ended September 30, 2011, which is reflected in the Condensed Consolidated Balance Sheet as an increase of \$1.4 million in Other accrued liabilities and a reduction of \$0.7 million in Asbestos insurance asset. The Company will also make a payment of \$5.0 million, which was previously accrued for, to return certain overpayments to the insurers. The subsidiary expects to be responsible for approximately 15% of all future asbestos-related costs.

The Company has established reserves of \$413.3 million and \$429.7 million as of September 30, 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 \$353.6 million and \$374.4 million as of September 30, 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 \$59.7 million and \$55.3 million as of September 30, 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 \$37.5 million and \$51.8 million as of September 30, 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 \$22.1 million and \$23.3 million as of September 30, 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.

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**COLFAX CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)**

**15. Commitments and Contingencies (continued)**

The expense related to these liabilities and legal defense was \$4.4 million and \$7.6 million for the three and nine months ended September 30, 2011, respectively, and \$2.2 million and \$4.2 million for the three and nine months ended October 1, 2010, respectively. Legal costs related to the subsidiaries' action against their asbestos insurers were \$3.1 million and \$8.5 million for the three and nine months ended September 30, 2011, respectively, and \$2.3 million and \$10.8 million for the three and nine months ended October 1, 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 September 30, 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.

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**COLFAX CORPORATION**

**UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION**

The Unaudited Pro Forma Condensed Combined Balance Sheet assumes that the acquisition took place on September 30, 2011 and combines Colfax's September 30, 2011 Condensed Consolidated Balance Sheet with Charter's September 30, 2011 consolidated balance sheet. The Unaudited Pro Forma Condensed Combined Statements of Operations for the year ended December 31, 2010 and the nine months ended September 30, 2011 assume that the Acquisition took place on January 1, 2010.

The Unaudited Pro Forma Financial Statements included in this proxy statement are based upon the historical financial statements of Colfax and Charter and on Charter's publicly available information and certain assumptions which Colfax believes to be reasonable, which are described in Notes to Pro Forma Condensed Combined Financial Statements below. These statements were prepared using the acquisition method of accounting under existing U.S.

GAAP standards, which are subject to change and interpretation. Colfax has been treated as the acquirer in the acquisition for accounting purposes. The acquisition accounting is dependent upon certain valuations and other studies that have yet to be finalized, and accordingly, the adjustments to record the assets to be acquired and liabilities to be assumed at fair value reflect Colfax's best estimate and are subject to change once the detailed analyses are completed. These adjustments may be material.

Charter's financial statements have historically been prepared in accordance with IFRS. The Unaudited Pro Forma Financial Statements included in this proxy statement reflect certain adjustments to Charter's financial statements to align with Colfax's U.S. GAAP accounting policies. These adjustments reflect Colfax's best estimates based upon the information available and are subject to change once detailed information is obtained. Additionally, certain items have been reclassified from Charter's historical financial statements to align with Colfax's financial statement presentation.

These reclassifications were determined based upon the information available to Colfax and additional reclassifications may be necessary once the Acquisition is completed and additional information is available.

The Unaudited Pro Forma Condensed Combined Financial Statements have been translated from pounds to U.S. dollars using the following historical exchange rates.

	£/\$
December 31, 2010 average spot rate	1.5484
September 30, 2011 average spot rate	1.6148
September 30, 2011 period end rate	1.5624

The Unaudited Pro Forma Condensed Combined Financial Statements have been prepared for informational purposes only and are not necessarily indicative of what the combined company's financial position or results of operations actually would have been had the acquisition been completed as of the dates indicated above. In addition, the Unaudited Pro Forma Condensed Combined Financial Statements do not purport to project the future financial position or operating results of the combined company. Although Colfax is aware of transactions between Colfax's subsidiaries and Charter's subsidiaries during the periods presented, these transactions were not considered material or eliminated in the adjustments discussed in more detail below.

The Unaudited Pro Forma Condensed Combined Financial Statements should be read in conjunction with:

the Notes to Pro Forma Condensed Combined Financial Statements;

the consolidated financial statements of Colfax Corporation for the year ended December 31, 2010 and the nine months ended September 30, 2011, incorporated herein by reference;

the consolidated financial statements of Charter International plc for the year ended December 31, 2010 and the nine months ended September 30, 2011 appearing elsewhere within this document.

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**UNAUDITED PRO FORMA CONDENSED COMBINED  
STATEMENT OF OPERATIONS**  
**For the Nine Months Ended September 30, 2011**  
**(In thousands of U.S. dollars, except share amounts  
and as indicated)**

See Notes to Unaudited Pro Forma Condensed Combined Financial Statements.

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**UNAUDITED PRO FORMA CONDENSED COMBINED  
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For the Year Ended December 31, 2010  
(In thousands of U.S. dollars, except share amounts  
and as indicated)**

See Notes to Unaudited Pro Forma Condensed Combined Financial Statements.



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**UNAUDITED PRO FORMA CONDENSED COMBINED  
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(In thousands of U.S. dollars, except share amounts  
and as indicated)**

See Notes to Unaudited Pro Forma Condensed Combined Financial Statements.

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# NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS (Unaudited)

## 1. Description of the Transaction

On September 12, 2011, Colfax Corporation entered into an agreement with Charter International plc pursuant to which, subject to the terms and conditions described more fully in this proxy statement, Charter will become a wholly owned subsidiary of Colfax (the Acquisition). 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 Corporation Common stock in exchange for each share of Charter's ordinary stock.

In connection with the financing of the proposed Acquisition of Charter, on September 12, 2011, Colfax entered into a securities purchase agreement (the BDT Purchase Agreement) with BDT CF Acquisition Vehicle, LLC (the BDT Investor) as well as BDT Capital Partners Fund I-A, L.P., and Mitchell P. Rales, Chairman of Colfax's Board of Directors, and his brother, Steven M. Rales. 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 newly created Series A perpetual convertible preferred stock, referred to as the 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 Common stock). Under the terms of the Series A Preferred Stock 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.

The Series A Preferred Stock is convertible, in whole or in part, at the option of the holders at any time after the date the shares are issued into shares of Colfax Common stock at a conversion rate determined by dividing the liquidation preference by a number equal to 114% of the liquidation preference. The conversion rate is subject to adjustment if Colfax pays a dividend or makes a distribution in Common stock, subdivides, combines or reclassifies its Common stock, or if Colfax is party to a corporate transaction (such as a merger, reorganization or recapitalization) in which shares of Colfax Common stock are converted into the right to receive stock, securities or other property. 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 at the same conversion rate if, among other things: (i) for the preceding thirty trading days, the closing price of Colfax Common stock on the New York Stock Exchange exceeds 133% of the applicable conversion price and (ii) Colfax has declared and paid or set apart for payment all accrued but unpaid dividends on the Series A Preferred Stock.

On September 12, 2011, Colfax entered into securities purchase agreements with Mitchell P. Rales, Chairman of Colfax's Board of Directors, and his brother Steven M. Rales, each of which were beneficial owners of 20.9% of Colfax's Common stock, and Markel Corporation, a Virginia Corporation (Markel). Pursuant to these agreements Colfax agreed to sell 2,170,139 to each Mitchell P. Rales and Steven M. Rales and 1,085,070 to Markel of newly issued Colfax Common stock at \$23.04 per share, for a total aggregate of \$125 million.

On September 12, 2011, Colfax and certain of its subsidiaries entered into a credit agreement (the Credit Agreement) with Deutsche Bank Securities Inc. and HSBC Securities (USA) Inc. The Credit Agreement has three tranches of term loans: (i) a \$200 million term A-1 facility (the Term A-1 Loan), (ii) a \$700 million term A-2 facility (the Term A-2

Loan and together with the Term A-1 Loan the Term A Loans ) and (iii) a \$900 million term B facility (the Term B Loan and together with the Term A Loans the Term Loans ). In addition, the Credit Agreement has two revolving credit facilities which total \$300 million in commitments (the Revolver ). The Revolver includes a \$200 million letter of credit sub-facility and a \$50 million swingline loan sub-facility.

The completion of the Acquisition and the consummation of the transactions contemplated by the BDT Purchase Agreement, the securities purchase agreements with Mitchell P. Rales, Steven M. Rales and Markel Corporation and the Credit Agreement depends on a number of conditions being satisfied. These conditions include, among others, the receipt of approval of Charter stockholders of the Acquisition (such approval was obtained on November 14, 2011), the receipt of approval of Colfax stockholders of (i) the issuance of

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# NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS (Unaudited)

## 1. Description of the Transaction (continued)

securities to the BDT Investor, (ii) the issuance of securities to Mitchell P. Rales, Steven M. Rales and Markel, (iii) the issuance of securities under the terms of the Acquisition and (iv) amendment and restatement of Colfax's certificate of incorporation. The Acquisition is currently expected to close in the first quarter of 2012.

## 2. Basis of Presentation

The Unaudited Pro Forma Condensed Combined Financial Statements have been compiled from underlying financial statements prepared in accordance with U.S. GAAP and reflects the Acquisition of Charter by Colfax and were prepared using the acquisition method of accounting under existing U.S. GAAP standards. The fair value of Charter's assets and liabilities reflect Colfax's best estimate and are subject to change once the detailed analyses are completed. These adjustments may be material.

The process for estimating the fair values of identifiable intangible assets requires the use of significant estimates and assumptions, including estimating future cash flows and developing appropriate discount rates. The excess of the purchase price over the estimated fair value of identifiable assets and liabilities of Charter as of the effective date of the Acquisition will be allocated to Goodwill. Colfax defines fair value in accordance with U.S. GAAP as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The preliminary purchase price allocation is subject to finalizing Colfax's analysis of the fair value of Charter's assets and liabilities as of the effective date of the Acquisition and will be adjusted upon completion of the valuation. The use of different estimates could yield materially different results.

The Unaudited Pro Forma Condensed Combined Financial Statements are not intended to reflect the financial position or results of operations which would have actually resulted had the Acquisition been effected on the dates indicated. Further, the results of operations are not necessarily indicative of the results of operations that may be obtained in the future.

## 3. Summary of Significant Accounting Policies

The Unaudited Pro Forma Condensed Combined Financial Statements have been compiled consistent with Colfax's accounting policies. These accounting policies differ from those of Charter. The adjustments made to align Charter's financial statements prepared in accordance with IFRS with Colfax's U.S. GAAP accounting policies are discussed in Note 4, Pro Forma U.S. GAAP Adjustments.

The Charter balances have been translated from £ to \$ using average exchange rates applicable during the periods presented for the Unaudited Pro Forma Condensed Combined Statements of Operations and the period end exchange rate for the Unaudited Pro Forma Condensed Combined Balance Sheet.

## 4. Pro Forma U.S. GAAP Adjustments

The following adjustments have been made to align the Charter financial statements prepared in accordance with IFRS with Colfax's U.S. GAAP accounting policies. These adjustments reflect Colfax's best estimates based upon the information available and are subject to change once detailed information is obtained.

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 U.S. 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. The Unaudited Pro Forma Condensed Combined Balance Sheet as of September 30, 2011 reflects an adjustment to reverse \$29.0 million in product development costs, as well as the related deferred taxes, which have been capitalized under IFRS. The Unaudited Pro Forma Condensed Combined Statements of Operations for the year ended December 31, 2010 and the nine months ended September 30, 2011 reflect adjustments to reverse

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# NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS (Unaudited)

## 4. Pro Forma U.S. GAAP Adjustments (continued)

\$5.3 million and \$4.1 million, respectively, of amortization recorded to Cost of sales under IFRS and to recognize \$9.0 million and \$7.4 million, respectively, of Research and development expenses.

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 U.S. GAAP, revaluation of fixed assets is not permitted. Accordingly, the Unaudited Pro Forma Condensed Combined Balance Sheet as of September 30, 2011 includes an adjustment of \$24.8 million to reduce Property, plant and equipment, as well as the related deferred tax impact, with a corresponding reduction to retained earnings. The Unaudited Pro Forma Condensed Combined Statements of Operations for the year ended December 31, 2010 and the nine months ended September 30, 2011 include adjustments to reverse \$0.5 million and \$0.3 million, respectively, of incremental depreciation expense recorded under IFRS.

Under U.S. 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 increase of \$45.3 million is included in the Unaudited Pro Forma Condensed Consolidated Balance Sheet to align the measurement of uncertain tax positions as required by U.S. GAAP. The Unaudited Pro Forma Condensed Combined Statements of Operations for the year ended December 31, 2010 and the nine months ended September 30, 2011 include the related incremental provision for income taxes of \$9.4 million and \$9.5 million, respectively.

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. U.S. 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 \$12.7 million has been recorded at September 30, 2011 to reclassify Charter's actuarial gains and losses from retained earnings under IFRS to accumulated other comprehensive loss under U.S. GAAP. The Unaudited Pro Forma Condensed Combined Statements of Operations for the year ended December 31, 2010 and the nine months ended September 30, 2011 include the incremental expense of \$6.8 million and \$5.8 million, respectively, related to the amortization of amounts in AOCI, as discussed above.

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 U.S. 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 September 30, 2011 to reverse a \$3.0 million legal provision, which was included in Long-term asbestos liability with a corresponding increase in Retained earnings recorded by Charter under IFRS which would have been recorded at the low end of the range under U.S. GAAP. It is Colfax's policy to not record anticipated future legal defense costs under U.S. GAAP, which resulted in an additional adjustment of \$9.1 million, \$8.5

million and \$0.6 million which were included in Other accrued liabilities and Other liabilities, respectively, which also resulted in corresponding decreases of \$1.7 million, \$4.2 million and \$0.2 million in Deferred income taxes, net, Other current assets and Other assets, respectively, with the remaining \$3.0 million reflected as an increase in Retained earnings. The

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# NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS (Unaudited)

## 4. Pro Forma U.S. GAAP Adjustments (continued)

Unaudited Pro Forma Condensed Combined Statements of Operations for the year ended December 31, 2010 and the nine months ended September 30, 2011 include the reversal of the release of these provisions recognized in Selling, general and administrative expenses under IFRS of \$10.5 million and \$6.1 million, respectively. The total impact to Selling, general and administrative expenses for these U.S. GAAP adjustments in addition to those discussed elsewhere within this footnote are summarized as follows (in thousands):

	Nine Months Ended September 30, 2011	Year Ended December 31, 2011
Reversal of legal provision	\$ 6,136	\$ 10,530
Incremental depreciation expenses (b) above	(323 )	(465 )
Incremental amortization expense (d) above	5,813	6,813
Stock-based compensation adjustment (g)(ii) below	161	(465 )
Total U.S. GAAP adjustments to Selling, general and administrative expenses	\$ 11,787	\$ 16,413



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# NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS (Unaudited)

## 4. Pro Forma U.S. GAAP Adjustments (continued)

(f) Certain reclassifications have been made to conform to U.S. GAAP presentation and the accounting policies of Colfax. These adjustments include the following:

(i) The Unaudited Pro Forma Condensed Combined Balance Sheet as of September 30, 2011 includes the following U.S. GAAP reclassification adjustments (in thousands):

Amounts held in cash and cash deposits, which are inconsistent with Colfax Policy:	
Cash and cash equivalents	\$(7,968 )
Other current assets	7,968 (a)
Non-trade and long-term receivables, reclassified consistent with Colfax policy:	
Trade receivables, net	\$(144,991)
Prepaid expenses	54,996
Other current assets	89,995 (a)
Reclassification of non-current deferred income taxes, consistent with Colfax policy:	
Deferred income taxes, net (current assets)	\$37,967
Deferred income taxes, net (non-current assets)	(37,967 )
Other accrued liabilities	14,062 (b)
Deferred income tax liability	(14,062 )
Presentation of accrued payroll, advance payments from customers, accrued taxes, accrued restructuring and other accrued liabilities to separate financial statement line items, consistent with Colfax policy:	
Accounts payable	\$(432,472)
Accrued payroll	34,842
Advance payments from customers	62,340
Accrued taxes	43,903
Accrued restructuring liability	11,562
Other accrued liabilities	279,825 (b)
Reclassification of capitalized software to fixed assets, consistent with Colfax policy:	
Property, plant and equipment, net	\$36,873
Intangible assets, net	(36,873 )
Presentation of asbestos liability to separate financial statement line items, consistent with Colfax policy:	
Accrued asbestos liability	\$781
Other accrued liabilities	(781 )(b)
Long-term asbestos liability	4,687

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Other liabilities	(4,687 )
Subtotal of financial statement line items impacted by multiple adjustments detailed above:	
Other current assets (sum of (a) s)	\$97,963
Other accrued liabilities (sum of (b) s)	293,106

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# NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS (Unaudited)

## 4. Pro Forma U.S. GAAP Adjustments (continued)

- (ii) The Unaudited Pro Forma Condensed Combined Statements of Operations include the following U.S. GAAP reclassification adjustments for the periods indicated (in thousands):

	Nine Months Ended September 30, 2011	Year Ended December 31, 2010
To separately report restructuring and other related charges consistent with Colfax policy:		
Cost of sales	\$(15,987 )	\$(8,361 ) <sup>(a)</sup>
Selling, general and administrative expenses	(24,706 )	(6,968 )
Restructuring and other related charges	40,693	15,329
To separately report research and development expenses consistent with Colfax policy:		
Cost of sales	\$(17,601 )	\$(22,762) <sup>(a)</sup>
Research and development expenses	17,601	22,762
To reclassify interest on uncertain tax positions from interest expense consistent with Colfax policy:		
Interest expense	\$(1,453 )	\$(1,084 )
Provision for income taxes	1,453	1,084
Subtotal of financial statement line item impacted by multiple adjustments detailed above:		
Cost of sales (sum of (a) s)	\$(33,588 )	\$(31,123)

(g) Other U.S. GAAP adjustments include the following:

- (i) Charter recorded warranty expenses under IFRS, which exceeded the Colfax policy under U.S. GAAP. The Unaudited Pro Forma Condensed Combined Statements of Operations for the year ended December 31, 2010 and the nine months ended September 30, 2011 include adjustments to reverse \$3.0 million and \$0.4 million, respectively, of incremental warranty expense recorded under IFRS.
- (ii) The Unaudited Pro Forma Condensed Combined Statements of Operations for the year ended December 31, 2010 and the nine months ended September 30, 2011 include adjustments to increase (decrease) in Selling, general and administrative expenses by \$0.5 million and \$(0.2) million, respectively, related to the U.S. GAAP treatment for stock-based compensation.



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# NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS (Unaudited)

## 5. Pro Forma Adjustments Charter Transaction

### (a) Estimated Purchase Consideration

The estimated purchase price, excess purchase price over net assets acquired and residual 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 November 9, 2011	\$27.23	
Total value of Colfax shares to be issued	\$567.2	(i)
Total cash consideration paid at 730 pence per Charter share	\$1,914.6	(i)
Total purchase price	\$2,481.8	
Add: Total Debt assumed	\$365.6	
Less: Total Cash acquired	(142.6)	)
Purchase price, net	\$2,704.8	
Tangible assets acquired	\$1,979.7	
Deferred taxes, net	88.9	
Noncontrolling interest	(88.0)	)
Total liabilities assumed, excluding debt and deferred tax liability	(1,246.0)	
Incremental transaction expenses Charter	(17.9)	)(ii)
Net tangible assets acquired	\$716.7	
Excess of net purchase price over net assets acquired	\$1,988.1	
Trademarks	174.5	(iii)
Backlog	20.8	(iii)
Technology	90.8	(iii)
Customer relationships	231.6	(iii)
Total identifiable intangible assets	\$517.7	
Total deferred liabilities, net	94.5	(iii)
Total identifiable intangible assets, net of deferred taxes	\$423.2	
Residual Goodwill	\$1,564.9	
Less: Charter Goodwill	178.7	(iv)
Goodwill adjustment	\$1,386.2	

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 stock. The cash portion of the purchase price was converted at the September 30, 2011 period end rate of US\$1.5624/£1, which differs from the exchange rate used elsewhere in this Proxy Statement.

The ordinary stock portion of the purchase price was calculated using a price of \$27.23 for each share of Colfax Common stock based on the closing share price of Colfax Common stock on the NYSE on November 9, 2011, the closing price on the most recent practicable date. The actual purchase price will be determined based upon the stock price at the date the shares are transferred. A hypothetical 5% fluctuation in the market price of Colfax Common stock, all other factors remaining constant, would result in a corresponding change in the total purchase price of \$28.4 million.

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# NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS (Unaudited)

## 5. Pro Forma Adjustments Charter Transaction (continued)

- The incremental acquisition-related transaction costs incurred by Charter, which are reflected as a reduction to Goodwill, represent the total expected acquisition-related transaction costs of \$64.6 million, which are discussed in more detail in (b)(v) below, reduced by \$46.7 million of acquisition-related transaction costs incurred by Charter during the nine months ended September 30, 2011 and reflected in Charter's net assets acquired in the table above.
- (ii) Except as discussed below, the carrying value of Charter's assets and liabilities are considered to approximate their fair value.
- (iii) fair value.

The fair value of identifiable intangible assets was estimated using significant assumptions such as the amount and timing of projected cash flows, the discount rate selected to measure the risks inherent in the future cash flows and the assessment of the asset's life cycle, including competitive trends and other factors. The assumptions used by Colfax to arrive at the estimated fair value of the identifiable intangible assets were primarily derived from publicly available information, including market transactions of varying degrees of comparability.

The fair value and weighted-average estimated useful life of identifiable intangible assets are as follows:

	Fair Value	Weighted-Average Estimated Useful Life
	(in millions)	(in years)
Trademarks	\$ 174.5	Indefinite
Technology	90.8	6
Backlog	20.8	1
Customer Relationships	231.6	15
Total acquired identifiable intangible assets	517.7	
Less: Charter's identifiable intangible assets related to historical acquisitions	(164.4 )	
U.S. GAAP intangible asset reclassification (see 4(f)(i))	36.9	
U.S. GAAP adjustment for product development costs (see 4(a))	29.1	
Adjustment to intangible assets, net	\$ 419.3	

The amortization of the identifiable intangible assets in the Unaudited Pro Forma Condensed Combined Statements of Operations is partially offset by the reversal of approximately \$9.0 million and \$38.4 million of historical amortization and Goodwill impairment, recorded by Charter during the year ended December 31, 2010 and the nine months ended September 30, 2011, respectively. The net impact of these adjustments on Selling, general and administrative expenses can be summarized as follows (in millions):

	Nine Months Ended September 30, 2011	Year Ended December 31, 2010
Expected intangible asset amortization less historical Charter amortization and impairment expense	\$ 10.3	\$ 66.9
Reversal of acquisition-related costs incurred by Colfax and Charter related to the Acquisition <sup>(1)</sup>	(54.0 )	
Total transaction adjustments to Selling, general and administrative expenses	\$ (43.7 )	\$ 66.9

(1) Represents \$5.7 million and \$48.3 million for Colfax and Charter, respectively. The impact of the reversal of Charter acquisition-related costs in Selling, general and administrative expenses differs by

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# NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS (Unaudited)

## 5. Pro Forma Adjustments Charter Transaction (continued)

the corresponding adjustment of \$46.7 million referenced in the reconciliation of the Goodwill adjustment in 5(a) above due to the translation of £29.9 million at the exchange rates appropriate for the respective financial statements, as discussed further in the introduction to these Pro Forma Condensed Combined Financial Statements above.

The \$35 million adjustment to record inventory at fair value, referred to as the inventory step-up, was estimated to be amortized through Cost of goods sold within the first year following the Acquisition based upon inventory turnover calculated from public information.

The deferred tax liabilities of \$109.8 million (\$16.3 million and \$93.5 million of Other accrued liabilities and Deferred income tax liability, respectively) were recorded related to the amortizable intangible assets detailed above, and inventory step-up, assuming a 29% effective tax rate, and a \$10.3 million reduction in deferred tax assets related to net operating losses that will not be available to Colfax after a change in control, partially offset by the elimination of \$25.6 million of deferred tax liabilities related to identifiable intangible assets recognized by Charter in conjunction with historical acquisitions.

The transaction adjustment reflected in the Unaudited Proforma Condensed Combined Balance Sheet for (iv) Goodwill was reduced by Charter's Goodwill of \$178.7 million recognized by Charter in conjunction with historical acquisitions.

### (b) Sources of Funding

As discussed more fully in Note 1, Description of the Transaction, 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 are assumed to be offset by the redemption of the existing debt of both companies. The related proceeds reflected in the Unaudited Pro Forma Condensed Combined Financial Statements are as follows (in millions):

Issuance of Common stock to BDT Investor, net	\$334.1	(i)
Issuance of Common stock for additional securities 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	1,736.2	(iii)
Total sources of funding	2,529.3	
Total Colfax Debt outstanding at September 30, 2011	(75.0)	(iv)
Total Charter Debt outstanding at September 30, 2011	(365.6)	
Total transaction expenses	(102.1)	(v)
Funding of existing obligations	(31.3)	(vi)
Total sources of funding, net	1,955.3	
Settlement of Colfax interest rate swap associated with repayment of debt	(0.7)	

Cash consideration for Charter ordinary shares	(1,914.6)
Total adjustment to Cash and cash equivalents	\$40.0

(i) The proceeds from the issuance of Common stock to BDT Investor are net of approximately \$6.0 million of fees directly related to the issuance of these shares.

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, the Unaudited Pro Forma Condensed Combined Statements of Operations include an adjustment to record the 6% per annum cash dividends related to the Series A Preferred Stock. See Note 1, Description of the Transaction for further information.

(ii) No amounts are estimated to be drawn upon the revolving credit facility included in the Credit Agreement for the closing of the Acquisition. The Unaudited Pro Forma Condensed Combined Statements of Operations include \$83.0 million and \$59.6 million of incremental interest expense

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# NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS (Unaudited)

## 5. Pro Forma Adjustments Charter Transaction (continued)

associated with the Credit Agreement, including amortization of the original issue discount and deferred financing fees during the year ended December 31, 2010 and the nine months ended September 30, 2011, respectively. Loan origination fees are estimated to be \$36.8 million, and the Company expects to write off \$1.2 million of existing deferred financing fees. The following represents a reconciliation from the debt detailed in the table above to the Unaudited Pro Forma Condensed Combined Balance Sheet as of September 30, 2011 (in millions):

Proceeds from term loans	\$ 1,800.0
Less: original issue discount	(27.0 )
Proceeds from term loans, net	1,773.0
Repayment of Colfax debt	(75.0 )
Repayment of Charter debt	(365.6 )
Total Debt	\$ 1,332.4
Less: current portion of debt adjustment	\$ 39.1
Noncurrent portion of debt adjustment	\$ 1,293.3

The original issue discount reflected in the table above is included in long-term debt, the current portion of long-term debt represents contractual payments over the next twelve months.

- (iv) The Unaudited Pro Forma Condensed Combined Financial Statements reflect the elimination of approximately \$1.2 million of total deferred financing fees included in Other assets associated with Colfax's Debt outstanding as of September 30, 2011, as well as the termination of a related interest rate swap liability of \$0.7 million. Additionally, \$2.1 million of deferred debt and equity issuance costs, discussed in (i) and (ii) above, as of September 30, 2011 were eliminated from Other current assets and Other accrued liabilities, as the associated expenses will be recognized upon the issuance of the related debt and equity.

- 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 Unaudited Pro Forma Condensed Combined Balance Sheet as a reduction in Cash and a \$31.8 million reduction in (Accumulated deficit) retained earnings for fees not yet incurred, as the remaining \$5.7 million was expensed during the nine months ended September 30, 2011. Total transaction costs of \$64.6 million are estimated to be incurred by Charter and are reflected in (a) Estimated Purchase Consideration of the Pro Forma Adjustments above as a reduction to Cash and a \$17.9 million increase in Goodwill, as the remaining \$46.7 million was expensed during the nine months ended September 30, 2011. The elimination of the total amount of \$52.4 million of transaction expenses incurred by both companies as of and during the nine months ended September 30, 2011 is also reflected as a reduction in Selling, general and administrative expenses and Other accrued liabilities as this amount would not have been incurred during this period assuming the transaction closed on January 1, 2011.
- (vi) Represents pension and other accrued obligations. The trustees of the Charter's defined pension schemes have requested that Colfax mitigate the impact of the Acquisition on the financial position of those schemes by

providing cash payments, security, guarantees and/or other undertakings to compensate the schemes.  
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**NOTES TO UNAUDITED PRO FORMA CONDENSED  
COMBINED FINANCIAL STATEMENTS  
(Unaudited)**

**5. Pro Forma Adjustments Charter Transaction (continued)**

(vii) The impact to Total equity is summarized as follows (in thousands):

- (1) The elimination of Charter's equity as of September 30, 2011 includes the equity impact of the adjustments discussed in Note 4, Pro Forma U.S. GAAP Adjustments above.  
Fees and expenses are comprised of \$37.5 million of Colfax's total estimated acquisition-related transaction costs, net of \$5.7 million incurred during the nine months ended September 30, 2011 (see (v) above) and \$1.2 million of deferred financing fees (see (iv) above).
- (2) Represents the impact of the termination of an interest rate swap in connection with the refinancing of Colfax's long-term debt.

**(c) Income Taxes**

Deferred tax assets, deferred tax liabilities and the tax impact of the adjustments to the Unaudited Condensed Combined Statements of Operations were calculated using a 29% effective tax rate, which is Colfax's estimate of what the effective tax rate will be post-Acquisition, except for discrete items where the applicable statutory rate is applied. This estimate was determined based upon the information currently available, is subject to change and may not be reflective of Colfax's effective tax rate for future periods.

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# NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS (Unaudited)

## 5. Pro Forma Adjustments Charter Transaction (continued)

### (d) Earnings per Share

The pro forma calculation of basic and diluted EPS was calculated as follows (\$ in thousands except share data):

	Year Ended December 31, 2010	Nine Months Ended September 30, 2011
Numerator:		
Net loss available to Colfax Corporation common shareholders	\$(3,620 )	\$(2,689 )
Less: net loss attributable to participating securities <sup>(1)</sup>	456	338
	\$(3,164 )	\$(2,351 )
Denominator:		
Weighted-average basic shares outstanding as reported by Colfax	43,389,878	43,598,692
Colfax shares to be issued to Charter shareholders <sup>(2)</sup>	20,832,469	20,832,469
Colfax shares to be issued related to securities purchase agreements	20,182,293	20,182,293
Weighted-average shares outstanding basic and diluted	84,404,640	84,613,454
Net income per share available to Colfax common shareholders basic and diluted	\$(0.04 )	\$(0.03 )

(1) Earnings per share was calculated consistent with the two-class method under U.S. GAAP as the Series A Preferred Stock are considered participating securities.

(2) Shares issued to Charter shareholders would have represented 25% of outstanding Colfax Corporation Common stock as of September 30, 2011.

The weighted-average basic shares outstanding used in the calculation of earnings per share represents Colfax's historical weighted-average basic shares adjusted for the newly issued shares of Common stock that were assumed to be outstanding for the entirety of both periods presented. The weighted-average dilutive shares calculation excludes 12.2 million of common shares potentially issuable through the conversion of the Series A Preferred Stock for both of the periods presented as their inclusion would be anti-dilutive. In addition, the weighted-average computation of the dilutive effect of potentially issuable shares of Common stock for the year ended December 31, 2010 and the nine months ended September 30, 2011 excludes approximately 1.6 million and 1.2 million outstanding stock-based compensation awards, respectively, as their inclusion would be anti-dilutive.



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# NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS (Unaudited)

## 6. Financial Statement Grouping

Certain financial statement line items from the financial statements of Charter, presented elsewhere in this Proxy Statement, are not separately presented on Colfax's financial statements and were grouped so their presentation would be consistent with Colfax. The groupings below are reflected in Charter's IFRS financial statements in the Unaudited Pro Forma Condensed Combined Financial Statements.

The following groupings were made to the Unaudited Pro Forma Condensed Combined Balance Sheet as of September 30, 2011 (in thousands):

Non-Current Assets:	
Investments in associates and joint ventures	\$ (33,123 )
Retirement benefit assets	(29,686 )
Derivative financial instruments	(156 )
Trade and other receivables	(21,248 )
Other assets	84,213
Current Assets:	
Derivative financial instruments	\$ (4,375 )
Current income tax receivables	(9,687 )
Assets held for sale	(9,999 )
Other current assets	24,061
Current Liabilities:	
Derivative financial instruments	\$ (6,718 )
Provisions for other liabilities and charges	(67,808 )
Other accrued liabilities	74,526
Non-Current Liabilities:	
Provisions for other liabilities and charges	\$ (26,717 )
Derivative financial instruments	(625 )
Other payables	(2,187 )
Other liabilities	29,529



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# NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS (Unaudited)

## 6. Financial Statement Grouping (continued)

The following groupings were made to the Unaudited Pro Forma Condensed Combined Statements of Operations for the periods indicated (in thousands):

	Nine Months Ended September 30, 2011	Year Ended December 31, 2010
Selling and distribution costs	\$(288,079)	\$(319,435 )
Administrative expenses	(315,047)	(288,622 )
Net finance charge retirement benefit obligations	(1,776 )	(6,348 )
Share of post-tax profits of associates and joint ventures	5,167	5,884
Selling, general and administrative expenses	599,735	608,521
Other finance charge before losses on retranslation of intercompany loan balances	\$(9,690 )	\$(7,742 )
Other finance charge before gains on retranslation of intercompany loan balances	3,876	5,419
Net gains (losses) on retranslation of intercompany loan balances	(17,601 )	11,613
Interest expense	23,415	(9,290 )
Taxation charge on underlying profits	\$(30,035 )	\$(39,175 )
Taxation on exceptional items and acquisition costs	5,329	(2,323 )
Taxation on amortisation and impairment of acquired intangibles and goodwill	1,776	1,858
Taxation on net financing charge retirement benefit obligations	484	1,394
Taxation on net gains on retranslation of intercompany loan balances	1,615	(774 )
Provision for income taxes	20,831	39,020

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CHARTER INTERNATIONAL PLC**

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## **Report of Independent Auditor**

To the board of directors and shareholders of Charter International plc:

In our opinion, the accompanying consolidated balance sheets as of December 31, 2010 and 2009 and the related consolidated statements of income, comprehensive income, changes in equity and cash flow for each of the three years in the period ended December 31, 2010 present fairly, in all material respects, the financial position of Charter International plc and its subsidiaries at December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. 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 of these statements in accordance with auditing standards generally accepted in the United States of America. 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP  
London, United Kingdom  
October 7, 2011

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# CHARTER INTERNATIONAL PLC

## CONSOLIDATED INCOME STATEMENT

Note	Year ended 31 December		
	2010	2009	2008
£m, except per share amounts			
Continuing operations 2 & 3	1,719.6	1,659.2	1,887.0
<b>Revenue</b>			
Cost of sales	(1,188.5)	(1,206.5)	(1,353.2 )
<b>Gross profit</b>	531.1	452.7	533.8
Selling and distribution costs	(206.3 )	(191.6 )	(182.7 )
Administrative expenses 2 & 4	(186.4 )	(165.1 )	(150.1 )
	138.4	96.0	201.0
<b>Operating profit</b> 6			
	(4.1 )	(7.7 )	(0.7 )
Net financing charge retirement benefit obligations 6			
	(5.0 )	(7.6 )	(6.8 )
Other financing charge before losses on retranslation of intercompany loan balances 6			
	3.5	4.5	5.6
Other financing income before gains on retranslation of intercompany loan balances 6			
	7.5	4.0	(4.6 )
Net gains/(losses) on retranslation of intercompany loan balances 6			
	1.9	(6.8 )	(6.5 )
Net financing credit/(charge) 2 & 12			
	3.8	3.5	3.2
Share of post-tax profits of associates and joint ventures			
<b>Profit before tax</b> 7	144.1	92.7	197.7
	(25.2 )	(17.9 )	(39.0 )
Taxation charge			

<b>Profit for the year</b>	118.9	74.8	158.7
<b>Attributable to:</b>			
Equity shareholders	106.6	63.5	150.2
Non-controlling interests	12.3	11.3	8.5
	118.9	74.8	158.7
9			
Earnings per share			
Basic	63.9p	38.1p	90.1p
Diluted	63.7p	37.9p	90.0p

See accompanying notes to the consolidated financial statements.

TABLE OF CONTENTS**CHARTER INTERNATIONAL PLC****CONSOLIDATED STATEMENT OF COMPREHENSIVE  
INCOME**

	Year ended 31 December		
	2010	2009	2008
	£m	£m	£m
Profit for the year	118.9	74.8	158.7
Other comprehensive income and expenditure			
Exchange translation	22.9	(36.8 )	124.6
Exchange translation transfer to income statement on disposal		(0.9 )	
Actuarial gains/(losses) on retirement benefit obligations (note 20)	1.0	(42.2 )	(54.0 )
Tax on actuarial gains/(losses) on retirement benefit obligations	(3.3 )	5.2	8.1
Change in fair value of outstanding cash flow hedges	0.1	2.7	(9.1 )
Net transfer to income statement hedges	(0.2 )	7.9	(2.4 )
Net investment hedges		5.7	(27.3 )
Net deferred income tax movement for the year hedges		(2.6 )	2.8
Total other comprehensive income and expenditure	20.5	(61.0 )	42.7
Total comprehensive income and expenditure for the year	139.4	13.8	201.4
Total comprehensive income and expenditure attributable to:			
Equity shareholders of the Company	121.5	5.5	184.7
Non-controlling interests	17.9	8.3	16.7
	139.4	13.8	201.4

See accompanying notes to the consolidated financial statements.

TABLE OF CONTENTS**CHARTER INTERNATIONAL PLC****CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Attributable to owners of the Company				Total £m	Non-control interests £m	Total equity £m
	Share capital £m	Share premium £m	Retained earnings £m	Other reserves £m			
At 1 January 2008	3.3	646.4	296.9	(520.2)	426.4	27.6	454.0
Comprehensive income							
Profit for the year			150.2		150.2	8.5	158.7
Other comprehensive income and expenditure							
Exchange translation				116.3	116.3	8.3	124.6
Actuarial losses on retirement benefit obligations			(53.9 )		(53.9 )	(0.1 )	(54.0 )
Tax on actuarial losses on retirement benefit obligations			8.1		8.1		8.1
Change in fair value of outstanding cash flow hedges				(9.1 )	(9.1 )		(9.1 )
Net transfer to income statement hedges				(2.4 )	(2.4 )		(2.4 )
Net investment hedges				(27.3 )	(27.3 )		(27.3 )
Net deferred income tax movement for the year				2.8	2.8		2.8
Total other comprehensive income and expenditure			(45.8 )	80.3	34.5	8.2	42.7
Total comprehensive income for the year			104.4	80.3	184.7	16.7	201.4
Capital reorganisation costs			(1.6 )		(1.6 )		(1.6 )
reduction in capital		(646.6)	646.6				
Purchase of treasury shares (note 22)			(0.2 )		(0.2 )		(0.2 )
Share-based payments charge for year			0.9		0.9		0.9
attributable tax			(0.2 )		(0.2 )		(0.2 )
shares issued		0.2	(0.2 )				
Dividends paid			(31.7 )		(31.7 )	(4.3 )	(36.0 )
At 31 December 2008	3.3		1,014.9	(439.9)	578.3	40.0	618.3

See accompanying notes to the consolidated financial statements.



TABLE OF CONTENTS**CHARTER INTERNATIONAL PLC****CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)**

	Attributable to owners of the Company			Total £m	Non-control interests £m	Total equity £m	
	Share capital £m	Share premium £m	Retained earnings £m				Other reserves £m
At 1 January 2009	3.3		1,014.9	(439.9)	578.3	40.0	618.3
Comprehensive income							
Profit for the year			63.5		63.5	11.3	74.8
Other comprehensive income and expenditure							
Exchange translation				(33.8 )	(33.8 )	(3.0 )	(36.8 )
Exchange translation transfer to income statement on disposal				(0.9 )	(0.9 )		(0.9 )
Actuarial losses on retirement benefit obligations			(42.2 )		(42.2 )		(42.2 )
Tax on actuarial losses on retirement benefit obligations			5.2		5.2		5.2
Change in fair value of outstanding cash flow hedges				2.7	2.7		2.7
Net transfer to income statement hedges				7.9	7.9		7.9
Net investment hedges				5.7	5.7		5.7
Net deferred income tax movement for the year hedges				(2.6 )	(2.6 )		(2.6 )
Total other comprehensive income and expenditure			(37.0 )	(21.0 )	(58.0 )	(3.0 )	(61.0 )
Total comprehensive income and expenditure for the year			26.5	(21.0 )	5.5	8.3	13.8
Purchase of treasury shares (note 22)			(0.2 )		(0.2 )		(0.2 )
Share-based payments charge for year			1.0		1.0		1.0
shares issued		0.8	(0.5 )		0.3		0.3
Dividends paid			(35.0 )		(35.0 )	(6.9 )	(41.9 )
At 31 December 2009	3.3	0.8	1,006.7	(460.9)	549.9	41.4	591.3
At 1 January 2010	3.3	0.8	1,006.7	(460.9)	549.9	41.4	591.3
Comprehensive income							
Profit for the year			106.6		106.6	12.3	118.9
Other comprehensive income and expenditure							

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Exchange translation			18.1	18.1	4.8	22.9	
Actuarial gains on retirement benefit obligations	(0.1 )			(0.1 )	1.1	1.0	
Tax on actuarial gains on retirement benefit obligations	(3.0 )			(3.0 )	(0.3 )	(3.3 )	
Change in fair value of outstanding cash flow hedges			0.1	0.1		0.1	
Net transfer to income statement hedges			(0.2 )	(0.2 )		(0.2 )	
Net deferred income tax movement for the year hedges							
Total other comprehensive income and expenditure	(3.1 )	18.0	14.9	5.6	20.5		
Total comprehensive income and expenditure for the year	103.5	18.0	121.5	17.9	139.4		
Purchase of treasury shares (note 22)	(0.1 )			(0.1 )		(0.1 )	
Share-based payments charge for year	1.1			1.1		1.1	
shares issued	0.4	(0.4 )					
Shares issued to non-controlling interests					1.5	1.5	
Dividends paid	(36.7 )			(36.7 )	(6.6 )	(43.3 )	
At 31 December 2010	3.3	1.2	1,074.1	(442.9)	635.7	54.2	689.9

See accompanying notes to the consolidated financial statements.

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# CHARTER INTERNATIONAL PLC

## CONSOLIDATED BALANCE SHEET

### At 31 December

Note	2010 £m	2009 £m
Non-current assets		
10	149.2	139.1
Intangible assets		
11	306.0	280.2
Property, plant and equipment		
12	18.6	18.0
Investments in associates and joint ventures		
20	31.4	15.9
Retirement benefit assets		
19	96.2	88.5
Deferred income tax assets		
14	16.0	21.3
Trade and other receivables		
21	0.1	0.1
Derivative financial instruments		
	617.5	563.1
Current assets		
13	295.1	238.5
Inventories		
14	456.5	426.5
Trade and other receivables		
21	2.1	1.7
Derivative financial instruments		
	6.8	10.0
Current income tax receivables		

15		
Cash and cash deposits	83.3	75.6
11		
Assets held for sale	6.1	
Total assets	849.9	752.3
Current liabilities	1,467.4	1,315.4
16		
Borrowings	(48.6 )	(19.8 )
17		
Trade and other payables	(396.3 )	(378.8 )
21		
Derivative financial instruments	(2.4 )	(2.0 )
Current income tax liabilities	(22.4 )	(33.4 )
18		
Provisions for other liabilities and charges	(41.4 )	(52.3 )
	(511.1 )	(486.3 )
Non-current liabilities		
16		
Borrowings	(32.9 )	(4.9 )
19		
Deferred income tax liabilities	(38.4 )	(29.7 )
20		
Retirement benefit obligations	(170.1 )	(178.1 )
18		
Provisions for other liabilities and charges	(19.2 )	(21.6 )
21		
Derivative financial instruments	(0.2 )	(0.5 )
17		
Other payables	(5.6 )	(3.0 )
Total liabilities	(266.4 )	(237.8 )
Net assets	(777.5 )	(724.1 )
Equity	689.9	591.3
22		
Ordinary share capital	3.3	3.3
22		
	1.2	0.8

Share premium		
Retained earnings	1,074.1	1,006.7
24		
	(442.9 )	(460.9 )
Other reserves		
Total equity shareholders funds	635.7	549.9
Non-controlling interests	54.2	41.4
Total equity	689.9	591.3

See accompanying notes to the consolidated financial statements.

TABLE OF CONTENTS**CHARTER INTERNATIONAL PLC****CONSOLIDATED CASH FLOW STATEMENT**

Note	Year ended 31 December		
	2010 £m	2009 £m	2008 £m
Cash flow from operating activities 28	85.5	171.5	159.5
Cash generated from operations			
Interest received	3.4	4.3	4.5
Interest paid	(4.3 )	(4.8 )	(6.5 )
Taxation paid	(36.5)	(46.0)	(49.7 )
Net cash flow from operating activities	48.1	125.0	107.8
Cash flow from investing activities 29	(0.8 )	(2.6 )	(39.4 )
Purchase of subsidiary undertakings, net of cash acquired			
Investment in associates and joint ventures 29	(0.7 )	(1.9 )	
		1.3	
Disposal of subsidiary undertaking			
Expenditure on development costs	(5.7 )	(5.7 )	(4.4 )
Purchase of property, plant and equipment and computer software	(56.4)	(60.0)	(66.5 )
Sale of property, plant and equipment and computer software	1.8	0.9	1.7
Dividends received from associates and joint ventures	3.2	4.3	1.6
Net cash flow from investing activities	(58.6)	(63.7 )	(107.0)
Cash flow from financing activities			
Increase in short-term borrowings (other than those repayable on demand)	38.3		3.8
Decrease in short-term borrowings (other than those repayable on demand)	(11.3)	(2.4 )	(2.4 )
Increase in long-term borrowings	29.0		13.2
Decrease in long-term borrowings	(1.5 )	(1.3 )	(9.0 )
Repayment of capital element of finance leases	(0.6 )	(0.7 )	(0.8 )
Cash inflow/(outflow) from debt and lease financing	53.9	(4.4 )	4.8
Decrease/(increase) in cash on deposit	2.3	(4.0 )	0.8
Cash settlement of net investment hedges 31		(13.7)	
	(36.7)	(35.0)	(31.7 )
Dividends paid to equity shareholders of the Company			
Dividends paid to non-controlling interests	(6.6 )	(6.9 )	(4.3 )
Issue of ordinary share capital equity shareholders of the Company		0.3	
Share issue costs			

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Issue of share capital non-controlling interests	1.5		(1.6 )
Purchase of treasury shares	(0.1 )	(0.2 )	(0.2 )
Net cash flow from financing activities	14.3	(63.9 )	(32.2 )
Net increase/(decrease) in cash, cash equivalents and bank overdrafts	3.8	(2.6 )	(31.4 )
Cash, cash equivalents and bank overdrafts at beginning of the year	53.1	61.4	89.8
Currency variations on cash, cash equivalents and bank overdrafts	3.9	(5.7 )	3.0
15			
<b>Cash, cash equivalents and bank overdrafts at end of the year</b>	60.8	53.1	61.4

See accompanying notes to the consolidated financial statements.

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# CHARTER INTERNATIONAL PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of preparation and accounting policies

#### (i) Corporate information

Charter International plc (the Company), which is the ultimate parent company of the Charter Group (being the Company and its subsidiaries), is incorporated and registered in Jersey under the Jersey Companies Law as a public company limited by shares. The Company is tax resident in the Republic of Ireland and its shares are listed on the London Stock Exchange's market for listed securities (the London Stock Exchange).

These consolidated financial statements were authorised for issue by the Board of Directors of the Company on 7 October 2011.

#### (ii) Accounting policies

The consolidated financial statements for the Group have been prepared on the basis of accounting policies set out below in accordance with International Financial Reporting Standards (IFRSs) and International Financial Reporting Interpretations Committee (IFRIC) interpretations as issued by the International Accounting Standards Board (IASB) and in compliance with the Companies (Jersey) Law 1991, collectively IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) at fair value.

#### Use of adjusted measures

In order to help provide a better indication of the Group's underlying business performance the following adjusted measures have been presented.

*Adjusted operating profit* is after excluding acquisition costs, amortisation and impairment of acquired intangibles and goodwill and exceptional items from operating profit. Items which are meaningful due to their size, nature and incidence of occurrence are presented as exceptional items. (See Note 2 and Note 5).

*Adjusted earnings per share* are calculated after excluding acquisition costs, amortisation and impairment of acquired intangibles and goodwill, exceptional items and exchange gains and losses on retranslation of intercompany loans and non-cash net financing costs attributable to retirement benefit obligations, including attributable tax and minority interests, from basic earnings per share. (See Note 9)

Management believes that adjusted operating profit is useful to investors as it excludes items which do not impact the day-to-day operations and which management in some cases does not directly control or influence, and therefore



provides users with a better understanding of the underlying business performance.

## **Principal accounting policies**

The principal accounting policies set out below have been consistently applied to all the periods presented, unless otherwise stated, in respect of the Company, its subsidiaries and associated undertakings.

## **Critical accounting estimates and judgements**

The preparation of financial statements in accordance with generally accepted accounting principles under IFRS requires the Group to make estimates, judgements and assumptions that may affect the reported amounts of assets, liabilities, revenue and expenses and the disclosure of contingent assets and liabilities in the financial statements. On an ongoing basis, estimates are evaluated using historical experience, consultation with experts and other methods that are considered reasonable in the particular circumstances to ensure compliance with IFRS. Actual results may differ significantly from these estimates, the effect of which is recognised in the period in which the facts that give rise to the revision become known. Should circumstances change, such that different assumptions, estimates and judgements are considered to be more appropriate, this may give rise to material adjustments to the carrying value of assets and liabilities in the next financial year particularly in respect of the key estimates, judgements and assumptions outlined below.

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# CHARTER INTERNATIONAL PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of preparation and accounting policies (continued)

#### Construction contracts

Revenue and profit on construction contracts are usually recognised 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 31 December 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 31 December 2010 in respect of construction contracts amounted to £28.1 million (2009: £32.4 million). Warranty and product liability provisions at 31 December 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. At 31 December 2010, the net retirement benefit obligation was £138.7 million (2009: £162.2 million).

#### Goodwill impairment testing

Capitalised goodwill is tested annually for impairment. Should the carrying value of the goodwill exceed its recoverable amount an impairment loss is recognised. 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 the Group'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. At 31 December 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 31 December 2010, these provisions amounted to £21.9 million (2009: £30.6 million).

## **Tax estimates**

The Group'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 the Group to take into account anticipated decisions of tax authorities and estimate the Group's ability to utilise tax benefits through future earnings, based on approved budgets and forecasts, and tax planning. These estimates and assumptions may differ from future events. At 31 December 2010, net income tax liabilities provided were £15.6 million (2009: £23.4 million) and net deferred income tax assets recognised amounted to £57.8 million (2009: £58.8 million).

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# CHARTER INTERNATIONAL PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of preparation and accounting policies (continued)

#### Changes to accounting policies

Revised standards mandatory for the first time for the financial year beginning 1 January 2010 adopted by the Group:

IFRS 3 (revised) Business combinations . The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent consideration measured at fair value at the acquisition date and subsequently remeasured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are required to be expensed. The Group has applied IFRS 3 (revised) prospectively to transactions from 1 January 2010. Acquisition costs of £0.2 million that would have previously been included as part of the consideration have been expensed in the period in accordance with the revised standard.

IAS 27 (revised) Consolidated and separate financial statements . The revised standard requires the effects of all transactions with non-controlling (termed minority under the previous standard) interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognised in profit or loss. The Group has applied IAS 27 (revised) prospectively to transactions with non-controlling interests from 1 January 2010. There has been no impact of IAS27 (revised) on the current period.

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2010 and not early adopted.

IFRS 9 Financial instruments

IAS 24 (revised) Related party disclosures

Amendment to IFRIC 14 IAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction

These changes are currently being assessed but are unlikely to have a significant impact on the financial statements.

New standards and interpretations not yet adopted

The Company has not adopted the following pronouncements, all of which were issued by the IASB on 12 May 2011 and which are effective for periods beginning on or after 1 January 2013. The Company has not completed its assessment of the impact of these pronouncements on the consolidated results, financial position or cash flows of the Company.

IFRS 10, Consolidated Financial Statements, which replaces parts of IAS 27, Consolidated and Separate Financial Statements and all of SIC-12, Consolidation Special Purpose Entities, builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The remainder of IAS 27, Separate Financial Statements, now contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates only when an entity prepares separate financial statements and is therefore not applicable in the Company's consolidated financial statements.

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## CHARTER INTERNATIONAL PLC

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of preparation and accounting policies (continued)

IFRS 11, Joint Arrangements, which replaces IAS 31, Interests in Joint Ventures and SIC-13, Jointly Controlled Entities Non monetary Contributions by Venturers, requires a single method, known as the equity method, to account for interests in jointly controlled entities which is consistent with the accounting treatment currently applied to investments in associates. In addition to prescribing the accounting for investment in associates, it now sets out the requirements for the application of the equity method when accounting for joint ventures. The application of the equity method has not changed as a result of this amendment.

IFRS 12, Disclosure of Interest in Other Entities, is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The standard includes disclosure requirements for entities covered under IFRS 10 and IFRS 11.

IFRS 13, Fair Value Measurement, provides guidance on how fair value should be applied where its use is already required or permitted by other standards within IFRS, including a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS.

New standards and amendments to standards mandatory for the first time for the financial year beginning 1 January 2009 adopted by the Group:

IAS 1 (revised) Presentation of financial statements. The revised standard requires owner changes in equity such as dividends and issue of share capital to be shown in a separate statement. Other items of income and expenditure are required to be included in a statement of comprehensive income comprising either a single statement or two statements; an income statement and a statement of comprehensive income. The Group has elected to follow the latter approach and present two statements.

IAS 23 (revised) Borrowing costs. Borrowing costs directly attributable to expenditure on a qualifying asset where expenditure in relation to that asset commenced after 1 January 2009 are included in the cost of that asset. There has been no impact on the Group's financial statements as a consequence of adopting the revised standard.

IFRS 8 Operating segments. IFRS 8 replaces IAS 14 Segment reporting. It requires a management approach under which segment information is presented on the same basis as that used for internal reporting purposes to the Chief Operating Decision Maker. There have been no changes to the reportable segments presented following the adoption of IFRS 8.

IFRS 2 (amendment) Share-based payment (effective 1 January 2009) deals with vesting conditions and cancellations.

It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group has adopted IFRS 2 (amendment) from 1 January

2009. The amendment does not have a material impact on the Group's financial statements.

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# CHARTER INTERNATIONAL PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of preparation and accounting policies (continued)

#### (iii) Basis of consolidation

##### (a) Subsidiaries

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies of the entity. A shareholding of more than one-half of the voting rights will normally be the basis of such control. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed. Acquisition-related costs are expensed as incurred. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the cost of acquisition, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired, including all separately identifiable intangible assets, is recorded as goodwill and capitalised as an intangible asset (see (ix) (a) Goodwill below). As noted above with effect from 1 January 2010 acquisition-related costs are expensed.

Intercompany balances and transactions, and any unrealised gains and losses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

##### (b) Transactions and non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for



as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss. If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

**(c) Associates and joint ventures**

Associates and joint ventures are entities over which the Group has significant influence but not control, normally on the basis of a shareholding of between 20 per cent and 50 per cent of the voting rights. Investments in associates and joint ventures are accounted for by the equity method of accounting and are initially recorded at cost.

The Group's share of its associates' and joint ventures' post-acquisition profits or losses, net of interest and tax, is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

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## CHARTER INTERNATIONAL PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 1. Basis of preparation and accounting policies (continued)

Unrealised gains and losses on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the associates and joint ventures.

Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

#### (iv) Segmental reporting

Segment information is presented on the same basis as that used for internal purposes by the Chief Operating Decision Maker. Revenue by geographic segment is allocated based on the country in which the customer is located. Non-current assets and capital expenditure by geographic segment are allocated based on where the assets are located.

#### (v) Foreign currencies

Items included in the financial statements for each of the Group's entities are measured using the currency of the primary economic environment in which that entity operates (the functional currency). The consolidated financial statements are presented in sterling, the functional currency and presentation currency of Charter International plc.

Foreign currency transactions are translated into the functional currency of Group entities using the exchange rate at the date of transaction. Foreign exchange gains and losses arising from the settlement of transactions and from the translation at year-end exchange rates of monetary assets and liabilities are recognised in the income statement except where deferred in equity as qualifying cash flow hedges. The results and net assets of all Group companies that have non-sterling functional currency are included in the consolidated financial statements as follows:

- (a) assets and liabilities are translated at the closing exchange rate at the balance sheet date;
- (b) income and expenses are translated at average exchange rates for the relevant period; and
- (c) all resulting exchange differences arising since 1 January 2004 are recognised as a separate component of equity. On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is sold, such exchange differences arising since 1 January 2004 are recognised in the income statement as part of the gain or loss on sale.

#### (vi) Financial assets

The classification of financial assets depends on the purpose for which the assets were acquired. Management determines the classification of an asset at initial recognition and re-evaluates its designation at each reporting date.

Assets are classified as: loans and receivables; held-to-maturity investments; available-for-sale financial assets; or financial assets where changes in fair value are charged (or credited) to the income statement. Available-for-sale financial assets include non-derivatives not classified in any of the other categories.

The subsequent measurement of financial assets depends on their classification. On initial recognition loans and receivables and held-to-maturity investments are measured at amortised cost using the effective interest method. Available-for-sale financial assets and financial assets where changes in fair value are charged (or credited) to the income statement are subsequently measured at fair value. Realised and unrealised gains and losses arising from changes in the fair value of the financial assets at fair value through profit and loss category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available for sale are recognised in equity. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments previously taken to reserves are included in the income statement.

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# CHARTER INTERNATIONAL PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of preparation and accounting policies (continued)

Financial assets are derecognised when the right to receive cash flows from the assets has expired or has been transferred, and the Company has transferred substantially all of the risks and rewards of ownership.

Financial assets classified as loans and receivables comprise Trade and other receivables and Cash and cash equivalents. They are classified as current if they are expected to be realised within 12 months of the balance sheet date.

#### (vii) Financial instruments

Derivative financial instruments, principally forward foreign exchange contracts and foreign currency swaps, that are used as hedges in the financing and financial risk management of the Group are categorised as hedges. Derivative financial instruments categorised as hedges are initially measured at fair value on the date a derivative contract is entered into and subsequently remeasured at their fair value at each balance sheet date.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. When derivatives are designated as hedging instruments these are classified as either: (1) hedges of the fair value of recognised assets or liabilities (fair value hedge); (2) hedges of highly probable forecast transactions (cash flow hedge); or (3) hedges of net investments in foreign operations (net investment hedge).

For cash flow hedges and net investment hedges, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in shareholders' equity, with any ineffective portion recognised in the income statement generally as part of financing. When hedged cash flows result in the recognition of a non-financial asset or liability, the associated gains or losses previously recognised in shareholders' equity are included in the initial measurement of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in shareholders' equity are transferred to the income statement in the same period in which the hedged cash flows affect the income statement. For net investment hedges gains and losses accumulated in shareholders' equity are included in the income statement when the foreign operation is disposed of.

The designation of hedging instruments, and their relationship to hedged items, is documented as appropriate at the time of designation. Assessments of whether designated hedging instruments are highly effective in offsetting changes in fair values or cash flows of hedged items are documented at designation and periodically thereafter.

Any gains or losses arising from changes in fair value of other derivative financial instruments, including fair value hedges, are recognised in the income statement.

## **(viii) Property, plant and equipment**

The Group's policy is to carry property, plant and equipment at historic cost less accumulated depreciation and impairment losses except that certain properties were revalued on transition to IFRS at 1 January 2004. These revaluations are treated as deemed cost as at 1 January 2004 as allowed by IFRS 1. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Borrowing costs associated with expenditure on property, plant and equipment that first commenced after 1 January 2009 are capitalised (see (xvi) Borrowings below). Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of preparation and accounting policies (continued)

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method spreading the difference between cost and residual value over the estimated useful life as follows:

Buildings	30 – 50 years
Plant, machinery and equipment	8 – 14 years
Vehicles	5 years
IT equipment	3 – 5 years

Asset lives and residual values are re-assessed at least annually.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its recoverable amount (see (x) Impairment of assets below).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

### (ix) Intangible assets

#### (a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the subsidiary or associate acquired.

Goodwill, represented by the carrying value at 1 January 2004 under the Group's previous accounting policy together with additional amounts arising since that date, is no longer amortised and is carried at cost less accumulated impairment losses. Goodwill is included in intangible assets in relation to subsidiaries and in investments in associates and joint ventures in relation to associates and joint ventures. In respect of acquisitions prior to 1 January 2004, the classification and accounting treatment of business combinations has not been restated on transition to IFRS, as permitted by IFRS 1.

Goodwill arising prior to 1 January 1998 was written off directly to reserves. Goodwill arising in the period 1 January 1998 to 31 December 2003 was capitalised as an intangible asset in relation to subsidiaries and amortised on a straight-line basis over its estimated useful life, a period not exceeding 20 years, or included as part of the carrying value of associates and joint ventures.

Goodwill acquired in business combinations and carried in the balance sheet is allocated to the cash-generating units

( CGUs ) that are expected to benefit from the business combination.

**(b) Research and development**

Research expenditure is charged to income in the year in which it is incurred.

Internal development expenditure is charged to income in the year in which it is incurred, unless it meets the recognition criteria of IAS 38 Intangible assets , in which case such costs are capitalised and amortised on a straight-line basis over the estimated useful life of the asset created, usually between 3 and 10 years.

**(c) Computer software**

Acquired computer software licences are capitalised on the basis of the costs incurred and amortised on a straight-line basis over the estimated useful life of the licence, usually between 3 and 7 years.

Internal expenditure associated with developing or maintaining computer software programmes is charged to income in the year in which it is incurred, except for such costs that are directly associated with the production of identifiable and unique software products controlled by the Group that are likely to generate benefits exceeding costs beyond 1 year which are capitalised and amortised on a straight-line basis over the estimated useful life of the software product, usually less than 7 years.

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# CHARTER INTERNATIONAL PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of preparation and accounting policies (continued)

#### (d) Intangibles arising on acquisitions

In establishing the fair value of assets and liabilities arising on acquisitions the Group identifies the fair values attributable to intangible assets. The intangible assets recognised include the value in respect of brands and trademarks, intellectual property rights, customer contracts and relationships and proprietary technology rights and know-how. All intangibles recognised on business combinations are amortised over the expected useful economic lives, usually between 3 and 10 years.

#### (x) Impairment of assets

Assets that have an indefinite useful life, including goodwill, are not subject to amortisation and are tested annually for impairment and whenever there is an indication that the intangible asset may be impaired. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

#### (xi) Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined using the first-in first-out (FIFO) basis or the average cost basis. Cost includes expenditure which is incurred in the normal course of business in bringing the product to its present location and condition. Net realisable value is the estimated selling price less all disposal costs to be incurred.

#### (xii) Assets held for sale

Assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is met only when the asset is available for immediate sale in its present condition and the sale is highly probable within one year from the date of classification.

Assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell and cease to be depreciated from the date of classification.



### **(xiii) Trade receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less any provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due. The amount of the provision is recognised in the income statement. Trade receivables are discounted when the time value of money is considered material. Amounts due after more than 12 months from the balance sheet date are classified in the balance sheet as non-current .

### **(xiv) Cash, cash equivalents and bank overdrafts**

For the purposes of the cash flow statement, cash, cash equivalents and bank overdrafts includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of 3 months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

### **(xv) Trade payables**

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

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# CHARTER INTERNATIONAL PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of preparation and accounting policies (continued)

#### (xvi) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and are subsequently stated at amortised cost. Where borrowings are used to hedge the Group's interest in the net assets of foreign operations, the portion of the foreign exchange gain or loss on the borrowings that are determined to be an effective hedge is recognised in shareholders' equity. Gains and losses accumulated in shareholders' equity are included in the income statement when the foreign operation is disposed of.

Borrowing costs directly attributable to expenditure that first commenced after 1 January 2009 on a qualifying asset (one that takes a substantial period of time to get ready for use or sale) is included in the cost of that asset. Capitalisation ceases when the qualifying asset is substantially complete. Borrowing costs in relation to inventories and construction contracts that are manufactured in large quantities on a repetitive basis are not capitalised.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

#### (xvii) Taxation

Taxation is that chargeable on the profits for the period, together with deferred income taxation. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, including actuarial gains and losses on retirement benefit obligations (see (xviii) Employee benefits below) and share-based payments (see (xix) Share-based payments below), in which case it is recognised in equity.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income taxation liabilities are provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated balance sheet.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income taxation is not provided on the unremitted earnings of subsidiaries where the timing of the reversal of the resulting temporary difference is controlled by the Group and it is probable that the temporary difference will

not reverse in the foreseeable future or where the remittance would not give rise to incremental tax liabilities or is otherwise not taxable.

### **(xviii) Employee benefits**

The Group accounts for pensions and similar post-retirement benefits (principally healthcare) under IAS 19 Employee benefits .

In respect of defined benefit pension plans, where the amount of pension benefit that an employee will receive on retirement is defined by the plan, the liability recorded in the balance sheet is the present value of the defined obligation at that date less the fair value of the plan assets, together with an adjustment for any unrecognised past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in full in the period in which they occur directly in equity, in the statement of comprehensive income.

Taxation attributable to actuarial gains and losses is taken to equity.

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# CHARTER INTERNATIONAL PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of preparation and accounting policies (continued)

Past service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period, in which case the past service costs are spread over that period.

For defined benefit schemes, the amount charged to operating profit in the income statement comprises the current service cost, past service cost and the impact of any settlements or curtailments. Interest on plan liabilities and the expected return on plan assets is included within financing in the income statement. For defined contribution plans, where the Group pays a fixed contribution into a separate entity and has no legal or constructive obligations to pay further contributions irrespective of whether or not the fund has sufficient assets to pay all employees the benefits relating to service in the current and prior periods, the contributions are recognised as an expense when they are due.

For other defined benefit post-employment obligations, principally post-employment medical arrangements in the US, a similar accounting methodology to that for defined benefit pension plans is used. Where the actuarial valuation of a scheme demonstrates that the scheme is in surplus, the recognised asset is limited to the extent that the Group can benefit in future, for example by refunds or a reduction in contributions. Movements in the amount of any irrecoverable surplus are recognised directly in equity, in the statement of comprehensive income.

### **(xix) Share-based payments**

The Group operates both equity-settled and cash-settled share-based compensation plans.

The fair value of the employee services received in exchange for participation in the plan is recognised as an expense in the income statement.

In the case of equity-settled plans the fair value of the employee service is based on the fair value of the equity instruments granted. This expense is spread over the vesting period of the instrument. The corresponding entry is credited to equity. Taxation attributable to the excess of the fair value over the charge to the income statement is taken to equity. The liability for social security costs arising in relation to the awards is remeasured at each reporting date based on the share price as at the reporting date and the elapsed portion of the relevant vesting periods to the extent it is considered probable that a liability will arise.

Cash-settled plans are measured on a similar basis except that the fair value of the liability is remeasured at each reporting date, with changes recognised in the income statement. For cash-settled plans the corresponding entry is included as a liability.

## **(xx) Government grants**

Grants receivable from governments or similar bodies are credited to the balance sheet in the period in which the conditions relating to the grant are met. Where they relate to specific assets they are amortised on a straight-line basis over the same period as the asset is depreciated. Where they relate to revenue expenditure and/or non-asset criteria they are taken to the income statement to match the period in which the expenditure is incurred and criteria met.

## **(xxi) Provisions for other liabilities**

Provisions for disposal and restructuring costs, warranty and product liability, and legal and environmental liability are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

If all these conditions are not met then no provision is recognised. Incurred but not reported ( IBNR ) amounts are included in provisions. Provisions are not recognised for future operating losses. If the effect of discounting is material, provisions are determined by discounting the expected value of future cash flows at a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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# CHARTER INTERNATIONAL PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of preparation and accounting policies (continued)

#### (xxii) Share capital

Ordinary shares are classified as equity. Share issue costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid is deducted from Group equity until the shares are cancelled or reissued.

#### (xxiii) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for goods and services and the value of work executed during the year in respect of construction contracts. Revenue, which is recorded net of value-added tax, rebates and discounts, and after eliminating intra-group sales, is recognised as follows:

##### (a) Sales of goods and services

The majority of the Group's revenues relate to the sale of goods and services which are recognised when a Group entity has fulfilled its contractual obligations to a customer and has obtained the right to receive consideration. In respect of the sale of goods this is usually on despatch but is dependent upon the contractual terms that have been agreed with a customer.

##### (b) Construction contracts

Revenue is recognised by a Group entity in accordance with the stage of completion of its contractual obligations to the customer. The stage of completion is usually based on the proportion of costs incurred compared to the total expected costs to complete the contract, where this also represents a right to receive consideration, and provided the outcome of the contract can be assessed with reasonable certainty.

Losses on contracts are recognised in the period in which the loss first becomes foreseeable. Contract losses are determined to be the amount by which estimated direct and indirect costs of the contract exceed the estimated total revenues that will be generated by the contract.

#### (xxiv) Leases

Costs in respect of operating leases are charged on a straight-line basis over the lease term. Leasing agreements which transfer to the Group substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in property, plant and equipment and the capital element of the leasing commitments is shown as an obligation under finance leases. The lease rentals are treated as consisting of capital and interest repayment elements. The capital element is applied to reduce the outstanding obligations and the interest element charged to income so as to give a constant periodic rate of charge on the remaining balance outstanding at each accounting period. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

## **(xxv) Dividend distribution**

Dividend distributions to the Company's shareholders are recognised in the accounts in the period when paid.

## **2. Segment analysis**

The Group is organised into two principal businesses: ESAB (welding, cutting and automation) and Howden (air and gas handling). For the purposes of IFRS 8 Operating segments, ESAB is split into two segments: (i) welding; and (ii) cutting and automation. Inter-segmental revenue is not significant. Amounts included under the heading Other comprises central operations. Internally, Group management use performance indicators such as adjusted operating profit as measures of segment performance and to make decisions regarding allocation of resources. These measures are reconciled to Group profit in the tables presented below.

TABLE OF CONTENTS**CHARTER INTERNATIONAL PLC****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****2. Segment analysis (continued)**

The following is an analysis of the revenue, results, assets and liabilities for the year analysed by segment.

Year ended 31 December 2010	Welding £m	Cutting and automation £m	Welding, cutting and automation £m	Air and gas handling £m	Other £m	Total £m
Total revenue	1,015.4	142.2	1,157.6	562.0		1,719.6
Adjusted operating profit	89.7	(0.4 )	89.3	67.8	(11.2 )	145.9
Acquisition costs				(0.2 )		(0.2 )
Amortisation and impairment of acquired intangibles and goodwill	(0.9 )	(3.7 )	(4.6 )	(1.2 )		(5.8 )
Exceptional items restructuring	(5.9 )	(2.4 )	(8.3 )	(1.6 )		(9.9 )
post retirement benefits curtailment gain	6.8	1.6	8.4			8.4
Operating profit	89.7	(4.9 )	84.8	64.8	(11.2 )	138.4
Share of post-tax profits of associates and joint ventures	4.0		4.0	(0.2 )		3.8
	93.7	(4.9 )	88.8	64.6	(11.2 )	142.2
Net financing credit						1.9
Profit before tax						144.1
Tax						(25.2 )
Profit for the year						118.9
Non-controlling interests						(12.3 )
Profit attributable to equity shareholders						106.6
Investments in associates and joint ventures	17.2		17.2	1.2	0.2	18.6
Other segment assets	759.2	130.3	889.5	419.5	36.8	1,345.8
Segment assets	776.4	130.3	906.7	420.7	37.0	1,364.4
Unallocated assets current income tax receivables						6.8
						96.2



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deferred income tax assets						
Total assets						1,467.4
Segment liabilities	(269.1 )	(59.7 )	(328.8 )	(297.4 )	(23.6 )	(649.8 )
Unallocated liabilities: current income tax liabilities						(22.4 )
						(38.4 )
deferred income tax liabilities						(66.9 )
						(777.5 )
borrowings (excluding bank overdrafts)						
Total liabilities						(777.5 )
Other segment items						
Capital expenditure on property, plant, equipment, computer software and development costs (notes 10 & 11)	39.0	5.4	44.4	18.0	0.1	62.5
Depreciation (note 11)	20.3	2.0	22.3	6.6	0.2	29.1
Amortisation of intangible assets (note 10)	4.8	1.4	6.2	2.8	0.5	9.5

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Year ended 31 December 2009	Welding £m	Cutting and automation £m	Welding, cutting and automation £m	Air and gas handling £m	Other £m	Total £m
Total revenue	846.7	184.7	1,031.4	627.8		1,659.2
Adjusted operating profit	55.6	10.4	66.0	71.5	(11.9 )	125.6
Acquisition costs					(0.3 )	(0.3 )
Amortisation and impairment of acquired intangibles and goodwill	(0.9 )	(0.6 )	(1.5 )	(1.0 )		(2.5 )
Exceptional items restructuring	(18.0 )	(6.3 )	(24.3 )	(2.0 )		(26.3 )
		(0.5 )	(0.5 )			(0.5 )
loss on disposal of business						
Operating profit	36.7	3.0	39.7	68.5	(12.2 )	96.0
Share of post-tax profits of associates and joint ventures	3.5		3.5			3.5
	40.2	3.0	43.2	68.5	(12.2 )	99.5
Net financing credit						(6.8 )
Profit before tax						92.7
Tax						(17.9 )
Profit for the year						74.8
Non-controlling interests						(11.3 )
Profit attributable to equity shareholders						63.5
Investments in associates and joint ventures	17.0		17.0	0.8	0.2	18.0
Other segment assets	629.3	124.2	753.5	421.9	23.5	1,198.9
Segment assets	646.3	124.2	770.5	422.7	23.7	1,216.9
Unallocated assets current income tax receivables						10.0
						88.5
deferred income tax assets						
Total assets						1,315.4
Segment liabilities	(241.6 )	(59.8 )	(301.4 )	(327.2 )	(20.7 )	(649.3 )

Unallocated liabilities: current income tax liabilities						(33.4 )
						(29.7 )
deferred income tax liabilities						(11.7 )
borrowings (excluding bank overdrafts)						(724.1 )
Total liabilities						
Other segment items						
Capital expenditure on property, plant, equipment, computer software and development costs (notes 10 & 11)	39.5	5.8	45.3	18.7	0.7	64.7
Depreciation (note 11)	18.1	2.0	20.1	5.9	0.2	26.2
Amortisation of intangible assets (note 10)	4.2	1.7	5.9	2.0	0.3	8.2

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Year ended 31 December 2008	Welding £m	Cutting and automation £m	Welding, cutting and automation £m	Air and gas handling £m	Other £m	Total £m
Total revenue	1,042.2	217.6	1,259.8	627.2		1,887.0
Adjusted operating profit	123.4	26.6	150.0	73.6	(12.4 )	211.2
Amortisation and impairment of acquired intangibles and goodwill	(0.7 )	(0.7 )	(1.4 )	(0.5 )		(1.9 )
Exceptional items restructuring	(5.6 )	(0.6 )	(6.2 )			(6.2 )
					(2.1 )	(2.1 )
change in holding company						
Operating profit	117.1	25.3	142.4	73.1	(14.5 )	201.0
Share of post-tax profits of associates and joint ventures	3.1		3.1	0.1		3.2
	120.2	25.3	145.5	73.2	(14.5 )	204.2
Net financing credit						(6.5 )
Profit before tax						197.7
Tax						(39.0 )
Profit for the year						158.7
Non-controlling interests						(8.5 )
Profit attributable to equity shareholders						150.2
Investments in associates and joint ventures	16.5		16.5	1.0	0.2	17.7
Other segment assets	745.0	181.4	926.4	467.5	46.1	1,440.0
Segment assets	761.5	181.4	942.9	468.5	23.7	1,457.7
Unallocated assets current income tax receivables						6.0
						69.7
deferred income tax assets						
Total assets						1,533.4
Segment liabilities	(304.8 )	(98.9 )	(403.7 )	(375.3 )	(53.5 )	(832.5 )
						(32.1 )

Unallocated liabilities: current income  
tax liabilities

(35.1 )

deferred income tax liabilities

(15.4 )

borrowings (excluding bank  
overdrafts)

Total liabilities

(915.1 )

Other segment items

Capital expenditure on property, plant,  
equipment, computer software and  
development costs

49.4      4.6      54.0      14.2      1.9      70.1

Depreciation

(15.0 )   (1.2 )   (16.2 )   (4.6 )   (0.1 )   (20.9 )

Amortisation of intangible assets

(3.2 )   (1.0 )   (4.2 )   (1.1 )   (0.1 )   (5.4 )

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	Revenue (by location of customer)		
	2010 £m	2009 £m	2008 £m
Ireland	2.1	2.3	4.0
UK	58.8	67.8	73.5
Other Europe	514.1	525.6	682.5
Europe	575.0	595.7	760.0
USA	270.4	297.0	346.8
Other North America	77.0	70.6	73.3
North America	347.4	367.6	420.1
Brazil	217.2	159.1	164.5
Other South America	64.4	44.5	63.8
South America	281.6	203.6	228.3
China	141.0	150.2	173.0
Other Asia	173.6	156.7	141.0
Asia	314.6	306.9	314.0
Rest of world	201.0	185.4	164.6
Total	1,719.6	1,659.2	1,887.0

	Non-current assets <sup>(i)</sup>		
	2010 £m	2009 £m	2008 £m
Ireland	0.2	0.2	
UK	40.0	33.4	27.3
Other Europe	112.5	111.2	116.6
Europe	152.7	144.8	143.9
USA	63.0	63.0	54.8
Other North America	8.6	8.4	9.1
North America	71.6	71.4	63.9
Brazil	77.5	63.7	52.3
Other South America	13.8	13.8	16.0

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South America	91.3	77.5	68.3
India	50.6	46.1	48.0
China	49.5	43.3	52.3
Rest of world	39.5	36.2	34.6
Total	455.2	419.3	411.0

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	Capital expenditure <sup>(ii)</sup>		
	2010 £m	2009 £m	2008 £m
Ireland		0.2	
UK	8.4	8.9	8.2
Czech Republic	6.4	2.3	
Sweden	8.1	5.5	
Other Europe	7.7	8.6	20.3
Europe	30.6	25.5	28.5
USA	6.1	20.6	15.3
Other North America	0.6	0.9	1.3
North America	6.7	21.5	16.6
Brazil	13.0	5.2	7.7
Other South America	1.4	1.4	3.4
South America	14.4	6.6	11.1
China	4.8	2.4	8.8
India	3.1	3.1	2.5
Rest of world	2.9	5.6	2.6
Total	62.5	64.7	70.1

(i) Non-current assets included above comprise intangible assets and property, plant and equipment.

(ii) Capital expenditure comprises property, plant, equipment, computer software and development costs. In 2008 Czech Republic and Sweden were included in Other Europe.

**3 Analysis of revenue by category**

	2010 £m	2009 £m	2008 £m
Sales of goods (including spare parts)	1,361.3	1,220.8	1,419.6
Revenue from construction contracts	294.2	385.0	423.3
Revenue from services	64.1	53.4	44.1
	1,719.6	1,659.2	1,887.0



TABLE OF CONTENTS**CHARTER INTERNATIONAL PLC****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****4 Operating profit**

	2010 £m	2009 £m	2008 £m
The following amounts have been charged/(credited) in arriving at operating profit:			
Staff costs (note 8)	398.3	375.6	359.9
Depreciation of property, plant and equipment (note 11)			
Owned assets	28.5	25.6	20.8
Finance leases	0.6	0.6	0.1
Impairment of property, plant and equipment (note 11)	(0.2 )	2.1	0.8
Amortisation of intangible assets (note 10)	9.5	8.2	5.4
Impairment of intangible assets (note 10)	3.7	1.4	0.3
Profit on disposal of property, plant and equipment	(0.7 )	(0.1 )	0.2
Operating lease rentals payable	17.2	18.1	22.8
Repairs and maintenance expenditure on property, plant and equipment	16.5	16.6	20.8
Research and development expenditure	14.7	11.4	8.8
Inventories recognised as expense (note 13)	1,036.1	998.1	1,187.7
Trade and other receivables impairment (note 14)	6.4	5.4	5.9
Amortisation of government grants	(0.6 )	(0.6 )	(0.5 )
Net exchange losses	2.7	2.6	0.1
Restructuring costs (excluding impairment) (note 5)	9.3	17.1	5.4

	Group			Associated Pension Schemes		
	2010 £m	2009 £m	2008 £m	2010 £m	2009 £m	2008 £m
Services provided by the Company's Auditor and network firms						
Audit services						
Fees payable to the Company's Auditor for the audit of the parent Company and consolidated financial statements	0.5	0.7	0.7			
Non-audit services						
Fees payable to the Company's Auditor and its associates for other services:						
Auditing of the Company's subsidiaries pursuant to legislation	2.3	2.3	2.3	0.1	0.1	0.1

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Other services pursuant to legislation	0.2	0.2	0.2			
Other services relating to taxation	0.5	0.5	0.8			
All other services	0.4	0.1	1.8			
	3.9	3.8	5.8	0.1	0.1	0.1

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To help provide a better indication of the Group's underlying business performance, items which are meaningful due to their size, nature and incidence of occurrence are presented as exceptional items.

The following items have been classified as exceptional:

	2010	2009	2008
	£m	£m	£m
Restructuring costs			
Headcount reductions	3.9	13.8	5.4
Impairment of intangibles and property, plant and equipment	0.3	3.5	0.8
Impairment of inventory	0.3	4.8	
Impairment of receivables		0.9	
Other restructuring costs	5.4	3.3	
	9.9	26.3	6.2
Curtailment gain on cessation of certain post employment medical benefits in the United States	(8.4 )		
Loss on disposal of business (note 29)			
Loss on disposal before exchange gains transferred from reserves		1.4	
Exchange gains transferred from reserves		(0.9 )	
		0.5	
Change in holding company			2.1
	1.5	26.8	8.3

A tax charge of £1.5 million (2009: credit £4.2 million; 2008: credit £1.5 million) is attributable to the exceptional items. There is no non-controlling interest attributable to the exceptional items in any of the periods presented.

TABLE OF CONTENTS**CHARTER INTERNATIONAL PLC****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****6 Net financing credit/(charge)**

	2010 £m	2009 £m	2008 £m
Net financing charge retirement benefit obligations (note 20):			
Interest on schemes liabilities	(38.9)	(37.8)	(37.3 )
Expected return on schemes assets	34.8	30.1	36.6
	(4.1 )	(7.7 )	(0.7 )
Interest payable on bank borrowings	(2.2 )	(1.8 )	(3.7 )
Interest payable on bank borrowings fees	(0.6 )	(0.7 )	(0.8 )
	(2.8 )	(2.5 )	(4.5 )
Interest payable on other loans		(0.1 )	(0.8 )
Interest payable on finance leases	(0.1 )	(0.1 )	(0.1 )
Fair value losses on derivative financial instruments		(1.5 )	(1.0 )
Exchange losses on cash and borrowings	(0.3 )	(1.1 )	
Other	(1.4 )	(2.0 )	
Unwinding of discount on provisions (note 18)	(0.4 )	(0.3 )	(0.4 )
Other financing charge before exchange losses on retranslation of intercompany loan balances	(5.0 )	(7.6 )	(6.8 )
Interest income on bank accounts and deposits	1.4	1.9	3.3
Interest income on financial assets not held at fair value	0.2	0.2	0.4
Fair value gains on derivative financial instruments	0.8	0.1	1.2
Other	1.1	2.3	0.7
Other financing income before exchange gains on retranslation of intercompany loan balances	3.5	4.5	5.6
Net financing charge before exchange gains/(losses) on intercompany loan balances	(5.6 )	(10.8)	(1.9 )
Net exchange gains/(losses) on retranslation of intercompany loan balances	7.5	4.0	(4.6 )
Net financing credit/(charge)	1.9	(6.8 )	(6.5 )

**7 Taxation**

	2010 £m	2009 £m	2008 £m
Tax charge on profits <sup>(i)</sup>	25.3	22.7	38.5
Taxation on exceptional items and acquisition costs	1.5	(4.2 )	(1.5 )
Taxation on amortisation and impairment of acquired intangibles and	(1.2 )	(0.7 )	(0.4 )

goodwill

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
Taxation charge		25.2	17.9	39.0

Excluding exceptional items and acquisition costs, amortisation and impairment of acquired intangibles and (i) goodwill, net financing charge retirement benefit obligations, and net exchange gains/(losses) on retranslation of intercompany loan balances

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	2010 £m	2009 £m	2008 £m
Current taxation			
Current year	41.9	37.9	62.4
Adjustments in respect of previous years	(4.0 )	10.5	(9.4 )
Total current tax charge	37.9	48.4	53.0
Deferred income taxation			
Current year	(10.7 )	(13.4 )	(3.5 )
Adjustments in respect of previous years	(2.0 )	(17.1 )	(10.5 )
Total deferred income tax credit (note 19)	(12.7 )	(30.5 )	(14.0 )
Taxation charge	25.2	17.9	39.0

**Factors affecting the tax charge for the year**

The Company is tax-resident in Ireland. Prior to 22 October 2008 charter plc, a UK tax-resident company, was the ultimate parent company of the Charter Group. The tax assessed for the year is lower (2009 and 2008: lower) than the standard rate of corporation tax for investment companies in the Republic of Ireland of 25 per cent (2009: 25 per cent, 2008: UK 28.5 per cent). The differences are explained below:

	2010 £m	2009 £m	2008 £m
Profit before tax	144.1	92.7	197.7
Profit multiplied by rate of corporation tax in the Republic of Ireland of 25 per cent (2009: 25 per cent)	36.0	23.2	56.3
Effects of:			
Adjustment to tax in respect of prior year <sup>(i)</sup>	(6.1 )	(6.5 )	(19.8 )
Benefit of lower foreign tax rates	(2.2 )	(1.2 )	(5.2 )
Other taxes (primarily US state taxes)	2.6	1.6	2.4
Tax incentives	(0.2 )	(0.2 )	(0.3 )
Non-deductible expenses and tax-effective items not in income statement	(2.5 )	(0.8 )	8.9
Movement on deferred income tax assets not recognised	2.4	1.9	(5.8 )
Difference between book profit and chargeable gains		0.2	(0.1 )
Share of associates post-tax profits not taxable	(1.0 )	(0.9 )	(0.9 )
Non-taxable exchange on retranslation of intercompany loan	(3.8 )	0.6	3.5

balances			
Taxation charge	25.2	17.9	39.0

The adjustment attributable to previous year's tax in 2010 and 2009 principally reflects the net release of provisions following the final settlement of an uncertain tax position in respect of a previously ongoing tax audit. In 2008 the (i) adjustment mainly relates to the recognition of the benefit of the future use of brought-forward tax losses that were not previously considered to be recoverable from future taxable profits.

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	2010 £m	2009 £m	2008 £m
(i)			
Aggregate amounts payable			
Wages and salaries	338.1	309.1	296.3
Long-term incentive plan costs	1.4	1.9	0.5
Social security costs	59.0	55.1	53.5
Post-retirement (credit)/costs			
Defined benefit schemes and overseas medical costs (note 20)	(8.3 )	2.1	2.2
Defined contribution schemes	8.1	7.4	7.4
	398.3	375.6	359.9
	2010 Number	2009 Number	2008 Number
(ii)			
Average number of persons employed by the Group			
Welding	7,445	7,256	8,063
Cutting and automation	1,034	1,325	1,309
Welding, cutting and automation	8,479	8,581	9,372
Air and gas handling	3,783	3,819	3,856
Corporate	51	51	51
Total average headcount	12,313	12,451	13,279
At the year-end the number of employees was 12,407 (2009: 11,982, 2008: 13,364).			
	2010 £m	2009 £m	2008 £m
(iii)			
Key management compensation			
Salaries and short-term employee benefits	4.5	3.3	3.8
Termination benefits		0.3	
Post-retirement benefits	0.4	0.3	0.4



Share-based payments	1.1	1.0	0.7
	6.0	4.9	4.9

The amounts disclosed above for key management include the Directors of the Company, the Chief Executive of Howden Global, the Human Resources Director (from 29 April 2009), the Managing Director of ESAB Europe (from 29 April 2009), the Charter Company Secretary and General Counsel (appointed on 21 October 2009) and the Managing Director of ESAB Strategy and Development (from 1 September 2010). The former Chief Executive of ESAB Global and the President, Chairman and General Counsel of Anderson Group Inc. ceased to be key management on 29 April 2009 and 25 February 2009 respectively.

## 9 Earnings per share

Basic headline earnings per share are calculated on an average of 166.9 million shares (2009: 166.8 million shares, 2008: 166.7 million shares) representing the average number of shares in issue after excluding 0.1 million (2009: 0.1 million, 2008: nil) shares held by the Charter Employee Trust.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of 0.4 million (2009: 0.7 million, 2008: 0.2 million) dilutive potential ordinary shares. The Group has two classes of dilutive potential ordinary shares: those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year and the potentially issuable shares under the Group's long-term incentive plans.



## Profit attributable to equity shareholders of the Company

Items not relating to underlying business performance:

Exceptional items	0.9	16.0	5.0	1.5	26.8	8.3
Amortisation and impairment of acquired intangibles and goodwill	3.5	1.5	1.1	5.8	2.5	1.9
Acquisition costs	0.1	0.2	note (i)	0.2	0.3	note (i)
Net financing charge retirement benefit obligations	2.5	4.6	note (i)	4.1	7.7	note (i)
Retranslation of intercompany loan balances	(4.5 )	(2.4 )	2.7	(7.5 )	(4.0 )	4.6
Taxation on items not relating to underlying business performance	(0.1 )	(2.9 )	0.3	(0.1 )	(4.8 )	0.5
Non-controlling interests share of items not relating to underlying business performance	(0.1 )	(0.1 )	(0.1 )	(0.2 )	(0.2 )	(0.2 )
Adjusted earnings attributable to equity shareholders of the Company	66.0	54.8	99.0	110.4	91.8	165.3

(i) The impact of excluding acquisition costs and the net financing costs attributable to retirement benefit obligations from adjusted earnings per share for 2008 is not significant and therefore these amounts have not been adjusted.

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TABLE OF CONTENTS**CHARTER INTERNATIONAL PLC****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****10 Intangible assets**

	Goodwill £m	Computer software Internally generated £m	Other £m	Development costs £m	Acquired intangibles £m	Total £m
Cost						
At 1 January 2010	98.4	10.9	18.0	21.8	21.7	170.8
Exchange adjustments	5.8		0.6	1.4	1.7	9.5
Additions			2.7			2.7
Acquisition of business (note 29)	1.1				0.5	1.6
Disposals			(0.2 )	(0.8 )		(1.0 )
Internally generated		5.3		5.8		11.1
At 31 December 2010	105.3	16.2	21.1	28.2	23.9	194.7
Accumulated amortisation						
At 1 January 2010	5.7	1.7	11.5	7.9	4.9	31.7
Exchange adjustments			0.5	0.5	0.5	1.5
Charge for the year		1.4	2.6	2.9	2.6	9.5
Impairment charge for the year <sup>(v)</sup>				0.5	3.2	3.7
Disposals			(0.2 )	(0.7 )		(0.9 )
At 31 December 2010	5.7	3.1	14.4	11.1	11.2	45.5
Net book amount						
At 1 January 2010	92.7	9.2	6.5	13.9	16.8	139.1
At 31 December 2010	99.6	13.1	6.7	17.1	12.7	149.2

	Goodwill £m	Computer software Internally generated £m	Other £m	Development costs £m	Acquired intangibles £m	Total £m
Cost						
At 1 January 2009	97.7	5.8	16.9	17.9	21.7	160.0
Exchange adjustments	0.7		(0.2 )	(0.5 )	0.5	0.5
Additions			1.8			1.8
Disposals			(0.5 )	(1.3 )	(0.5 )	(2.3 )
Internally generated		5.1		5.7		10.8

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At 31 December 2009	98.4	10.9	18.0	21.8	21.7	170.8
Accumulated amortisation						
At 1 January 2009	5.7	0.5	9.1	5.9	2.8	24.0
Exchange adjustments				(0.1 )	0.1	
Charge for the year		1.2	2.0	2.5	2.5	8.2
Impairment charge for the year <sub>(v)</sub>			0.5	0.9		1.4
Disposals			(0.1 )	(1.3 )	(0.5 )	(1.9 )
At 31 December 2009	5.7	1.7	11.5	7.9	4.9	31.7
Net book amount						
At 1 January 2009	92.0	5.3	7.8	12.0	18.9	136.0
At 31 December 2009	92.7	9.2	6.5	13.9	16.8	139.1

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TABLE OF CONTENTS**CHARTER INTERNATIONAL PLC****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****10 Intangible assets (continued)**

- (i) Goodwill acquired in business combinations and carried in the balance sheet is allocated to the cash-generating units ( CGUs ) that are expected to benefit from that business combination. The carrying amounts of goodwill have been allocated as follows:

	2010	2009
	£m	£m
Welding		
Alcotec (single CGU)	10.4	10.4
ESAB Sp. z o.o. (single CGU)	5.8	5.8
Eutectic (single CGU)	0.9	0.9
ESAB South America (several CGUs)	22.5	21.2
ESAB India (single CGU)	15.3	14.3
ESAB Atas (single CGU)	1.2	1.2
Electrodi AD (single CGU)	1.0	1.1
Romar (several CGUs)	19.6	17.3
	76.7	72.2
Air and gas handling		
Howden South Africa (several CGUs)	3.1	2.8
Howden Compressors (several CGUs)	7.8	7.8
Howden Aeolus (single CGU)	10.8	9.9
AustCold (single CGU)	1.2	
	22.9	20.5
	99.6	92.7

- (ii) The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined from value-in-use calculations. The key assumptions for the value-in-use calculations are those regarding discount rates, growth rates, expected sales prices and direct costs during the period. Management estimates discount rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts and internal forecasts.

Selling prices and direct costs are based on past experience and expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next year and extrapolates cash flows for the following years based on estimated growth rates detailed in the table below. These do not exceed the average long-term growth rate for the relevant markets.

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The pre-tax rates used to discount the forecast cash flows are detailed in the table below.

	Growth rates		Discount rates	
	2010 %	2009 %	2010 %	2009 %
ESAB South America	4.0 to 4.1	1.5 to 3.5	13.0 to 16.9	18.7 to 20.3
ESAB India	8.4	6.4	13.4	14.8
Romar	4.6	4.1	7.8	10.0
Other cash-generating units	Up to 3.7	Up to 3.5	7.9 to 16.0	10.1 to 20.3

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(iii) Development costs are internally generated. Development costs are amortised once the asset is brought into use. The Group tests development costs for assets not yet brought into use at least annually for impairment.

(iv) Other intangible assets have finite lives, over which the assets are amortised. The amortisation periods are set out in the accounting policies.

Intangibles, other than goodwill which is not amortised, with a carrying value as at 31 December 2010 of £49.6 million (2009: £46.4 million) had a remaining amortisation period of up to 10 years as at 31 December 2010 and 31 December 2009. Amortisation has been included in the income statement as follows:

	Computer software			Development costs			Acquired intangibles			Total		
	2010	2009	2008	2010	2009	2008	2010	2009	2008	2010	2009	2008
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Cost of sales	0.4	0.3	0.2	2.9	2.5	1.4	0.2	0.2	0.3	3.5	3.0	1.9
Selling and distribution costs	0.2	0.4	0.2			0.1	0.8	1.1	1.2	1.0	1.5	1.5
Administrative expenses	3.5	2.5	1.6				1.5	1.2	0.4	5.0	3.7	2.0
Total	4.1	3.2	2.0	2.9	2.5	1.5	2.5	2.5	1.9	9.5	8.2	5.4

(v) Impairment has been included in the income statement as follows:

	Computer software			Development costs			Acquired intangibles			Total		
	2010	2009	2008	2010	2009	2008	2010	2009	2008	2010	2009	2008
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Cost of sales				0.5	0.6					0.5	0.6	
Selling and distribution costs					0.1						0.1	
Administrative expenses	0.5	0.3			0.2		3.2			3.2	0.7	0.3
Total	0.5	0.3		0.5	0.9		3.2			3.7	1.4	0.3

Of the impairment charge of £3.7 million in 2010 (2009: £1.4 million), £0.2 million (2009: £0.5 million) relates to the welding segment and £3.5 million (2009: £0.9 million) relates to the cutting and automation segment. The impairment charge of £3.2 million in 2010 for acquired intangibles relates to the Romar brand and is due to increasing sales by Romar under the ESAB brand. The charge of £0.3 million in 2008 relates to the air and gas handling segment.





TABLE OF CONTENTS**CHARTER INTERNATIONAL PLC****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****11(a) Property, plant and equipment**

	Land and buildings £m	Plant and machinery £m	Vehicles and office equipment £m	Total £m
Cost				
At 1 January 2010	150.7	263.3	41.7	455.7
Exchange adjustments	5.9	11.6	2.2	19.7
Additions	9.5	34.0	5.2	48.7
Acquisition of business (note 29)		0.4		0.4
Reclassified as asset held for sale	(9.2 )			(9.2 )
Disposals	(0.6 )	(10.2 )	(3.4 )	(14.2 )
At 31 December 2010	156.3	299.1	45.7	501.1
Accumulated depreciation				
At 1 January 2010	19.3	128.3	27.9	175.5
Exchange adjustments	1.6	4.3	1.0	6.9
Charge for the year	4.7	19.6	4.8	29.1
Impairment credit for the year <sup>(i)</sup>		(0.2 )		(0.2 )
Reclassified as asset held for sale	(3.1 )			(3.1 )
Disposals	(0.2 )	(9.9 )	(3.0 )	(13.1 )
At 31 December 2010	22.3	142.1	30.7	195.1
Net book amount				
At 1 January 2010	131.4	135.0	13.8	280.2
At 31 December 2010	134.0	157.0	15.0	306.0
Net book amount includes the following in respect of assets held under finance leases				
At 1 January 2010			1.3	1.3
At 31 December 2010			1.0	1.0

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TABLE OF CONTENTS**CHARTER INTERNATIONAL PLC****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****11(a) Property, plant and equipment (continued)**

	Land and buildings £m	Plant and machinery £m	Vehicles and office equipment £m	Total £m
Cost				
At 1 January 2009	137.0	262.0	40.3	439.3
Exchange adjustments	(7.5 )	(14.8 )	(2.1 )	(24.4 )
Additions	22.3	24.5	5.3	52.1
Disposals	(0.6 )	(7.9 )	(1.2 )	(9.7 )
Disposal of business (note 29)	(0.5 )	(0.5 )	(0.6 )	(1.6 )
At 31 December 2009	150.7	263.3	41.7	455.7
Accumulated depreciation				
At 1 January 2009	16.2	121.9	26.2	164.3
Exchange adjustments	(0.3 )	(5.3 )	(1.5 )	(7.1 )
Charge for the year	4.1	17.3	4.8	26.2
Impairment charge for the year <sup>(i)</sup>		2.0	0.1	2.1
Disposals	(0.5 )	(7.2 )	(1.2 )	(8.9 )
Disposal of business (note 29)	(0.2 )	(0.4 )	(0.5 )	(1.1 )
At 31 December 2009	19.3	128.3	27.9	175.5
Net book amount				
At 1 January 2009	120.8	140.1	14.1	275.0
At 31 December 2009	131.4	135.0	13.8	280.2
Net book amount includes the following in respect of assets held under finance leases				
At 1 January 2009			0.7	0.7
At 31 December 2009			1.3	1.3

(i) The impairment charge of £2.1 million in 2009 relates to exceptional restructuring costs (note 5) in the welding segment of £1.6 million and £0.5 million in the cutting and automation segment. Of this amount £0.3 million, £1.5 million and £0.3 million has been charged to cost of sales, selling and distribution costs and administration expenses respectively.

(ii) The Group tests for impairment of property, plant and equipment when there are indications that such assets might be impaired. In view of the trading performance, start-up costs and challenging economic environment in China, the Directors have conducted an impairment review in respect of the property, plant and equipment of ESAB China and, as a result, continue to believe that the fair value of these tangible assets is in excess of carrying value.

When determining the fair value of property, plant and equipment, independent third party advice was obtained. Where no such evidence existed, a value-in-use calculation was performed. The key assumptions for the value-in-use calculations are those regarding discount rates, growth rates, expected sales values and direct costs during the period. Management estimates discount rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts and internal forecasts.

The Group prepares cash flow forecasts from the most recent budgets approved by management for the next two years and extrapolates cash flows for the following years based on estimated growth rates. These rates do not exceed the average long-term growth rate for the relevant markets.

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In respect of ESAB China, the forecast cash flows cover a period of ten years (being the remaining estimated useful life of the property, plant and equipment at 31 December 2010), have been based on growth rates of 8 per cent (2009: 10 per cent) per annum and have been discounted at a rate of 11 per cent (2009: 11 per cent) per annum. Selling prices and direct costs are based on past experience and expectations of future changes in the market.

(iii) Assets in the course of construction as at 31 December 2010 were £19.1 million (2009: £20.2 million).

**11(b) Assets held for sale**

As at 31 December 2010 a property within the welding, cutting and automation business with a carrying value of £6.1 million was reclassified from property, plant and equipment to assets held for sale. The estimated net sale proceeds are in excess of the carrying value.

**12 Investments in associates and joint ventures**

	2010	2009
	£m	£m
At 1 January	18.0	17.7
Exchange adjustments	(0.7 )	(0.8 )
Additions	0.7	1.9
Share of net profits/(losses) retained	0.6	(0.8 )
At 31 December	18.6	18.0

There is no goodwill included in the share of net assets of associates and joint ventures in either 2010 or 2009.

The Group's share of the net assets of associates and joint ventures:

	2010	2009
	£m	£m
Non-current assets	8.4	9.0
Current assets	20.0	18.6
Current liabilities	(9.2 )	(8.9 )
Non-current liabilities	(0.6 )	(0.7 )
Share of net assets	18.6	18.0

The Group's share of revenue, profit and dividends of associates and joint ventures:

	2010	2009	2008
	£m	£m	£m
Revenue	51.5	45.4	38.8
Operating profit	4.8	4.6	4.1
Interest	0.2	0.1	0.2
Profit before tax	5.0	4.7	4.3
Tax	(1.2 )	(1.2 )	(1.1 )
Share of post-tax profits	3.8	3.5	3.2
Dividends received from associates and joint ventures	(3.2 )	(4.3 )	(1.6 )
	0.6	(0.8 )	1.6

The Group's share of capital commitments and operating lease commitments of associates and joint ventures was £nil (2009: £nil) and £nil (2009: £nil) respectively.

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There are currently no restrictions in place that might impact the Group's associates and joint ventures' ability to remit funds.

**13 Inventories**

	2010	2009
	£m	£m
Raw materials, components and consumables	98.8	80.5
Work in progress	39.9	40.2
Finished goods	156.4	117.8
	295.1	238.5
Inventories carried at net realisable value	7.4	13.8
Carrying amount of inventories pledged as security for liabilities		

The cost of inventories recognised as an expense and included in cost of sales amounted to £1,036.1 million (2009: £998.1 million). £8.2 million (2009: £11.6 million) was recognised as an expense in the year for the write-down of inventories to net realisable value. £3.7 million (2009: £3.2 million) of amounts recognised as an expense in earlier periods for the write-down of inventories to net realisable value was reversed in the period.

**14 Trade and other receivables**

	2010	2009
	£m	£m
Trade receivables - net	349.6	331.6
Other receivables - net (including statutory assets (mainly indirect taxation) of £13.3 million (2009: £10.4 million))	56.2	49.0
	405.8	380.6
Amounts receivable under construction contracts	42.5	41.9
Prepayments	24.2	25.3
	472.5	447.8
Less: non-current portion:		
Trade receivables - net	(9.7 )	(13.9 )
Other receivables - net	(6.2 )	(7.2 )
Prepayments	(0.1 )	(0.2 )
	(16.0 )	(21.3 )

Current portion<sup>(ii)</sup>

456.5 426.5

(i) Other debtors include £14.7 million (2009: £7.5 million) of bank acceptance notes received from customers that have been endorsed by a bank.

(ii) There is no significant difference between the net book amount and the fair value of current trade and other receivables due to their short-term nature.

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The fair values of non-current receivables are as follows:

	2010	2009
	£m	£m
Trade receivables net	9.7	13.9
Other receivables net	6.2	7.2
Prepayments	0.1	0.2
	16.0	21.3

The effective interest rates on non-current receivables were as follows:

	2010	2009
	%	%
Trade receivables net	4.2	4.3
Other receivables net	0.6	1.7

The creation and release of the provision for impaired receivables has been included in the income statement as follows:

	2010	2009	2008
	£m	£m	£m
Cost of sales		0.6	2.1
Selling and distribution costs	6.2	2.3	2.6
Administrative expenses	0.2	2.5	1.2
Total	6.4	5.4	5.9

There is no particular concentration of credit risks to trade receivables, as the Group has a large number of internationally dispersed customers.

£28.1 million (2009: £32.4 million) is included within amounts receivable in relation to contract retentions held by customers in respect of construction contracts.

Trade and other receivables are disclosed net of provisions for impaired receivables, an analysis of which is as follows:

	2010	2009
	£m	£m
At 1 January	22.9	21.9
Exchange adjustments	0.8	(0.5 )
Income statement charge	6.4	5.4
Written off as uncollectable	(0.8 )	(3.8 )
Acquisitions and disposals	0.8	(0.1 )
At 31 December	30.1	22.9

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TABLE OF CONTENTS**CHARTER INTERNATIONAL PLC****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****14 Trade and other receivables (continued)**

Trade and other receivables that have not been received within the payment terms agreed are classified as overdue. The age of overdue amounts at 31 December was as follows:

	2010		2009	
	Impaired £m	Not impaired £m	Impaired £m	Not impaired £m
Past due not more than three months	11.1	57.8	1.3	52.6
Past due more than three months and not more than six months	2.4	9.2	1.8	11.3
Past due more than six months	20.2	13.4	19.7	7.0
	33.7	80.4	22.8	70.9

**15 Cash and cash deposits**

	2010 £m	2009 £m
Cash at bank and in hand	65.1	65.5
Short-term bank deposits	10.3	0.6
Bank deposits with original maturity of more than three months and balances held as cash collateral	7.9	9.5
Cash and cash deposits in the balance sheet	83.3	75.6
Less: Bank deposits with original maturity of more than three months and balances held as cash collateral	(7.9 )	(9.5 )
: Bank overdrafts (note 16)	(14.6)	(13.0)
Cash, cash equivalents and bank overdrafts in the statement of cash flows	60.8	53.1

For the purposes of the cash flow statement, cash, cash equivalents and bank overdrafts includes overdrafts repayable on demand and excludes bank deposits with an agreed maturity of more than three months. The bank overdrafts are excluded from the definitions of cash and cash equivalents disclosed in the balance sheet.

The effective interest rate on bank deposits was 4.1 per cent (2009: 5.2 per cent). These deposits have an average maturity from inception of 94 days (2009: 228 days).

The carrying amounts of cash and cash equivalents approximate to their fair values.

Cash and cash deposits in the balance sheet of £83.3 million (2009: £75.6 million) includes balances of £5.1 million (2009: £3.2 million) held as cash collateral in connection with certain local trading practices or banking facilities. At 31 December 2010 cash at bank and in hand is distributed over a large number of banks located in the countries where the Group operates.

The credit status of institutions where cash is held is kept under review with credit limits being set and monitored accordingly.

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TABLE OF CONTENTS**CHARTER INTERNATIONAL PLC****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****16 Borrowings**

	2010 £m	2009 £m
Non-current		
Bank loans secured	3.4	4.2
Bank loans unsecured	29.0	
Other loans unsecured	0.2	0.4
Finance lease obligations	0.3	0.3
	32.9	4.9
Current		
Other bank loans secured		0.9
Other bank loans unsecured	33.4	5.0
Bank overdrafts secured	0.2	0.2
Bank overdrafts unsecured	14.4	12.8
Finance lease obligations	0.6	0.9
	48.6	19.8
Total borrowings	81.5	24.7

Secured bank loans at 31 December 2010 are in respect of facilities made available to Howden Africa (Pty) Ltd secured on amounts due from trade debtors and bank account balances of Howden Africa (Pty) Ltd and certain of its subsidiary companies.

Secured bank overdrafts at 31 December 2010 of £0.2 million (2009: £0.2 million) principally relate to an overdraft secured on receivables.

**The currency risk profile of the Group's borrowings as at 31 December 2010 was:**

	2010 £m	2009 £m
Currencies		
Euro	3.6	1.4
US dollar	1.3	3.5
Chinese renminbi	8.3	5.0
South African rand	3.4	4.3
Other	4.1	4.2

Total currency	20.7	18.4
Sterling	60.8	6.3
Total	81.5	24.7

The effective interest rate on total borrowings was 2.9 per cent (2009: 4.2 per cent). No borrowing costs were capitalised. The Group's borrowings at 31 December 2010 and 31 December 2009 were all subject to interest at floating rates.

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	Bank loans 2010 £m	Finance leases 2010 £m	Other loans 2010 £m	Total 2010 £m
Between one and two years		0.2	0.2	0.4
Between two and five years	32.4	0.1		32.5
Over five years				
	32.4	0.3	0.2	32.9

The maturity of non-current borrowings in the prior year was as follows:

	Bank loans 2009 £m	Finance leases 2009 £m	Other loans 2009 £m	Total 2009 £m
Between one and two years		0.2		0.2
Between two and five years	1.7	0.1	0.4	2.2
Over five years	2.5			2.5
	4.2	0.3	0.4	4.9

**The minimum lease payments under finance leases are as follows:**

	2010 £m	2009 £m
Within one year	0.6	0.9
In the second to fifth years inclusive	0.3	0.4
	0.9	1.3
Less: Future finance charges		(0.1 )
Present value of lease obligations	0.9	1.2

**The Group has the following undrawn committed borrowing facilities:**

	2010	2009
	£m	£m
Expiring within one year	45.0	
Expiring beyond one year	71.0	170.0
	116.0	170.0

Further details of the Group's borrowing facilities are set out in note 21 (i) (d).

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	2010 £m	2009 £m
Trade payables	139.2	149.4
Construction contracts <sup>(i)</sup>	57.7	45.5
Other payables <sup>(ii)</sup>	60.0	63.0
Other taxation and social security	24.1	23.2
Government grants	1.2	1.8
Accruals	119.7	98.9
	401.9	381.8
Less: non-current portion:		
Construction contracts <sup>(i)</sup>	(4.0 )	(0.2 )
Other payables <sup>(ii)</sup>	(0.2 )	
Government grants	(0.6 )	(1.2 )
Accruals	(0.8 )	(1.6 )
	(5.6 )	(3.0 )
Current portion	396.3	378.8

(i) Construction contracts includes advances received for contract work of £9.9 million (2009: £7.8 million).

(ii) Other payables includes deferred consideration payable of £0.3 million (2009: £2.1 million) of which £nil (2009: £nil) is non-current.

(iii) There is no significant difference between the net book amount and the fair value of trade and other payables due to their short-term nature.

**18 Provisions for other liabilities and charges**

	Disposal and restructuring £m	Warranty and product liability £m	Legal and environmental £m	Other £m	Total £m
At 1 January 2010	7.9	30.5	30.6	4.9	73.9
Exchange adjustments	(0.1 )	0.8	0.7	0.3	1.7
Acquisitions (note 29)		0.8		0.2	1.0
Amounts provided	9.9	15.2	1.3	2.0	28.4
Amounts released	(0.2 )	(7.3 )	(3.4 )		(10.9)

Utilised in the year	(12.9 )	(11.5 )	(7.7 )	(1.8)	(33.9)
Unwinding of discount (note 6)			0.4		0.4
At 31 December 2010	4.6	28.5	21.9	5.6	60.6

**Provisions have been analysed between current and non-current as follows:**

	2010	2009
	£m	£m
Current	41.4	52.3
Non-current	19.2	21.6
	60.6	73.9

Disposal and restructuring costs include £3.5 million (2009: £7.3 million) in respect of employee severance costs, of which £2.7 million (2009: £6.6 million) is in the welding, cutting and automation business and £0.8 million (2009: £0.7 million) is in the air and gas handling business, £0.7 million (2009: £nil) in respect of property costs in the welding, cutting and automation business and £0.4 million in respect of other closure costs in the air and gas handling business (2009: £0.6 million in the welding, cutting and automation business). This is expected to result in cash expenditure in the next one to two years. The effect of discounting these provisions is not material.

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- Warranty and product liability provisions relate to continuing businesses and are expected to be utilised over a period of one to two years dependent on the warranty period provided but will also be replaced by comparable amounts as they are utilised. The effect of discounting these provisions is not material. Provision has been made for the probable exposure arising from legal and environmental claims and disputes, both existing and threatened, in some cases arising from warranties given on disposal of businesses. Provisions have been made representing the best estimate of the outcome of the claims including costs before taking account of insurance recoveries. Where the outcome of a claim is uncertain the legal costs of defence have been provided for to the extent that they are reliably measurable. Where appropriate, insurance recoveries are recognised in
- (ii) receivables . At 31 December 2010, these receivables amounted to £5.6 million (2009: £7.9 million). If the effect of discounting is material, provisions are determined by discounting the expected value of future cash flows at a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Due to their nature, it is not possible to predict precisely when these provisions will be utilised, though most are expected to be utilised over the short to medium term with utilisation in the next year expected to be in the region of £9 million (2009: £12 million) before taking account of insurance recoveries. Other provisions include various amounts which are not individually material. Due to their nature it is not possible
- (iii) to predict precisely when these provisions will be utilised but utilisation in the next year is expected to be in the region of £2 million (2009: £2 million).

**19 Deferred income tax**

The movement on the net deferred income tax asset is set out below:

	2010	2009
	£m	£m
At 1 January	58.8	34.6
Exchange adjustments	0.7	(4.0 )
Income statement credit (note 7)	12.7	30.5
Reclassification to income tax liabilities	(11.7)	(4.9 )
Acquisitions (note 29)	0.6	
Taken to equity attributable to hedging reserve		(2.6 )
attributable to actuarial gains/(losses) on retirement benefit obligations	(3.3 )	5.2
At 31 December	57.8	58.8

TABLE OF CONTENTS**CHARTER INTERNATIONAL PLC****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****19 Deferred income tax (continued)**

Deferred income tax assets are recognised for tax losses carried forward to the extent to which the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of £24.8 million (2009: £19.0 million) in respect of taxable losses of £100 million (2009: £84.2 million) that can be carried forward against taxable profits. Unrecognised tax losses of £57.4 million (2009: £49.2 million) have no expiry date and £42.6 million (2009: £35.0 million) in respect of China, Italy and the Netherlands expire as follows:

Date of expiry	2010 £m
31 December 2011	11.8
31 December 2012	3.1
31 December 2013	6.5
31 December 2014	17.2
31 December 2015	4.0
	42.6

In addition the Group has an unrecognised deferred income tax asset in respect of its provision for post-retirement benefits under IAS 19 of £19.5 million (2009: £20.7 million).

No deferred income tax is provided on the unremitted earnings of overseas subsidiary undertakings as the Group is able to control the remittance of such earnings and has no intention of making any such remittance.

A deferred income tax liability of £1.5 million (2009: £1.4 million) is provided in respect of the tax that would be payable on the remittance of the retained earnings of associates and joint ventures.

The movements in deferred income tax assets and liabilities during the year are shown below:

**Deferred income tax assets**

	Provisions £m	Tax losses £m	Post- retirement benefits £m	Other £m	Total £m
At 1 January 2010	27.2	28.1	18.5	14.7	88.5
Exchange adjustments	0.7	0.8	0.5	0.4	2.4
Income statement credit/(charge)	19.1	4.1	(7.2 )	(0.8 )	15.2

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Reclassification to income tax liabilities	3.5	(14.6 )			(11.1)
Taken to equity attributable to actuarial losses on retirement benefit obligations			0.6		0.6
Acquisitions (note 29)	0.6				0.6
At 31 December 2010	51.1	18.4	12.4	14.3	96.2
Deferred income tax asset to be recovered within twelve months					27.8
Deferred income tax asset to be recovered after more than twelve months					68.4
					96.2

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Of the deferred income tax asset recognised during the year £4.1 million (2009: £3.1 million) was recognised in relation to tax losses that arose in businesses that generated taxable losses in 2010. At 31 December 2010 an asset for tax losses of £9.2 million (2009: £7.0 million) was recognised in relation to businesses that generated taxable losses in either the current or preceding year. These losses are expected to be recovered from taxable profits arising from improved trading and new contractual arrangements that were entered into in November 2009. The majority of the tax losses recognised as at 31 December 2010 and 2009 are expected to be recovered within five years.

**Deferred income tax liabilities**

	Accelerated capital allowances £m	Held over capital gains £m	Post- retirement benefits £m	Other £m	Total £m
At 1 January 2010	(12.0 )	(4.0 )	(4.4 )	(9.3)	(29.7)
Exchange adjustments	(0.8 )	(0.3 )	0.1	(0.7)	(1.7 )
Income statement (charge)/credit	(8.5 )	2.2		3.8	(2.5 )
Reclassification to income tax liabilities	(0.6 )				(0.6 )
Taken to equity attributable to actuarial gains on retirement benefit obligations			(3.9 )		(3.9 )
At 31 December 2010	(21.9 )	(2.1 )	(8.2 )	(6.2)	(38.4)
Deferred income tax liabilities to be settled within twelve months					(7.4 )
Deferred income tax liabilities to be settled after more than twelve months					(31.0)
					(38.4)
Net deferred income tax assets					
At 31 December 2010					57.8
At 31 December 2009					58.8

The movements in deferred income tax assets and liabilities during the prior year are shown below:

**Deferred income tax assets**

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	Provisions £m	Tax losses £m	Post- retirement benefits £m	Other £m	Total £m
At 1 January 2009	20.3	18.0	17.3	14.1	69.7
Exchange adjustments	(1.0 )	(1.0 )	(0.9 )	(0.7 )	(3.6 )
Income statement credit	7.9	16.0	2.1	3.4	29.4
Reclassification to income tax liabilities		(4.9 )			(4.9 )
Taken to equity attributable to hedging reserve				(2.1 )	(2.1 )
At 31 December 2009	27.2	28.1	18.5	14.7	88.5
Deferred income tax asset to be recovered within twelve months					27.2
Deferred income tax asset to be recovered after more than twelve months					61.3
					88.5

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	Accelerated capital allowances £m	Held over capital gains £m	Post- retirement benefits £m	Other £m	Total £m
At 1 January 2009	(12.3 )	(4.1 )	(9.6 )	(9.1)	(35.1)
Exchange adjustments	(0.2 )			(0.2)	(0.4 )
Income statement credit	0.5	0.1		0.5	1.1
Taken to equity					
attributable to actuarial gains on retirement benefit obligations			5.2		5.2
attributable to hedging reserve				(0.5)	(0.5 )
At 31 December 2009	(12.0 )	(4.0 )	(4.4 )	(9.3)	(29.7)
Deferred income tax liabilities to be settled within twelve months					(1.2 )
Deferred income tax liabilities to be settled after more than twelve months					(28.5)
					(29.7)
Net deferred income tax assets					
At 31 December 2009					58.8
At 31 December 2008					34.6

**20 Retirement benefit obligations**

The major pension schemes operated by the Group are in the United Kingdom and are of the defined benefit type, the assets of which are held in trustee-administered funds. The Group also provides post-employment medical benefits in the United States.

The valuation of United Kingdom and overseas defined benefit pension schemes and the liability for United States post-employment medical benefits are assessed by professionally qualified independent actuaries using the projected unit credit method.

The principal actuarial assumptions used were as follows:



	2010		2009		2008	
	UK %	Overseas %	UK %	Overseas %	UK %	Overseas %
Discount rate	5.40	5.25	5.70	5.60	6.30	5.60
Inflation rate	3.60	2.70	3.60	2.80	2.60	2.60
Expected return on plan assets	7.75	9.10	8.00	9.10	7.50	8.80
equities						
bonds	4.60	5.20	4.90	5.30	4.50	5.60
property	7.25		7.50		7.00	
other	3.70	5.20	4.25	5.60	3.00	5.15
total	6.00	7.10	6.20	7.20	5.70	7.00
Future salary increases	4.60	5.00	4.60	4.00	3.60	3.45
Future pension increases	3.55	2.30	3.55	2.30	2.80	1.95
Medical costs inflation (ultimate rate)		4.50		5.00		5.00

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## CHARTER INTERNATIONAL PLC

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 20 Retirement benefit obligations (continued)

The UK government announced in July 2010 that it will in future use the Consumer Price Index rather than the Retail Prices Index for the purposes of determining statutory minimum pension increases for private sector occupational pension schemes. Most of the Group's UK defined benefit pension scheme rules specify that pensions in deferment and certain guaranteed minimum pensions in payment will increase in accordance with the annual statutory orders published by the UK government. The scheme rules also specify that the majority of increases to pensions in payment are linked to the Retail Prices Index and are therefore unaffected by the change. The Trustees of these schemes have not yet notified the affected members of this change. Accordingly the inflation assumption used to determine the pension liability as at 31 December 2010 has been based on the Retail Prices Index. It is estimated that had the inflation assumption been based on the Consumer Prices Index, where applicable, scheme liabilities would have been reduced by approximately £8 million as at 31 December 2010.

The mortality assumptions for the UK schemes are based on either the PA92, PA00 or SN1A standard mortality tables after retirement with allowance for future mortality improvements or on scheme-specific factors. Based on the rates used, a member currently aged 45 who retires at age 60 will live on average for a further 29 years (2009: 27 years) after retirement if they are male and for a further 31 years (2009: 30 years) after retirement if they are female. A retired member currently aged 60 is assumed to live on average for a further 27 years (2009: 26 years) if they are male and for a further 29 years (2009: 29 years) if they are female.

The overseas schemes are principally in the United States. The mortality assumptions for the United States schemes have been derived from the RP-2000 table with allowance for future mortality improvements. Based on the rates used, a member currently aged 45 who retires at age 60 will live on average for a further 25 years (2009: 24 years) after retirement if they are male and for a further 26 years (2009: 26 years) after retirement if they are female. A retired member currently aged 60 is assumed to live on average for a further 23 years (2009: 23 years) if they are male and for a further 25 years (2009: 25 years) if they are female. Mortality assumptions for schemes in Sweden and Germany have been derived from the FFFS 2007 tables and the Heubeck 2005 G tables respectively.

The expected return on plan assets is a blended average of projected long-term results for the various asset classes.

Equity returns are developed based on the selection of the equity risk premium above the risk-free rate which is measured in accordance with the yield on government bonds. Bond returns are selected by reference to the yields on government and corporate debt as appropriate to the schemes' holdings of these instruments. Other class asset returns are determined by reference to current experience.

The estimated impact on the liability for defined benefit pensions and post-employment medical benefits as at 31 December 2010 resulting from changes to key assumptions is set out below:

		Estimated increase in liability	
		2010	2009
		£m	£m
Discount rate	0.25 per cent decrease	24	23
Mortality	one year increase in life expectancy after retirement	22	19

A 1 per cent increase in the inflation assumption on medical costs would increase the total service cost and interest cost by £0.1 million (2009: £0.1 million) and the liability by £0.8 million (2009: £1.9 million). A 1 per cent decrease in the inflation assumption on medical costs would reduce the total service cost and interest cost by £0.1 million (2009: £0.1 million) and the liability by £0.8 million (2009: £1.8 million).

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**CHARTER INTERNATIONAL PLC**

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**20 Retirement benefit obligations (continued)**

The movement on the net retirement benefit asset/(obligation) is summarised below:

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The amounts recognised in the income statement are as follows:

	2010			2009			2008		
	UK schemes £m	Overseas schemes £m	Total £m	UK schemes £m	Overseas schemes £m	Total £m	UK schemes £m	Overseas schemes £m	Total £m
Current service cost	(0.2 )	(1.2 )	(1.4 )	(0.3 )	(1.3 )	(1.6 )	(0.6 )	(1.1 )	(1.7 )
Interest cost	(27.0)	(10.9)	(37.9)	(25.9)	(10.7)	(36.6)	(26.7)	(9.6)	(36.3)
Expected return on plan assets	26.7	8.1	34.8	22.5	7.6	30.1	28.7	7.9	36.6
Past service cost		(0.2 )	(0.2 )		(0.1 )	(0.1 )		(0.1 )	(0.1 )
Gains/(losses) on settlement and curtailment	1.1	0.2	1.3	0.8	(0.2 )	0.6			
Total	0.6	(4.0 )	(3.4 )	(2.9 )	(4.7 )	(7.6 )	1.4	(2.9 )	(1.5 )
Included in the income statement as follows:									
Cost of sales		(0.2 )	(0.2 )	(0.1 )	(0.3 )	(0.4 )	(0.3 )	(0.2 )	(0.5 )
Selling and distribution costs		(0.3 )	(0.3 )		(0.4 )	(0.4 )		(0.3 )	(0.3 )
Administrative expenses	0.9	(0.7 )	0.2	0.6	(0.9 )	(0.3 )	(0.3 )	(0.7 )	(1.0 )
Financing charge	(0.3 )	(2.8 )	(3.1 )	(3.4 )	(3.1 )	(6.5 )	2.0	(1.7 )	0.3
Total	0.6	(4.0 )	(3.4 )	(2.9 )	(4.7 )	(7.6 )	1.4	(2.9 )	(1.5 )

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The amounts recognised in the statement of comprehensive income are as follows:

	2010			2009			2008		
	UK schemes £m	Overseas schemes £m	Total £m	UK schemes £m	Overseas schemes £m	Total £m	UK schemes £m	Overseas schemes £m	Total £m
Actual return on plan assets	46.3	13.1	59.4	51.3	9.9	61.2	(44.7)	(12.0)	(56.7)
Expected return on plan assets	(26.7)	(8.1)	(34.8)	(22.5)	(7.6)	(30.1)	(28.7)	(7.9)	(36.6)
Experience adjustments arising on plan assets	19.6	5.0	24.6	28.8	2.3	31.1	(73.4)	(19.9)	(93.3)
Experience adjustments arising on plan liabilities	5.6	0.4	6.0	(5.0)	1.3	(3.7)	2.6	(2.0)	0.6
Changes in assumptions underlying present value of plan liabilities	(23.2)	(8.2)	(31.4)	(67.0)	(1.5)	(68.5)	44.3	(8.5)	35.8
Total actuarial gains/(losses)	2.0	(2.8)	(0.8)	(43.2)	2.1	(41.1)	(26.5)	(30.4)	(56.9)
Changes in amount of surplus not recoverable		2.0	2.0		(1.5)	(1.5)		2.5	2.5
Total gains/(losses)	2.0	(0.8)	1.2	(43.2)	0.6	(42.6)	(26.5)	(27.9)	(54.4)

The amounts recognised in the balance sheet are as follows:

	2010			2009		
	UK schemes £m	Overseas schemes £m	Total £m	UK schemes £m	Overseas schemes £m	Total £m
Present value of funded obligations	(512.5)	(159.7)	(672.2)	(495.5)	(147.8)	(643.3)
Fair value of plan assets	469.5	124.7	594.2	436.9	112.5	549.4
	(43.0)	(35.0)	(78.0)	(58.6)	(35.3)	(93.9)
Present value of unfunded obligations		(49.0)	(49.0)		(46.8)	(46.8)
Unrecognised past service (credit)/costs		(0.1)	(0.1)		0.1	0.1
Surplus not recoverable		(0.3)	(0.3)		(2.1)	(2.1)

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Net liability recognised in the balance sheet	(43.0 )	(84.4 )	(127.4)	(58.6 )	(84.1 )	(142.7)
Included in the balance sheet as follows:						
Non-current assets	26.6	4.8	31.4	15.3	0.6	15.9
Non-current liabilities	(69.6 )	(89.2 )	(158.8)	(73.9 )	(84.7 )	(158.6)
	(43.0 )	(84.4 )	(127.4)	(58.6 )	(84.1 )	(142.7)

- (i) The contribution expected to be paid by the Group during 2011 to UK schemes is £14.0 million and to overseas schemes is £8.5 million.
- (ii) The contribution paid in 2010 by the Group was £19.8 million (2009: £18.6 million).

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The movement in the present value of the plans obligations (funded and unfunded) during the year was as follows:

	2010			2009		
	UK schemes £m	Overseas schemes £m	Total £m	UK schemes £m	Overseas schemes £m	Total £m
At 1 January	(495.5)	(194.6)	(690.1)	(424.6)	(210.5)	(635.1)
Exchange adjustments		(8.1 )	(8.1 )		14.5	14.5
Current service cost	(0.2 )	(1.2 )	(1.4 )	(0.3 )	(1.3 )	(1.6 )
Interest cost	(27.0 )	(10.9 )	(37.9 )	(25.9 )	(10.7 )	(36.6 )
Contributions by plan participants		(0.2 )	(0.2 )	(0.1 )	(0.1 )	(0.2 )
Net actuarial losses	(17.6 )	(7.8 )	(25.4 )	(72.0 )	(0.2 )	(72.2 )
Benefits and expenses paid	26.7	12.3	39.0	26.6	13.0	39.6
Curtailment gains/(losses)	1.1	0.3	1.4	0.8	(0.2 )	0.6
Settlements		1.5	1.5		0.9	0.9
At 31 December	(512.5)	(208.7)	(721.2)	(495.5)	(194.6)	(690.1)

The movement in the fair value of plan assets during the year was as follows:

	2010			2009		
	UK schemes £m	Overseas schemes £m	Total £m	UK schemes £m	Overseas schemes £m	Total £m
At 1 January	436.9	112.5	549.4	399.5	118.1	517.6
Exchange adjustments		6.0	6.0		(7.7 )	(7.7 )
Expected return on plan assets	26.7	8.1	34.8	22.5	7.6	30.1
Net actuarial gains	19.6	5.0	24.6	28.8	2.3	31.1
Contributions by employer	13.0	6.8	19.8	12.6	6.0	18.6
Contributions by plan participants		0.2	0.2	0.1	0.1	0.2
Benefits and expenses paid	(26.7 )	(12.3 )	(39.0 )	(26.6 )	(13.0 )	(39.6 )
Settlements		(1.6 )	(1.6 )		(0.9 )	(0.9 )
At 31 December	469.5	124.7	594.2	436.9	112.5	549.4

The fair value of assets in the plans was:

2010

2009



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	UK schemes £m	Overseas schemes £m	Total £m	UK schemes £m	Overseas schemes £m	Total £m
Equities	198.9	60.2	259.1	185.8	56.4	242.2
Bonds	252.2	49.1	301.3	230.7	41.0	271.7
Property	10.7	0.2	10.9	7.0		7.0
Other	7.7	15.2	22.9	13.4	15.1	28.5
Total	469.5	124.7	594.2	436.9	112.5	549.4

There are no interests in the Group's financial instruments, nor any property or other assets used by the Group included in the fair value of assets in the plans.

In accordance with the transitional rules in IFRS 1 all cumulative surpluses and deficits were recognised in the balance sheet at 1 January 2004. The cumulative amount of actuarial losses recognised in the statement of comprehensive income since 1 January 2004 is a loss of £82.8 million (2009: loss of £84.0 million).

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	2010	2009	2008	2007	2006
	£m	£m	£m	£m	£m
Present value of obligations	(721.2)	(690.1)	(635.1)	(623.7)	(643.9)
Fair value of plan assets	594.2	549.4	517.6	565.6	557.5
	(127.0)	(140.7)	(117.5)	(58.1 )	(86.4 )
Experience adjustments arising on plan assets:					
Gain/(loss) £m	24.6	31.1	(93.3 )	(15.2 )	6.3
Percentage of plan assets	4.1 %	5.7 %	18.0 %	2.7 %	1.1 %
Experience adjustments arising on plan liabilities:					
Gain/(loss) £m	6.0	(3.7 )	0.6	0.6	(0.3 )
Percentage of plan liabilities	0.8 %	0.5 %	0.1 %	0.1 %	%

**Post-employment medical benefits (United States)**

The amounts recognised in the income statement were as follows:

	2010	2009	2008
	£m	£m	£m
Current service cost	(0.2 )	(0.3 )	(0.2 )
Interest cost	(1.0 )	(1.2 )	(1.0 )
Past service credit	0.4		
Net gains/(losses) on settlement and curtailment	8.4	(0.7 )	(0.2 )
Total	7.6	(2.2 )	(1.4 )

The amounts recognised in the statement of comprehensive income are as follows:

	2010	2009	2008
	£m	£m	£m
Experience adjustments arising on plan liabilities	0.3	1.0	0.5
Changes in assumptions underlying present value of plan liabilities	(0.5)	(0.6)	(0.1 )
Total	(0.2)	0.4	0.4

The amounts recognised in the balance sheet as non-current liabilities were as follows:

	2010	2009
	£m	£m
Present value of unfunded obligations	(11.3)	(19.5)

The contribution expected to be paid by the Group during 2011 is £1.0 million.

The contribution paid by the Group in 2010 was £1.5 million (2009: £1.4 million).

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The movement in the present value of the plans unfunded obligations during the year was as follows:

	2010 £m	2009 £m
At 1 January	(19.5)	(21.5)
Exchange adjustments	(0.7 )	2.4
Current service cost	(0.2 )	(0.3 )
Interest cost	(1.0 )	(1.2 )
Past service credit	0.4	
Actuarial (losses)/gains	(0.2 )	0.4
Benefits and expenses paid by employer	1.5	1.4
Curtailed gains/(losses)	8.4	(0.2 )
Termination benefits		(0.5 )
At 31 December	(11.3)	(19.5)

**History of experience gains and losses**

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Present value of obligations	(11.3)	(19.5)	(21.5)	(15.6)	(19.3)
Experience adjustments arising on plan liabilities:					
Gain £m	0.3	1.0	0.5		0.5
Percentage of plan liabilities	2.7 %	5.1 %	2.3 %	%	2.6 %

In accordance with the transitional rules in IFRS 1 all cumulative surpluses and deficits were recognised in the balance sheet at 1 January 2004. The cumulative amount of actuarial losses recognised in the statement of comprehensive income since 1 January 2004 is £0.4 million (2009: £0.2 million).

**21 Financial instruments and risk management****(i) Financial risk management**

The international profile of Charter's operations exposes it to financial risks including the effects of changes in foreign exchange rates, interest rates, credit risks and liquidity risks. The Board sets policies to address these risks and there is a specific treasury policy setting out guidelines to manage foreign exchange risk, interest rate risk, credit risk and the

use of financial instruments.

Charter's central treasury department is responsible for ensuring there are appropriate funding arrangements to meet the ongoing requirements of the Group and for managing effectively liquid funds held in the Group. Regular cash flow forecasts are prepared by subsidiaries and reviewed by management. In addition, it is responsible for managing the interest rate risks and balance sheet foreign currency translation risks of the Group within guidelines agreed by the Board. Foreign currency transaction risks are generally managed directly by operating subsidiaries in accordance with guidelines and controls defined in the treasury policy.

**(a) Interest rate risk**

The Group finances its operations mainly from its own cash resources. It is the Group's objective to minimise the cost of borrowings and maximise the value from cash resources, whilst retaining the flexibility of funding opportunities. If considered appropriate, the Group would use interest rate swaps, interest rate caps and collars and forward rate agreements to generate the desired interest profile and to manage the Group's exposure to interest rate fluctuations.

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## **CHARTER INTERNATIONAL PLC**

# **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

## **21 Financial instruments and risk management (continued)**

### **(b) Currency risk**

The Group has significant investments in overseas operations, particularly in Europe and America, and recurring exposures to exchange rate fluctuations in respect of foreign currency transactions. As a result, movements in exchange rates can affect the Group's balance sheet and income statement. The Group seeks to comply with the requirements of hedge accounting where considered appropriate.

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.

### **(c) Financial credit risk**

The principal credit risks relate to the failure of dealing counterparties for foreign currency transactions and 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.

### **(d) Liquidity risk**

The Group'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 31 December 2010, the Group's centrally held committed facilities totalled £170 million with maturity dates between 2011 and 2013. During the current financial year, total committed facilities increased to £285 million with the renewal or increase of existing facilities, the addition of two new facilities and the voluntary cancellation of one facility. The maturity dates of the facilities now range between 2012 and 2015. All these facilities are unsecured. Whilst these facilities have certain financial and other covenants, the financial strength of the Charter Group means that the covenants attaching to these facilities have not been breached and are not expected to prevent the full utilisation 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.

**(e) Capital management**

The Group aims to manage its capital structure in order to safeguard the going concern of the Group and to provide returns for shareholders and benefits for other stakeholders. The Group 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 the Group maintains the current strength of its consolidated balance sheet as represented by the level of net debt to equity shareholders funds. Although net cash is reported at year end, it is considered appropriate that the Group would operate up to a maximum ratio of net debt to underlying EBITDA of 1.0. This maximum takes into account the profile of gross cash and gross debt across the Group's worldwide operations, the ongoing level of net retirement benefit obligations (2010: £138.7 million, 2009: £162.2 million), and the bonds and guarantees issued on behalf of the Company and its subsidiaries in the normal course of business.

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	2010				2009			
	Derivative financial instruments				Derivative financial instruments			
	At fair value		Loans and receivables £m	Total £m	At fair value		Loans and receivables £m	Total £m
	Used for hedging £m	through profit and loss account £m			Used for hedging £m	through profit and loss account £m		
Assets								
Derivative financial instruments	1.6	0.6		2.2	1.4	0.4		1.8
Trade and other receivables (excluding construction contracts, prepayments and statutory assets)			392.5	392.5			370.2	370.2
Cash			83.3	83.3			75.6	75.6
	1.6	0.6	475.8	478.0	1.4	0.4	445.8	447.6

	2010				2009			
	Derivative financial instruments				Derivative financial instruments			
	Used for hedging £m	At fair value through profit and loss account	Other financial liabilities £m	Total £m	Used for hedging £m	At fair value through profit and loss account	Other financial liabilities £m	Total £m



	£m				£m			
Liabilities								
Borrowings			81.5	81.5			24.7	24.7
Derivative financial instruments	1.8	0.8		2.6	2.1	0.4		2.5
Trade and other payables (note 17)								
Trade payables			139.2	139.2			149.4	149.4
Other payables			60.0	60.0			63.0	63.0
Accruals			119.7	119.7			98.9	98.9
	1.8	0.8	400.4	403.0	2.1	0.4	336.0	338.5

## Assets and liabilities included in the balance sheet at fair value

At 31 December 2010 and 2009 only derivative financial assets and liabilities were included in the balance sheet at fair value. The fair values were derived from observable market data and are considered to be level 2 in the fair value measurement hierarchy.

### (iii) Market price risk

#### (a) Interest rate risk

On the basis of the Group's analysis, it is estimated that a rise/fall of one percentage point in the principal interest rates to which the Group's cash balances are exposed would increase/decrease profit before tax by approximately £0.5 million (2009: £0.4 million).

On the basis of the Group's analysis, it is estimated that a rise/fall of one percentage point in the principal interest rates to which the Group's borrowings are exposed would decrease/increase profit before tax by approximately £0.8 million (2009: £0.2 million).

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The following financial assets and liabilities are not directly exposed to interest rate risk:

	2010 £m	2009 £m
Non-current trade and other receivables	15.9	20.8
Current trade and other receivables	376.6	349.1
Non-current other payables	(1.0 )	(1.6 )
Current trade and other payables	(317.9 )	(309.6 )
	73.6	58.7

Financial assets included above comprise trade and other receivables as shown in note 14 excluding construction contracts, prepayments and statutory assets.

Financial liabilities included above comprise trade and other payables as shown in note 17 excluding construction contracts, other taxation and social security and government grants.

**(b) Currency risk**

Financial instruments within individual Group companies that are not denominated in the functional currency of the company concerned as at 31 December 2010 were as follows:

Net foreign currency monetary assets/(liabilities)	Sterling		Euro		US dollar		Other		Total	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
Functional currency of Group operation										
Sterling			9.7	7.7	9.6	3.5	3.7	1.5	23.0	12.7
Euro		(0.1)			(0.1)	(0.1)	(1.1)	0.6	(1.3)	0.5
US dollar							0.3	0.4	0.3	0.4
Other	0.2	(0.3)	(22.6)	0.2	18.8	18.2	1.6		(2.0)	18.1
Total	0.1	(0.3)	(12.9)	7.9	28.3	21.6	4.5	2.5	20.0	31.7

It is estimated that the impact of every 10 per cent strengthening/weakening of the exchange rates of the principal currencies to which the Group's receivables are exposed would increase/decrease profit before tax by approximately

£2.8 million (2009: £3.2 million).

It is estimated that the impact of every 10 per cent strengthening/weakening of the exchange rates of the principal currencies to which the Group's payables are exposed would decrease/increase profit before tax by approximately £4.2 million (2009: £2.5 million).

#### **(iv) Credit risk**

The Group'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 in relation to trade and other receivables and cash and cash equivalents respectively.

#### **(v) Liquidity risk**

Financial liabilities included within trade and other payables (note 17) have a contractual maturity date within twelve months of the balance sheet date as at 31 December 2010 and 2009 except for other payables of £0.2 million (2009: £nil) and accruals of £0.8 million (2009: £1.6 million) which are mainly payable between one and three years (2009: one and three years).

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The table below analyses the maturity profile of the Group's borrowings. The maturity profile of the Group's derivative financial instruments is given in note (vi) below. The amounts disclosed below are the contractual undiscounted cash flows:

	2010			2009		
	Borrowings (note 16) £m	Contractual interest payments £m	Total contractual cash flows £m	Borrowings (note 16) £m	Contractual interest payments £m	Total contractual cash flows £m
Less than one year	48.6	0.6	49.2	19.8	0.5	20.3
Between one and two years	0.4		0.4	0.2		0.2
Between two and five years	32.5	2.1	34.6	2.2	1.3	3.5
Over five years				2.5	1.6	4.1
	81.5	2.7	84.2	24.7	3.4	28.1

**(vi) Derivative financial instruments****(a) Net fair values of cash flow and fair value hedges that qualify for hedge accounting**

	Assets		Liabilities	
	2010 £m	2009 £m	2010 £m	2009 £m
Forward foreign currency contracts	1.6	1.4	(1.8)	(2.1)
Less non-current portion	(0.1)	(0.1)	0.2	0.5
Current portion	1.5	1.3	(1.6)	(1.6)

At 31 December 2010, the Group has outstanding foreign currency contracts designated as cash flow and fair value hedges with a gross outflow amount of £87.5 million (2009: £101.8 million).

The table below analyses the Group's derivative financial instruments which will be settled on a gross basis. The amounts disclosed below are the contractual undiscounted gross cash flows:

	2010			2009		
	Less than	Between 1 and 3	Between 3 and 5	Less than	Between 1 and 3	Between 3 and 5

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	1 year £m	years £m	years £m	1 year £m	years £m	years £m
Forward foreign exchange contracts:						
Outflow	(70.2)	(17.3 )		(81.8)	(17.3 )	(2.7 )
Inflow	70.3	17.4		81.6	17.1	2.7
	0.1	0.1		(0.2 )	(0.2 )	

The net fair value (losses)/gains on open forward foreign exchange contracts in relation to cash flow and fair value hedges are expected to be transferred from the hedging reserve to the income statement as follows:

	2010 £m	2009 £m
Losses already recognised in the year	(0.1 )	(0.4 )
Gains expected to be recognised in the next year	0.1	0.2
Losses expected to be recognised in subsequent years	(0.3 )	(0.2 )
	(0.3 )	(0.4 )

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	Current assets		Current liabilities	
	2010	2009	2010	2009
	£m	£m	£m	£m
Embedded derivatives within contracts	0.1	0.2	(0.2 )	(0.1 )
Forward foreign currency contracts not designated as hedges <sup>(i)</sup>	0.5	0.2	(0.6 )	(0.3 )
	0.6	0.4	(0.8 )	(0.4 )

<sup>(i)</sup> The contractual undiscounted gross cash flows to be settled within one year are an outflow of £19.0 million (2009: £8.6 million) and an inflow of £19.1 million (2009: £8.4 million).

**(vii) Fair values of financial liabilities**

	Book value		Fair value	
	2010	2009	2010	2009
	£m	£m	£m	£m
Primary financial instruments held or issued to finance the Group's operations:				
Short-term borrowings and current portion of long-term borrowings	<b>(48.6)</b>	(19.8)	<b>(48.6)</b>	(19.8)
Long-term borrowings	<b>(32.9)</b>	(4.9 )	<b>(32.9)</b>	(4.9 )

The fair values of short-term deposits and borrowings approximate to the carrying amount because of the short maturity of these instruments. The fair values of long-term borrowings approximate to the carrying amount because these loans bear interest at floating rates and can be repaid at any time without penalty.

**22 Share capital and share premium**

	2010		2009	
	Number of ordinary shares of 2 pence each	2010 £	Number of ordinary shares of 2 pence each	2009 £
Authorised:	<b>300,000,000</b>	<b>6,000,000</b>	300,000,000	6,000,000

Issued:

Fully-paid shares	<b>167,021,060</b>	<b>3,340,421</b>	166,955,167	3,339,103
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In 2010, 65,893 (2009: 54,497) ordinary shares were issued for nil consideration on the vesting of awards under the CI LTIP. In 2009, 149,089 ordinary shares were issued for consideration of £324,999 on the vesting of awards under the MF Plan. As a result a total of £0.4 million (2009: £0.8 million) share premium arose.

At 31 December 2010 and 2009, one participant held options over a total of 66,413 ordinary shares of the Company.

These options were granted under an employee share option scheme and are exercisable up to 29 March 2011 at a price of 139.9 pence. The cost of the purchase of 14,670 (2009: 44,502) ordinary shares of the Company with an aggregate nominal value of £293.40 (2009: £890.04) through purchases on the London Stock Exchange by the Charter

Employee Trust in connection with the Deferred Bonus Plan has been deducted from retained earnings. The consideration paid was £0.1 million (2009: £0.2 million). At 31 December 2010 the Charter Employee Trust held 88,790 (2009: 74,120) ordinary shares with a market value of £0.7 million (2009: £0.5 million). The dividends receivable on these shares have been waived.

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The awards granted under the CI LTIP were valued using the Stochastic ( Monte Carlo ) model as follows:

	Grant date	
	30 April 2010	9 March 2009
Number of shares	<b>245,380</b>	396,537
Fair value £	<b>1,679,800</b>	1,174,700
pence per share	<b>684.6</b>	296.2
Expected volatility %	<b>64.9</b>	58.7
Risk-free interest rate %	<b>1.7</b>	1.8
Dividend yield %		

Expected volatility is calculated based on historical volatility for the Company. The total shareholder return performance condition of the awards has been incorporated into the measurement of fair value.

Participants are entitled to a dividend equivalent at the end of the vesting period therefore a dividend yield is not included in the valuation.

**Deferred bonus plan**

On 7 April 2010 awards over 9,133 shares were made under the Deferred Bonus Plan at a fair value of 777.5 pence per share based on the share price at the date of grant.

On 9 March 2009 awards over 44,236 shares were made under the Deferred Bonus Plan at a fair value of 387.5 pence per share based on the share price at the date of grant.

**24 Other reserves**

	Translation reserve £m	Hedging reserve £m	Surplus on revaluation £m	Total £m
At 1 January 2009	116.0	(8.1 )	(547.8 )	(439.9 )



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Exchange translation	(33.8 )		(33.8 )
Exchange translation transfer to income statement on disposal	(0.9 )		(0.9 )
Change in fair value of outstanding cash flow hedges		2.7	2.7
Net transfer to income statement hedges		7.9	7.9
Net investment hedges	5.7		5.7
Net deferred income tax movement for the year hedges		(2.6 )	(2.6 )
At 31 December 2009	87.0	(0.1 )	(547.8 ) (460.9 )
At 1 January 2010	87.0	(0.1 )	(547.8 ) (460.9 )
Exchange translation	18.1		18.1
Change in fair value of outstanding cash flow hedges		0.1	0.1
Net transfer to income statement hedges		(0.2 )	(0.2 )
At 31 December 2010	105.1	(0.2 )	(547.8 ) (442.9 )

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	2010		2009	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Amounts payable under non-cancellable operating leases:				
Within one year	<b>9.9</b>	<b>4.4</b>	9.2	4.1
Between two and five years	<b>16.9</b>	<b>4.8</b>	17.4	4.3
After five years	<b>10.3</b>		11.1	
	<b>37.1</b>	<b>9.2</b>	37.7	8.4

**26 Capital commitments**

	2010 £m	2009 £m
Committed capital expenditure not provided in the financial statements		
Property, plant and equipment	<b>4.4</b>	11.0
Intangible assets	<b>0.1</b>	0.1
	<b>4.5</b>	11.1

**27 Contingent liabilities****(i) Central operations**

Since about 1985, certain subsidiaries of Charter have been named as defendants (the 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 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 2010 were negligible. The litigation is reviewed each year and, based on that review and legal advice, the Directors believe that the aggregate of any such liability is unlikely to have a material effect on Charter's financial position.

In these circumstances, the Directors have concluded that it is not appropriate to make provision for any liability in respect of such actions.

## **(ii) Welding**

The ESAB Group Inc. ( 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 are 3 manganese fume trials scheduled for the balance of 2011. Additional trials could also be scheduled. During 2010 EGI was not a defendant in any trials that were tried to verdict.

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## **CHARTER INTERNATIONAL PLC**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

#### **27 Contingent liabilities (continued)**

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. Whilst litigation is notoriously uncertain and the risk of an adverse jury verdict in any trial exists, having considered the advice of EGI's counsel in the United States, the Directors believe that EGI has meritorious defences to these claims, most of which should be covered in whole or in part by insurance. 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 US\$8.6 million, which is reflected in EGI's balance sheet at 31 December 2010. In view of the foregoing and, in particular, the legal advice received in the United States, the Directors do not consider that such claims will have a material adverse effect on Charter's financial position.

EGI has also been named as a defendant in a small number of lawsuits in Massachusetts and Pennsylvania 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 2 asbestos cases listed for trial in 2011 although it is not anticipated that they 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.

Upon the advice of counsel, the Directors believe that EGI has meritorious defences to these claims and 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.

#### **(iii) Air and gas handling**

Howden North America Inc. (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 11,493 cases and has, on the advice of counsel, settled 455 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 Directors believe, based on legal advice, that the majority of asbestos-related lawsuits against Howden North America, including those resulting from the historical operations of a predecessor of Howden North America known as Buffalo Forge Company, will continue to be covered, in substantial part, by applicable insurance. The situation is reviewed regularly and based on the most recent review and legal advice obtained by Howden North America, the Directors believe that the aggregate of any potential liability is unlikely to have a material effect on Charter's financial position.

#### **(iv) Other**

In addition there are contingent liabilities arising in the normal course of business from which no liability is expected to crystallise. Various of the Company's subsidiaries are, from time to time, parties to legal proceedings and claims which arise in the ordinary course of business. The Directors do not anticipate that the outcome of these proceedings, actions and claims, either individually or in aggregate, will have a material adverse effect upon the Company's financial position.

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	2010	2009	2008
	£m	£m	£m
Operating profit	<b>138.4</b>	96.0	201.0
Depreciation and impairment of property, plant and equipment	<b>28.9</b>	28.3	21.7
Amortisation and impairment of intangible assets	<b>13.2</b>	9.6	5.7
Amortisation of government grants	<b>(0.6)</b>	(0.6 )	(0.5 )
Charge for share-based payments	<b>1.1</b>	1.0	0.9
Loss on disposal of business		0.5	
(Profit)/loss on sale of property, plant and equipment	<b>(0.7)</b>	(0.1 )	0.2
(Increase)/decrease in inventories	<b>(44.9)</b>	37.7	(57.4 )
(Increase)/decrease in receivables	<b>(6.6)</b>	132.1	(28.1 )
Increase/(decrease) in payables	<b>2.7</b>	(119.1 )	29.8
Movements in provisions	<b>(16.4)</b>	4.0	2.2
Movements in net retirement benefit obligations	<b>(29.6)</b>	(17.9 )	(16.0 )
	<b>85.5</b>	171.5	159.5

**Reconciliation of net cash flow to movement in net cash**

	2010	2009	2008
	£m	£m	£m
Net movement in cash, cash equivalents and bank overdrafts	<b>7.7</b>	(8.3 )	(28.4 )
Cash (inflow)/outflow from debt and lease financing	<b>(53.9)</b>	4.4	(4.8 )
(Decrease)/increase in cash on deposit	<b>(2.3)</b>	4.0	(0.8 )
Change in net cash resulting from cash flows	<b>(48.5)</b>	0.1	(34.0 )
New finance leases	<b>(0.4)</b>	(1.3 )	(0.4 )
Movement in interest accrual			(0.1 )
Currency variations on borrowings and cash deposits	<b>(0.2)</b>	0.3	1.9
Movement in net cash in the year	<b>(49.1)</b>	(0.9 )	(36.4 )
Opening net cash	<b>50.9</b>	51.8	88.2
Closing net cash	<b>1.8</b>	50.9	51.8
Gross borrowings	<b>(81.5)</b>	(24.7 )	(43.9 )
Cash at bank and in hand (including cash on deposit)	<b>83.3</b>	75.6	95.7
Closing net cash	<b>1.8</b>	50.9	51.8

## 29 Acquisitions and disposals

### 2010

In March 2010, Charter acquired 100 per cent of the issued share capital of AustCold Refrigeration Pty Ltd (AustCold), a compressor company based in Sydney, Australia with net assets of £2.2 million for a cash consideration of £3.3 million (A\$5.6 million) resulting in goodwill of £1.1 million. Acquisition costs of £0.2 million have been expensed. The cash outflow of £0.8 million, included in the cash flow statement, comprises the net cash consideration of £3.3 million less amounts to be paid in future periods of £0.3 million and cash acquired of £2.2 million.

The value attributed to the assets acquired as shown in the table below represents the Directors' current estimate of the fair value of the net assets acquired. In accordance with IFRS 3, the values attributable to the acquisition of AustCold are provisional and may be revised as further information becomes available. During the year ended 31 December 2010, no adjustments have been made to the estimated fair value of the net assets acquired in prior years.

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TABLE OF CONTENTS**CHARTER INTERNATIONAL PLC****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****29 Acquisitions and disposals (continued)**

	AustCold Carrying amount before fair value adjustment £m	Fair value adjustment £m	Provisional fair value £m
Intangible assets		0.5	0.5
Property, plant and equipment	0.1	0.3	0.4
Inventories	0.1		0.1
Trade and other receivables	1.3		1.3
Cash and cash equivalents	2.2		2.2
Trade and other payables	(1.0 )		(1.0 )
Income tax liabilities	(0.9 )		(0.9 )
Provisions	(1.0 )		(1.0 )
Deferred income tax assets/(liabilities)	0.8	(0.2 )	0.6
Net assets	1.6	0.6	2.2
Goodwill on acquisition			1.1
			3.3
Satisfied by:			
Net cash consideration paid			3.0
Consideration to be paid in subsequent years			0.3
			3.3

Intangible assets acquired principally represent customer relationships and brands. The goodwill arising principally reflects the anticipated profitability of the new markets to which the Group has gained access and to additional profitability and operating efficiencies in respect of existing markets. None of the goodwill recognised is expected to be deductible for income tax purposes.

The revenue and loss after tax of AustCold for the year ended 31 December 2010 were £2.8 million and £0.6 million respectively of which £1.5 million and £0.1 million respectively were for the period prior to acquisition.

**2009**

During the year ended 31 December 2009, the Group made no acquisitions of subsidiaries. Costs of £0.3 million in



relation to a potential acquisition have been charged to the income statement. During the year ended 31 December 2009, no adjustments have been made to the estimated fair value of the net assets of the other businesses acquired in 2008.

On 13 May 2009, ESAB completed the disposal of HD Engineering Limited, a manufacturer of drilling equipment, consumables and accessories with net assets of £3.1 million for a cash consideration of £1.7 million, net of disposal costs, resulting in a loss of £1.4 million. Cumulative exchange translation gains previously taken directly to equity of £0.9 million have been recycled through the income statement following this disposal. The cash inflow of £1.3 million in 2009, included in the cash flow statement, comprises the net cash consideration of £1.7 million less cash disposed of £0.4 million.

TABLE OF CONTENTS**CHARTER INTERNATIONAL PLC****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****29 Acquisitions and disposals (continued)**

The net assets disposed of were as follows:

	2009 £m
Property, plant and equipment	0.5
Inventories	1.7
Trade and other receivables	1.5
Cash and cash equivalents	0.4
Trade and other payables	(0.9 )
Income tax liabilities	(0.1 )
Net assets disposed	3.1
Currency translation gain transferred from equity	(0.9 )
Total	2.2
Net cash consideration received (including costs and excluding cash disposed)	1.7
Loss on disposal (note 5)	(0.5 )

**30 Related party transactions**

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Key management compensation is disclosed in note 8.

Details of transactions between the Group and other related parties are disclosed below.

**Trading transactions**

During the year, Group entities entered into the following trading transactions with related parties that are not members of the Group.

	Sales of goods		Purchases of goods		Amounts owed by related parties		Amounts owed to related parties	
	2010	2009	2010	2009	2010	2009	2010	2009
	£m	£m	£m	£m	£m	£m	£m	£m
Associates and joint ventures	<b>5.1</b>	2.7	7.6	4.9	1.0	0.8	1.0	0.6

## Other related party transactions

ESAB Holdings Limited, Howden Group Limited and The ESAB Group Inc., subsidiaries of the Company, are party to arms length consultancy agreements with Unipart Logistics Limited ( Unipart Logistics ) for the provision of lean manufacturing and other consultancy services to ESAB, Howden and Anderson Group Inc. respectively. John Neill, a Non-Executive Director of the Company, is currently Group Chief Executive of the Unipart Group of Companies. The total charges paid to Unipart Logistics during the year amounted to £1.5 million (2009: £2.3 million). The amount payable to Unipart Logistics as at 31 December 2010 was £0.2 million (2009: £0.2 million).

In 2009 Hoeganaes Corporation ( Hoeganaes ), a wholly-owned subsidiary of GKN plc, supplied powdered metal to two subsidiaries of the Company, being ESAB Group Inc and ESAB Mexico SA de CV, with a total sales value of US\$2.1 million. The amount payable to Hoeganaes at 31 December 2009 was US\$0.3 million. The relationship between both Hoeganaes and the Company's subsidiaries is on an arms length basis and in the ordinary course of trade.

Grey Denham, a Non-Executive Director of the Company, was Company Secretary and Group Director Legal and Compliance of GKN plc until his retirement on 7 May 2009 but had no day-to-day involvement in the management of Hoeganaes.

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**CHARTER INTERNATIONAL PLC**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**31 Dividends**

	2010	2009
	£m	£m
Interim dividend for 2010 of 7.5p paid on 10 September 2010	<b>12.5</b>	
Second interim dividend for 2009 of 14.5p paid on 7 May 2010	<b>24.2</b>	
First interim dividend for 2009 of 7.0p paid on 9 September 2009		11.6
Dividend for 2008 of 14.0p paid on 5 May 2009		23.4
	<b>36.7</b>	35.0

On 17 February 2011 the Directors declared a second interim dividend of 15.5 pence per share in respect of the year ended 31 December 2010. It is anticipated that the dividend will be paid on 6 May 2011 to holders of ordinary shares registered on 15 April 2011. This dividend, totalling £25.9 million, has not been included as a liability as at 31 December 2010.

Income Access Share arrangements have been put in place to enable shareholders in the Company to elect to receive their dividends from a UK source (the IAS election). All elections remain in force indefinitely unless revoked. Unless shareholders make an IAS election, dividends will be received from an Irish source and will be taxed accordingly.

The Charter Employee Trust has waived its entitlement to receive dividends on its holding of 88,790 (2009: 74,120) ordinary shares in the Company.

**32 Subsequent events**

Subsequent to 31 December 2010 the following acquisitions have been made:

**(i) Sychevsky**

On 3 March 2011, Charter acquired 100% of the issued share capital of LLC Sychevsky Electroodny Zavod ( Sychevsky ), a leading Russian electrode manufacturer based in the Smolensk region for a cash consideration of £11.8 million. Sychevsky's product range primarily comprises premium electrodes for use in the oil & gas, energy and bridge building sectors, which are sold through a network of distributors. Acquisition costs of £0.2 million have been expensed. The combined customer bases and product ranges of ESAB and Sychevsky are expected to create further opportunities for ESAB to increase its presence in Russia. The acquisition will also provide ESAB with additional manufacturing capacity in Russia.

Goodwill of £4.4 million arose on the acquisition and principally reflects the anticipated profitability of the new markets to which the Group has gained access and to additional profitability and operating efficiencies in respect of

existing markets. None of the goodwill recognised is expected to be deductible for income tax purposes.

Intangible assets acquired principally represent customer relationships and brands.

For acquired trade and other receivables, the fair value and gross amount receivable is £0.5 million.

The value attributed to the assets acquired, as shown in the table below, represents the Directors' current estimate of the fair value of the net assets acquired. In accordance with IFRS 3, the values attributable to the acquisition of Sychevsky are provisional and may be revised as further information becomes available, particularly in relation to the value of the intangible assets.

The revenue and profit after tax of Sychevsky for the six months ended 30 June 2011 was £5.5 million and £0.9 million respectively of which £1.6 million and £0.2million respectively was for the period prior to acquisition.

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## **CHARTER INTERNATIONAL PLC**

# **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **32 Subsequent events (continued)**

#### **(ii) Thomassen**

On 28 March 2011, Charter acquired 100% of the issued share capital of Thomassen Compression Systems BV ( Thomassen ), a leading supplier of high-power engineered compressors to the oil and gas and petrochemical industries, for a cash consideration of £88.1 million (ICE100 million). Acquisition costs of £0.8 million have been expensed. The acquisition is in line with Charter's strategy for growing Howden through developing its compressor business, its position in higher growth economies and further developing its aftermarket presence.

Goodwill of £31.3 million arose on the acquisition and principally reflects the anticipated profitability of the new markets to which the Group has gained access and to additional profitability and operating efficiencies in respect of existing markets. None of the goodwill recognised is expected to be deductible for income tax purposes.

Intangible assets acquired principally represent customer relationships and brands.

For acquired trade receivables, the fair value and gross amount receivable is £33.8 million and £34.7 million respectively. £0.9 million is the best estimate of contractual cash flows not expected to be collected. The fair value and gross amount receivable of other acquired receivables is £2.1 million.

The value attributed to the assets acquired, as shown in the table below, represents the Directors' current estimate of the fair value of the net assets acquired. In accordance with IFRS 3, the values attributable to the acquisition of Thomassen are provisional and may be revised as further information becomes available, particularly in relation to the value of the intangible assets.

The revenue and profit after tax of Thomassen for the six months ended 30 June 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.

TABLE OF CONTENTS**CHARTER INTERNATIONAL PLC****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****32 Subsequent events (continued)**

The provisional fair value of the assets and liabilities acquired was as follows:

	Sychevsky £m	Thomassen £m	Total £m
Intangible assets	<b>4.4</b>	<b>48.9</b>	<b>53.3</b>
Property, plant and equipment	<b>2.0</b>	<b>5.0</b>	<b>7.0</b>
Inventories	<b>1.6</b>	<b>6.0</b>	<b>7.6</b>
Trade and other receivables - current	<b>0.5</b>	<b>35.9</b>	<b>36.4</b>
Cash and cash deposits	<b>0.4</b>	<b>11.7</b>	<b>12.1</b>
Bank overdrafts		<b>(4.8)</b>	<b>(4.8)</b>
Trade and other payables - current	<b>(0.7)</b>	<b>(27.7)</b>	<b>(28.4)</b>
Income tax liabilities		<b>(1.9)</b>	<b>(1.9)</b>
Retirement benefit obligations		<b>(0.2)</b>	<b>(0.2)</b>
Provisions		<b>(3.9)</b>	<b>(3.9)</b>
Deferred income tax liabilities	<b>(0.8)</b>	<b>(12.2)</b>	<b>(13.0)</b>
Net assets acquired	<b>7.4</b>	<b>56.8</b>	<b>64.2</b>
Goodwill	<b>4.4</b>	<b>31.3</b>	<b>35.7</b>
Total consideration	<b>11.8</b>	<b>88.1</b>	<b>99.9</b>
Cash outflow in cash flow statement			
Cash consideration paid - prior year acquisitions			<b>(0.1)</b>
Cash consideration paid - current year acquisitions			<b>(99.9)</b>
Less: cash, cash equivalents and bank overdrafts acquired			<b>(1.1)</b>
Purchase of subsidiary undertakings, net of cash and overdrafts acquired			<b>(101.1)</b>
Cash deposits acquired			<b>8.4</b>
Net cash outflow			<b>(92.7)</b>

(iii) On 1 July 2011, ESAB acquired a 60 per cent shareholding in Condor Equipamentos Industriais Ltda ( Condor ), a leading Brazilian gas apparatus manufacturer, for a cash consideration of R\$25.2 million (£9.9 million). R\$7.5 million (£3.0 million) was paid on completion with the remaining balance R\$17.7 million (£6.9 million) being payable in January 2012. ESAB will assume full managerial control of Condor.

There have been no other material events subsequent to the year end that require further disclosure.

TABLE OF CONTENTS**CHARTER INTERNATIONAL PLC****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****32 Subsequent events (continued)****Principal interests in Group undertakings as of 31 December 2010****Subsidiary undertakings**

	Country of incorporation	Group interest in equity capital (per cent)	Nature of business
Welding, cutting and automation Europe			
ESAB AB	Sweden	100	Welding consumables and equipment
ESAB Vamberk s.r.o.	Czech Republic	100	Welding consumables and equipment
ESAB GmbH	Germany	100	Welding consumables and equipment
ESAB Cutting Systems GmbH	Germany	100	Oxy-fuel, plasma, laser and water jet cutting
ESAB Mor Kft	Hungary	100	Welding consumables
ESAB Sp. z o.o.	Poland	100	Welding consumables
ESAB Saldatura S.p.A.	Italy	100	Welding consumables and equipment
OOO ESAB	Russia	100	Welding consumables and equipment
Zao ESAB Svel	Russia	51	Welding consumables
ESAB Europe AG North America	Switzerland	100	Welding consumables
The ESAB Group Inc. <sup>(iii)</sup>	USA	100	Welding consumables and equipment
South America			
ESAB Industria e Comercio Ltda	Brazil	100	



			Welding consumables and equipment
Eutectic do Brasil Ltda	Brazil	100	Welding consumables and equipment
Conarco Alambres y Soldaduras S.A.	Argentina	100	Welding consumables and equipment
China			
ESAB Welding and Cutting Products (Shanghai) Co Limited	China	100	Welding consumables and equipment
ESAB Welding Products (Jiangsu) Co Limited	China	100	Welding consumables and equipment
ESAB Cutting and Welding Automation (Shanghai) Co Limited	China	100	Cutting and automation
ESAB Welding Products (Weihai) Co Limited	China	100	Welding consumables
Asia Pacific			
ESAB Asia/Pacific Pte Limited	Singapore	100	Welding consumables and equipment
Romar Positioning Equipment International Pte Limited	Singapore	100	Welding equipment
ESAB India Limited	India	56	Welding consumables and equipment
United Arab Emirates			
ESAB Middle East LLC	United Arab Emirates	100	Welding consumables and equipment
ESAB Middle East FZE	United Arab Emirates	100	Welding consumables and equipment
Air and gas handling			
Europe			
Howden UK Limited	Northern Ireland	100	Power, industrial fans and heat exchangers
Howden France	France	100	Industrial fans
Howden BC Compressors	France	100	Piston and diaphragm compressors
Howden Netherlands BV	Netherlands	100	Industrial fans
Howden Turbowerke GmbH	Germany	100	Industrial fans
Howden Ventilatoren GmbH	Germany	100	Power and industrial fans
Howden Denmark A/S	Denmark	100	Power and industrial fans
Howden Spain SL	Spain	100	Heat exchangers
Howden Compressors Limited	Scotland	100	Screw compressors
James Howden & Company Limited(trading as Howden Process Compressors)	Scotland	100	Screw compressor packages and blowers

TABLE OF CONTENTS**CHARTER INTERNATIONAL PLC****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****32 Subsequent events (continued)**

	Country of incorporation	Group interest in equity capital (per cent)	Nature of business
North America			
Howden North America Inc. <sup>(iii)</sup>	USA	100	Power and industrial fans
South America			
Howden South America Ventiladores e Compressores Industria e Comercio Ltda <sup>(iv)</sup>	Brazil	100	Industrial fans and heat exchangers
Asia Pacific			
Howden Hua Engineering Co Limited	China	70	Power and industrial fans, heat exchangers, compressors & blowers
Howden Australia Pty Limited	Australia	100	Power and industrial fans and heat exchangers
South Africa			
Howden Africa Holdings Limited	South Africa	55	Power and industrial fans, heat exchangers, gas cleaning equipment, pumps and cooling systems
Associates and joint ventures			
ESAB SeAH Corporation <sup>(v)</sup>	South Korea	50	Welding consumables

(i) The principal country of operation is the same as the country of incorporation.

(ii) The Group undertakings above are all held by subsidiary undertakings of the Company.

(iii) The ESAB Group Inc. and Howden North America Inc. (formerly Howden Buffalo Inc.) are both wholly-owned subsidiaries of Anderson Group Inc., the holding company of the Group's North America businesses.

(iv) Aeolus Industria e Comercio Ltda merged into Howden South America Ventiladores e Compressores Industria e Comercio Ltda on 30 December 2010.

(v) ESAB SeAH Corporation has only one class of capital.

TABLE OF CONTENTS**CHARTER INTERNATIONAL PLC****CONDENSED CONSOLIDATED INCOME STATEMENT**

Note	Nine months ended 30 September 2011 £m, except per share amounts (unaudited)	Nine months ended 30 September 2010 £m, except per share amounts (unaudited)
Continuing operations		
3		
	<b>1,444.2</b>	1,255.6
<b>Revenue</b>		
Cost of sales	<b>(1,034.7)</b>	(874.2 )
Gross profit	<b>409.5</b>	381.4
Selling and distribution costs	<b>(178.4)</b>	(152.3 )
Administrative expenses	<b>(195.1)</b>	(134.9 )
3		
	<b>36.0</b>	94.2
<b>Operating profit</b>		
4		
	<b>(1.1)</b>	(3.2 )
Net financing charge retirement benefit obligations		
4		
	<b>(6.0)</b>	(3.5 )
Other financing charge before losses on retranslation of intercompany loan balances		
4		
	<b>2.4</b>	2.4
Other financing income before gains on retranslation of intercompany loan balances		
4		
	<b>(10.9)</b>	4.2
Net (losses)/gains on retranslation of intercompany loan balances		
4		
	<b>(15.6)</b>	(0.1 )
Net financing charge		
3		
	<b>3.2</b>	2.8

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Share of post-tax profits of associates and joint ventures		
Profit before tax	<b>23.6</b>	96.9
6		
	<b>(12.9)</b>	(18.3 )
Taxation charge		
Profit for the period	<b>10.7</b>	78.6
Attributable to:		
- Equity shareholders	<b>2.0</b>	70.7
- Non-controlling interests	<b>8.7</b>	7.9
	<b>10.7</b>	78.6
7		
<b><i>Earnings per share</i></b>		
Basic	<b>1.2p</b>	42.4p
Diluted	<b>1.2p</b>	42.2p

See accompanying notes to the unaudited condensed consolidated interim financial statements.

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# CHARTER INTERNATIONAL PLC

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Nine months ended 30 September 2011 £m (unaudited)	Nine months ended 30 September 2010 £m (unaudited)
Profit for the period	<b>10.7</b>	78.6
Other comprehensive income and expenditure		
Exchange translation	<b>(19.4)</b>	19.1
Actuarial losses on retirement benefit obligations (note 10)	<b>(48.4)</b>	(31.8 )
Tax on actuarial losses on retirement benefit obligations	<b>6.5</b>	(0.5 )
Change in fair value of outstanding cash flow hedges	<b>(1.1)</b>	(2.2 )
Net transfer to income statement hedges		(0.1 )
Net deferred income tax movement for the period hedges	<b>0.5</b>	0.9
Total other comprehensive income and expenditure	<b>(61.9)</b>	(14.6 )
Total comprehensive income and expenditure for the period	<b>(51.2)</b>	64.0
Total comprehensive income and expenditure attributable to:		
- Equity shareholders of the Company	<b>(57.4)</b>	51.6
- Non-controlling interests	<b>6.2</b>	12.4
	<b>(51.2)</b>	64.0

See accompanying notes to the unaudited condensed consolidated interim financial statements.

TABLE OF CONTENTS**CHARTER INTERNATIONAL PLC****CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	Attributable to owners of the Company				Non-	Total	
	Share capital	Share premium	Retained earnings	Other reserves	controlling interests	equity	
	£m	£m	£m	£m	£m	£m	
At 1 January 2010	3.3	0.8	1,006.7	(460.9 )	549.9	41.4	591.3
Comprehensive income							
Profit for the period			70.7		70.7	7.9	78.6
Other comprehensive income and expenditure							
Exchange translation				15.2	15.2	3.9	19.1
Actuarial losses on retirement benefit obligations			(32.6 )		(32.6 )	0.8	(31.8 )
Tax on actuarial losses on retirement benefit obligations			(0.3 )		(0.3 )	(0.2 )	(0.5 )
Change in fair value of outstanding cash flow hedges				(2.2 )	(2.2 )		(2.2 )
Net transfer to income statement hedges				(0.1 )	(0.1 )		(0.1 )
Net deferred income tax movement for the period hedges				0.9	0.9		0.9
Total other comprehensive income and expenditure			(32.9 )	13.8	(19.1 )	4.5	(14.6 )
Total comprehensive income and expenditure for the period			37.8	13.8	51.6	12.4	64.0
Purchase of treasury shares (note 18)			(0.1 )		(0.1 )		(0.1 )
Share-based payments			0.8		0.8		0.8
- charge for period							
		0.4	(0.4 )				
- shares issued							
Shares issued to non-controlling interests						1.5	1.5
Dividends paid			(36.7 )		(36.7 )	(5.7 )	(42.4 )
At 30 September 2010 (unaudited)	3.3	1.2	1,008.1	(447.1 )	565.5	49.6	615.1
At 1 January 2011	<b>3.3</b>	<b>1.2</b>	<b>1,074.1</b>	<b>(442.9)</b>	<b>635.7</b>	<b>54.2</b>	<b>689.9</b>
Comprehensive income							
Profit for the period			<b>2.0</b>		<b>2.0</b>	<b>8.7</b>	<b>10.7</b>
Other comprehensive income and expenditure							
Exchange translation				<b>(16.9)</b>	<b>(16.9)</b>	<b>(2.5)</b>	<b>(19.4)</b>
Actuarial losses on retirement benefit			<b>(48.4)</b>		<b>(48.4)</b>		<b>(48.4)</b>

obligations						
Tax on actuarial losses on retirement benefit obligations		<b>6.5</b>		<b>6.5</b>		<b>6.5</b>
Change in fair value of outstanding cash flow hedges			<b>(1.1)</b>	<b>(1.1)</b>		<b>(1.1)</b>
Net transfer to income statement hedges						
Net deferred income tax movement for the period hedges			<b>0.5</b>	<b>0.5</b>		<b>0.5</b>
Total other comprehensive income and expenditure		<b>(41.9)</b>	<b>(17.5)</b>	<b>(59.4)</b>	<b>(2.5)</b>	<b>(61.9)</b>
Total comprehensive income and expenditure for the period		<b>(39.9)</b>	<b>(17.5)</b>	<b>(57.4)</b>	<b>6.2</b>	<b>(51.2)</b>
Purchase of treasury shares (note 18)		<b>(0.3)</b>		<b>(0.3)</b>		<b>(0.3)</b>
Share-based payments			<b>1.5</b>	<b>1.5</b>		<b>1.5</b>
- charge for period						
		<b>0.1</b>		<b>0.1</b>		<b>0.1</b>
- shares issued						
		<b>(3.7)</b>		<b>(3.7)</b>		<b>(3.7)</b>
- change from equity to cash settled						
Business acquisition non-controlling interests					<b>3.3</b>	<b>3.3</b>
Business disposal non-controlling interests					<b>(0.1)</b>	<b>(0.1)</b>
Dividends paid		<b>(39.3)</b>		<b>(39.3)</b>	<b>(7.3)</b>	<b>(46.6)</b>
At 30 September 2011 (unaudited)	<b>3.3</b>	<b>1.3</b>	<b>992.4</b>	<b>(460.4)</b>	<b>536.6</b>	<b>56.3</b>
					<b>592.9</b>	<b>592.9</b>

See accompanying notes to the unaudited condensed consolidated interim financial statements.

TABLE OF CONTENTS**CHARTER INTERNATIONAL PLC****CONDENSED CONSOLIDATED BALANCE SHEETS**

Note	At 30 September 2011 £m (unaudited)	At 31 December 2010 £m (audited)
Non-current assets		
8	<b>114.4</b>	99.6
Goodwill		
8	<b>105.2</b>	49.6
Other intangible assets		
9	<b>309.7</b>	306.0
Property, plant and equipment		
Investments in associates and joint ventures		
10	<b>21.2</b>	18.6
	<b>19.0</b>	31.4
Retirement benefit assets		
Deferred income tax assets	<b>97.3</b>	96.2
Trade and other receivables	<b>13.6</b>	16.0
Derivative financial instruments	<b>0.1</b>	0.1
	<b>680.5</b>	617.5
Current assets		
Inventories	<b>321.8</b>	295.1
Trade and other receivables	<b>533.6</b>	456.5
Derivative financial instruments	<b>2.8</b>	2.1
Current income tax receivables	<b>6.2</b>	6.8
11	<b>96.4</b>	83.3
Cash and cash deposits		
Assets held for sale	<b>6.4</b>	6.1
	<b>967.2</b>	849.9
Total assets	<b>1,647.7</b>	1,467.4
Current liabilities		
Borrowings	<b>(26.2)</b>	(48.6 )
Trade and other payables	<b>(506.8)</b>	(396.3 )
Derivative financial instruments	<b>(4.3)</b>	(2.4 )
Current income tax liabilities	<b>(17.2)</b>	(22.4 )
13	<b>(43.4)</b>	(41.4 )



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Provisions for other liabilities and charges	<b>(597.9)</b>	(511.1 )
Non-current liabilities		
Borrowings	<b>(207.8)</b>	(32.9 )
Deferred income tax liabilities	<b>(44.9)</b>	(38.4 )
10		
	<b>(185.3)</b>	(170.1 )
Retirement benefit obligations		
13		
	<b>(17.1)</b>	(19.2 )
Provisions for other liabilities and charges		
Derivative financial instruments	<b>(0.4)</b>	(0.2 )
Other payables	<b>(1.4)</b>	(5.6 )
	<b>(456.9)</b>	(266.4 )
Total liabilities	<b>(1,054.8)</b>	(777.5 )
Net assets	<b>592.9</b>	689.9
Equity		
Ordinary share capital	<b>3.3</b>	3.3
Share premium	<b>1.3</b>	1.2
Retained earnings	<b>992.4</b>	1,074.1
Other reserves	<b>(460.4)</b>	(442.9 )
Total equity shareholders funds	<b>536.6</b>	635.7
Non-controlling interests	<b>56.3</b>	54.2
Total equity	<b>592.9</b>	689.9

See accompanying notes to the unaudited condensed consolidated interim financial statements.

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# CHARTER INTERNATIONAL PLC

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Note	Nine months ended 30 September 2011 £m (unaudited)	Nine months ended 30 September 2010 £m (unaudited)
Cash flow from operating activities 12	<b>72.4</b>	29.5
Cash generated from operations		
Interest received	<b>2.7</b>	2.0
Interest paid	<b>(5.3)</b>	(2.4 )
Taxation paid	<b>(20.3)</b>	(25.2 )
Net cash flow from operating activities	<b>49.5</b>	3.9
Cash flow from investing activities 15	<b>(104.2)</b>	(1.2 )
Purchase of subsidiary undertakings, net of cash and overdrafts acquired	<b>(1.4)</b>	
Investment in associates and joint ventures	<b>0.1</b>	
Disposal of subsidiary undertaking	<b>(4.3)</b>	(4.5 )
Expenditure on development costs	<b>(37.5)</b>	(44.0 )
Purchase of property, plant and equipment and computer software	<b>1.5</b>	1.2
Sale of property, plant and equipment and computer software	<b>1.4</b>	1.8
Dividends received from associates and joint ventures	<b>(144.4)</b>	(46.7 )
Net cash flow from investing activities		
Cash flow from financing activities		
Increase in short-term borrowings (other than those repayable on demand)	<b>1.4</b>	24.4
Decrease in short-term borrowings (other than those repayable on demand)	<b>(3.2)</b>	(0.9 )
Increase in long-term borrowings	<b>149.7</b>	48.0
Decrease in long-term borrowings	<b>(0.2)</b>	(1.3 )
Repayment of capital element of finance leases	<b>(0.4)</b>	(0.3 )
Cash inflow from debt and lease financing	<b>147.3</b>	69.9
Decrease in cash on deposit 16	<b>10.7</b>	2.6
Dividends paid to equity shareholders of the Company	<b>(39.3)</b>	(36.7 )

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Dividends paid to non-controlling interests	(7.3)	(5.7 )
18		
	<b>0.1</b>	
Issue of ordinary share capital equity shareholders of the Company		
Issue of share capital non-controlling interests		1.5
18		
	<b>(0.3)</b>	(0.1 )
Purchase of treasury shares		
Net cash flow from financing activities	<b>111.2</b>	31.5
Net movement in cash, cash equivalents and bank overdrafts	<b>16.3</b>	(11.3 )
Cash, cash equivalents and bank overdrafts at beginning of the period	<b>60.8</b>	53.1
Currency variations on cash, cash equivalents and bank overdrafts	<b>(4.3)</b>	4.1
11		
	<b>72.8</b>	45.9
<b>Cash, cash equivalents and bank overdrafts at end of period</b>		

See accompanying notes to the unaudited condensed consolidated interim financial statements.

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# CHARTER INTERNATIONAL PLC

## NOTES

### 1 Basis of preparation

This unaudited condensed consolidated interim financial information as of 30 September 2011 and for the nine months ended 30 September 2011 and 2010 has been prepared in accordance with IAS 34, Interim financial reporting, issued by the International Accounting Standards Board. The unaudited condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2010, which have been prepared in accordance with IFRSs as issued by the International Accounting Standards Board.

### 2 Accounting policies

The accounting policies applied are consistent with those adopted and disclosed in the annual financial statements for the year ended 31 December 2010. Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The preparation of interim financial statements requires the Group to make estimates, judgements and assumptions that may affect the reported amounts of assets, liabilities, revenue and expenses and the disclosure of contingent assets and liabilities. Actual results may differ significantly from these estimates, the effect of which is recognised in the period in which the facts that give rise to the revision become known.

In preparing these interim financial statements the areas where significant accounting estimates and judgements are required are unchanged from those that applied to the financial statements as at, and for the year ended, 31 December 2010.

### Use of adjusted measures

In order to help provide a better indication of the Group's underlying business performance the following adjusted measures have been presented.

Adjusted operating profit is after excluding acquisition costs, amortisation and impairment of acquired intangibles and goodwill and exceptional items from operating profit. Items which are both material and non-recurring are presented as exceptional items. (See note 3 and note 5.)

Adjusted earnings per share are calculated after excluding acquisition costs, amortisation and impairment of acquired intangibles and goodwill, exceptional items, exchange gains and losses on retranslation of intercompany loans and non-cash net financing costs attributable to retirement benefit obligations, including attributable tax and non-controlling interests, from basic earnings per share. (See note 7.)

Management believes that adjusted operating profit is useful to investors as it excludes items which do not impact the day-to-day operations and which management in some cases does not directly control or influence, and therefore provides users with a better understanding of the underlying business performance.

### **3 Segment analysis**

The Group is organised into two principal businesses: ESAB (welding, cutting & automation) and Howden (air and gas handling). For the purposes of IFRS 8 Operating segments, ESAB is split into two segments: (i) welding; and (ii) cutting & automation. Inter-segmental revenue is not significant. Amounts included under the heading Other comprises Central operations.

### **Seasonality of operations**

The Group's businesses are only marginally impacted by seasonal factors. Where this does happen, it is generally due to seasonal slowdowns or upturns of the industries in which their customers operate. The welding business typically experiences fewer selling days in the second half of the year given the Summer and Christmas holidays in the northern hemisphere. There is no marked seasonality in the cutting & automation business where activity levels are principally determined by the timing of customer contracts. In air and gas handling, sales of new equipment also depend on the timing of customer contracts, which are influenced by customers' annual budget cycles for capital expenditure and when deliveries of product are

TABLE OF CONTENTS**CHARTER INTERNATIONAL PLC****NOTES****3 Segment analysis (continued)**

required for a particular project. Aftermarket sales to the power sector, a significant end user sector, typically encounter upturns in both the first and third quarters of each year when power plants tend to undertake planned maintenance work. Overall the Group's geographical and industry spread limits the impact of seasonality on the Group's trading results.

The following is an analysis of the revenue, results and assets analysed by segment:

	Welding £m	Cutting & automation £m	Welding, cutting & automation £m	Air and gas handling £m	Other £m	Total £m
Nine months ended 30 September 2011						
Total revenue	<b>876.7</b>	<b>122.8</b>	<b>999.5</b>	<b>444.7</b>		<b>1,444.2</b>
Adjusted operating profit	<b>66.2</b>	<b>(3.0)</b>	<b>63.2</b>	<b>54.8</b>	<b>(8.0)</b>	<b>110.0</b>
Acquisition costs	<b>(0.8)</b>		<b>(0.8)</b>	<b>(0.8)</b>	<b>(0.2)</b>	<b>(1.8)</b>
Amortisation and impairment of acquired intangibles and goodwill	<b>(0.8)</b>	<b>(19.7)</b>	<b>(20.5)</b>	<b>(3.3)</b>		<b>(23.8)</b>
Exceptional items						
- restructuring (note 5)	<b>(20.8)</b>	<b>(3.0)</b>	<b>(23.8)</b>		<b>(1.4)</b>	<b>(25.2)</b>
	<b>(1.3)</b>		<b>(1.3)</b>	<b>5.2</b>	<b>2.3</b>	<b>6.2</b>
- post retirement benefits (note 5)						
		<b>0.5</b>	<b>0.5</b>			<b>0.5</b>
- disposal of business (note 5)						
					<b>(29.9)</b>	<b>(29.9)</b>
- bid costs (note 5)						
Operating profit	<b>42.5</b>	<b>(25.2)</b>	<b>17.3</b>	<b>55.9</b>	<b>(37.2)</b>	<b>36.0</b>
Share of post-tax profits of associates and joint ventures	<b>3.3</b>		<b>3.3</b>	<b>(0.1)</b>		<b>3.2</b>
	<b>45.8</b>	<b>(25.2)</b>	<b>20.6</b>	<b>55.8</b>	<b>(37.2)</b>	<b>39.2</b>
Net financing charge						<b>(15.6)</b>
Profit before tax						<b>23.6</b>
Tax						<b>(12.9)</b>
Profit for the period						<b>10.7</b>

Non-controlling interests						<b>(8.7)</b>
Profit attributable to equity shareholders						<b>2.0</b>
Nine months ended 30 September 2010						
Total revenue	752.8	94.8	847.6	408.0		1,255.6
Adjusted operating profit	72.3	(3.4 )	68.9	39.5	(8.9 )	99.5
Acquisition costs				(0.1 )		(0.1 )
Amortisation and impairment of acquired intangibles and goodwill	(0.6 )	(3.1 )	(3.7 )	(0.8 )		(4.5 )
Exceptional items						
- restructuring (note 5)	(5.0 )	(3.9 )	(8.9 )	(0.2 )		(9.1 )
	6.8	1.6	8.4			8.4
- post retirement benefits (note 5)						
Operating profit	73.5	(8.8 )	64.7	38.4	(8.9 )	94.2
Share of post-tax profits of associates and joint ventures	2.8		2.8			2.8
	76.3	(8.8 )	67.5	38.4	(8.9 )	97.0
Net financing charge						(0.1 )
Profit before tax						96.9
Tax						(18.3 )
Profit for the period						78.6
Non-controlling interests						(7.9 )
Profit attributable to equity shareholders						70.7
At 30 September 2011						
Investments in associates and joint ventures	<b>18.6</b>		<b>18.6</b>	<b>2.4</b>	<b>0.2</b>	<b>21.2</b>
Other segment assets	<b>807.7</b>	<b>116.9</b>	<b>924.6</b>	<b>569.9</b>	<b>28.5</b>	<b>1,523.0</b>
Segment assets	<b>826.3</b>	<b>116.9</b>	<b>943.2</b>	<b>572.3</b>	<b>28.7</b>	<b>1,544.2</b>
At 31 December 2010						
Investments in associates and joint ventures	17.2		17.2	1.2	0.2	18.6
Other segment assets	759.2	130.3	889.5	419.5	36.8	1,345.8
Segment assets	776.4	130.3	906.7	420.7	37.0	1,364.4

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TABLE OF CONTENTS**CHARTER INTERNATIONAL PLC****NOTES****3 Segment analysis (continued)**

Reportable segment assets are reconciled to total assets as follows:

	Nine months ended 30.9.11 £ m	Year ended 31.12.10 £m
Segment assets	<b>1,544.2</b>	1,364.4
Current income tax receivables	<b>6.2</b>	6.8
Deferred income tax assets	<b>97.3</b>	96.2
Total assets	<b>1,647.7</b>	1,467.4

**4 Net financing charge**

	Nine months ended 30.9.11 £m	Nine months ended 30.9.10 £m
Net financing charge retirement benefit obligations:		
Interest on schemes liabilities	<b>(28.2)</b>	(29.3 )
Expected return on schemes assets	<b>27.1</b>	26.1
	<b>(1.1)</b>	(3.2 )
Interest payable on bank borrowings	<b>(3.4)</b>	(1.5 )
Interest payable on bank borrowings fees	<b>(0.5)</b>	(0.5 )
	<b>(3.9)</b>	(2.0 )
Exchange loss on cash and borrowings	<b>(0.4)</b>	(0.1 )
Other	<b>(1.6)</b>	(1.3 )
Unwinding of discount on provisions (note 13)	<b>(0.1)</b>	(0.1 )
Other financing charge before exchange losses on retranslation of intercompany loan balances	<b>(6.0)</b>	(3.5 )
Interest income on bank accounts and deposits	<b>1.0</b>	0.9
Interest income on financial assets not held at fair value	<b>0.4</b>	0.1
Fair value gains on derivative financial instruments		0.7
Exchange gains on cash and borrowings	<b>0.7</b>	0.1
Other	<b>0.3</b>	0.6
	<b>2.4</b>	2.4



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Other financing income before exchange gains on retranslation of intercompany loan balances		
Net financing charge before exchange (losses)/gains on intercompany loan balances	<b>(4.7)</b>	(4.3 )
Net exchange (losses)/gains on retranslation of intercompany loan balances	<b>(10.9)</b>	4.2
Net financing charge	<b>(15.6)</b>	(0.1 )

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To help provide a better indication of the Group's underlying business performance, items which are meaningful due to their size, nature and incidence of occurrence are presented as exceptional items.

The following items have been classified as exceptional:

	Nine months ended 30.9.11 £m	Nine months ended 30.9.10 £m
Restructuring costs		
Headcount reductions	<b>9.1</b>	4.2
Impairment of intangibles and property, plant and equipment	<b>5.4</b>	0.6
Impairment of inventory	<b>1.2</b>	1.0
Other restructuring costs	<b>9.5</b>	3.3
	<b>25.2</b>	9.1
Retirement benefits		
	<b>(6.2)</b>	
- past service credit		
		(8.4)
- curtailment gain		
Disposal of business	<b>(0.5)</b>	
Bid transaction costs		
	<b>29.0</b>	
- external		
	<b>0.9</b>	
- internal		
	<b>48.4</b>	0.7

A tax credit of £3.3 million (2010: charge £1.6 million) is attributable to the exceptional items.

An exceptional charge of £1.1 million (2010: £nil) is attributable to non-controlling interests.

**6 Tax on profit on ordinary activities**

	Nine months ended 30.9.11 £m	Nine months ended 30.9.10 £m
Tax charge on profits <sup>(i)</sup>	<b>18.6</b>	18.2
Taxation on exceptional items and acquisition costs	<b>(3.3)</b>	1.6
Taxation on amortisation and impairment of acquired intangibles and goodwill	<b>(1.1)</b>	(1.0 )
Taxation on net financing charge retirement benefit obligations	<b>(0.3)</b>	(0.7 )
Taxation on retranslation of intercompany loan balances	<b>(1.0)</b>	0.2
Taxation charge	<b>12.9</b>	18.3

Excluding exceptional items and acquisition costs, amortisation and impairment of acquired intangibles and (i) goodwill, net financing charge retirement benefit obligations, and net exchange gains and losses on retranslation of intercompany loans.

(ii) The share of post-tax profits of associates and joint ventures included in the income statement is after a tax charge of £1.1 million (2010: £0.9 million).

(iii) The tax charge for the nine months ended 30 September 2011 is based on the Directors best estimate of the weighted average annual tax rate expected for the full financial year.

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Basic earnings per share is calculated on an average of 167.0 million shares (2010: 166.9 million shares) representing the average number of shares in issue after excluding 0.1 million shares held by the Charter Employee Trust in 2010.

At 30 September 2011 it is anticipated that potentially issuable shares under the Group's long-term incentive plans will be cash settled and, accordingly, in calculating the weighted average number of ordinary shares in issue for diluted earnings per share no conversion of dilutive potential ordinary shares is assumed. For the 2010 diluted earnings per share, the weighted average number of ordinary shares in issue has been adjusted to assume conversion of 0.7 million dilutive potential ordinary shares.

Adjusted earnings per share are calculated after certain adjustments to basic earnings per share so as to help provide a better indication of the Group's underlying business performance as set out in the table below.

It should be noted that the term 'adjusted' is not defined under IFRS and may not therefore be comparable with similarly titled profit measures reported by other companies. It is not intended to be a substitute for, or be superior to, IFRS measures of profit.

	Per share		Total earnings	
	Nine months ended 30.9.11	Nine months ended 30.9.10	Nine months ended 30.9.11	Nine months ended 30.9.10
	pence	pence	£m	£m
Basic earnings per share				
Profit attributable to equity shareholders of the Company	<b>1.2</b>	42.4	<b>2.0</b>	70.7
Items not relating to underlying business performance				
Exceptional items	<b>28.9</b>	0.4	<b>48.4</b>	0.7
Amortisation and impairment of acquired intangibles and goodwill	<b>14.3</b>	2.6	<b>23.8</b>	4.5
Acquisition costs	<b>1.1</b>	0.1	<b>1.8</b>	0.1
Net financing charge – retirement benefit obligations	<b>0.7</b>	1.9	<b>1.1</b>	3.2
Retranslation of intercompany loan balances	<b>6.5</b>	(2.5 )	<b>10.9</b>	(4.2 )
Taxation on items not relating to underlying business performance	<b>(3.4)</b>	0.1	<b>(5.7)</b>	0.1
Non-controlling interests share of items not relating to underlying business performance	<b>(0.8)</b>	(0.1 )	<b>(1.3)</b>	(0.2 )
Adjusted basic earnings attributable to equity shareholders of the Company	<b>48.5</b>	44.9	<b>81.0</b>	74.9
Fully diluted earnings per share				
Profit attributable to equity shareholders of the Company	<b>1.2</b>	42.2	<b>2.0</b>	70.7
Items not relating to underlying business performance				

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Exceptional items	<b>28.9</b>	0.4	<b>48.4</b>	0.7
Amortisation and impairment of acquired intangibles and goodwill	<b>14.3</b>	2.6	<b>23.8</b>	4.5
Acquisition costs	<b>1.1</b>	0.1	<b>1.8</b>	0.1
Net financing charge retirement benefit obligations	<b>0.7</b>	1.9	<b>1.1</b>	3.2
Retranslation of intercompany loan balances	<b>6.5</b>	(2.5 )	<b>10.9</b>	(4.2 )
Taxation on items not relating to underlying business performance	<b>(3.4)</b>	0.1	<b>(5.7)</b>	0.1
Non-controlling interests share of items not relating to underlying business performance	<b>(0.8)</b>	(0.1 )	<b>(1.3)</b>	(0.2 )
Adjusted diluted earnings attributable to equity shareholders of the Company	<b>48.5</b>	44.7	<b>81.0</b>	74.9

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TABLE OF CONTENTS**CHARTER INTERNATIONAL PLC****NOTES****8 Goodwill and other intangible assets**

The movement on the net book amount is set out below:

	Goodwill		Other intangible assets	
	Nine		Nine	
	months	Year ended	months	Year ended
	ended	31.12.10	ended	31.12.10
	30.9.11	£m	30.9.11	£m
	£m		£m	
Opening net book amount	<b>99.6</b>	92.7	<b>49.6</b>	46.4
Exchange adjustments	<b>(6.5)</b>	5.8	<b>(3.3)</b>	2.2
Additions			<b>1.4</b>	2.7
Acquisitions (note 15)	<b>40.8</b>	1.1	<b>57.6</b>	0.5
Internally generated			<b>10.3</b>	11.1
Disposals			<b>(0.3)</b>	(0.1)
Amortisation			<b>(9.7)</b>	(9.5)
Impairment goodwill and acquired intangibles	<b>(19.5)</b>			(3.2)
Impairment other			<b>(0.4)</b>	(0.5)
Closing net book amount	<b>114.4</b>	99.6	<b>105.2</b>	49.6
Committed capital expenditure not provided for				0.1

The net book amount of goodwill in the balance sheet is after deducting accumulated impairment losses of £19.3 million (31 December 2010: £nil).

**9 Property, plant and equipment**

The movement on the net book amount is set out below:

	Nine	
	months	Year ended
	ended	31.12.10
	30.9.11	£m
	£m	
Opening net book amount	<b>306.0</b>	280.2
Exchange adjustments	<b>(9.0)</b>	12.8
Additions	<b>30.0</b>	48.7
Acquisitions (note 15)	<b>12.2</b>	0.4
Disposal of business (note 5)	<b>(0.1)</b>	

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Disposals	<b>(1.2)</b>	(1.1 )
Reclassified as assets held for sale	<b>(0.3)</b>	(6.1 )
Depreciation	<b>(22.9)</b>	(29.1 )
Impairment	<b>(5.0)</b>	0.2
Closing net book amount	<b>309.7</b>	306.0
Committed capital expenditure not provided for	<b>6.0</b>	4.4

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TABLE OF CONTENTS**CHARTER INTERNATIONAL PLC****NOTES****10 Retirement benefit obligations**

The valuation of United Kingdom and overseas defined benefit pension schemes and the liability for United States post employment medical costs are assessed by professionally qualified independent actuaries using the projected unit credit method. All actuarial gains and losses are recognised immediately directly in equity.

(i) The movement on the net retirement benefit obligation is set out below:

	Nine months ended 30.9.11 £m	Year ended 31.12.10 £m
Opening balance	<b>(138.7)</b>	(162.2 )
Exchange adjustments	<b>(0.5)</b>	(3.0 )
Income statement		
	<b>5.0</b>	8.3
- operating profit		
	<b>(1.1)</b>	(4.1 )
- financing charge (note 4)		
Taken to equity actuarial losses	<b>(48.4)</b>	1.0
Acquisitions (note 15)	<b>(0.2)</b>	
Disposals	<b>0.5</b>	
Contributions paid	<b>17.1</b>	21.3
Closing balance	<b>(166.3)</b>	(138.7 )
Included in the balance sheet as follows:		
Non-current assets	<b>19.0</b>	31.4
Non-current liabilities	<b>(185.3)</b>	(170.1 )
	<b>(166.3)</b>	(138.7 )

(ii) The position at 30 September 2011 and 31 December 2010 is set out below:

	30 September 2011			Overseas medical costs liability £m	Total £m
	UK pension schemes £m	Overseas pension schemes £m	Total pension schemes £m		
Present value of funded obligations	<b>(523.1)</b>	<b>(160.8)</b>	<b>(683.9)</b>		<b>(683.9)</b>



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Fair value of plan assets	<b>460.2</b>	<b>119.3</b>	<b>579.5</b>		<b>579.5</b>
	<b>(62.9)</b>	<b>(41.5)</b>	<b>(104.4)</b>		<b>(104.4)</b>
Present value of unfunded obligations		<b>(50.2)</b>	<b>(50.2)</b>	<b>(11.3)</b>	<b>(61.5)</b>
Unrecognised past service credit		<b>(0.1)</b>	<b>(0.1)</b>		<b>(0.1)</b>
Surplus not recoverable		<b>(0.3)</b>	<b>(0.3)</b>		<b>(0.3)</b>
Net liability recognised in the balance sheet	<b>(62.9)</b>	<b>(92.1)</b>	<b>(155.0)</b>	<b>(11.3)</b>	<b>(166.3)</b>

31 December 2010

	UK pension schemes £m	Overseas pension schemes £m	Total pension schemes £m	Overseas medical costs liability £m	Total £m
Present value of funded obligations	(512.5)	(159.7 )	(672.2 )		(672.2 )
Fair value of plan assets	469.5	124.7 )	594.2 )		594.2 )
	(43.0 )	(35.0 )	(78.0 )		(78.0 )
Present value of unfunded obligations		(49.0 )	(49.0 )	(11.3 )	(60.3 )
Unrecognised past service credit		(0.1 )	(0.1 )		(0.1 )
Surplus not recoverable		(0.3 )	(0.3 )		(0.3 )
Net liability recognised in the balance sheet	(43.0 )	(84.4 )	(127.4 )	(11.3 )	(138.7 )

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TABLE OF CONTENTS**CHARTER INTERNATIONAL PLC****NOTES****10 Retirement benefit obligations (continued)**

(iii) The principal actuarial assumptions used were as follows:

	30 September 2011		31 December 2010	
	UK	Overseas	UK	Overseas
Discount rate	<b>5.10</b> %	4.80 %	5.40 %	5.25 %
Inflation rate (UK RPI)	3.30 %	2.70 %	3.60 %	2.70 %
Inflation rate (UK CPI)	2.40%			
Expected return on plan assets	<b>7.75</b> %	9.10 %	7.75 %	9.10 %
- equities				
	4.60 %	5.20 %	4.60 %	5.20 %
- bonds				
	7.25 %		7.25 %	
- property				
	3.70 %	5.20 %	3.70 %	5.20 %
- other				
	6.00 %	7.10 %	6.00 %	7.10 %
- total				
Future salary increases	4.30 %	4.70 %	4.60 %	5.00 %
Future pension increases	3.30 %	2.20 %	3.55 %	2.30 %
Medical costs inflation (ultimate rate)		4.50%		4.50 %

The UK government announced in July 2010 that it will in future use the Consumer Price Index rather than the Retail Prices Index for the purposes of determining statutory minimum pension increases for private sector occupational pension schemes. Most of the Group's UK defined benefit pension scheme rules specify that pensions in deferment and certain guaranteed minimum pensions in payment will increase in accordance with the annual statutory orders published by the UK government. The scheme rules also specify that the majority of increases to pensions in payment are linked to the Retail Prices Index and are therefore unaffected by the change. The Trustees of these schemes have notified the affected members of this change and the inflation assumption used to determine the pension liability as at 30 September 2011 has therefore been based on the Consumer Prices Index. The gain of £8.2 million arising on this change in inflation assumption has been included as an exceptional item in the income statement for the nine months ended 30 September 2011.

In one of the UK schemes, an exceptional past service cost of £2.0 million has been recognised in relation to a potential change in date from 1994 to 1996 for the equalisation of retirement ages in respect of members who were in

pensionable service in this period and who had joined the scheme before 1990.

The post-retirement mortality assumptions for the UK schemes are based on either the S1NA standard mortality tables, adjusted for scheme specific factors, or scheme specific tables, in either case with allowance for future mortality improvements. Based on the rates used, a member currently aged 45 who retires at age 60 will live on average for a further 30 years (31 December 2010: 29 years) after retirement if they are male and for a further 33 years (31 December 2010: 31 years) after retirement if they are female. A retired member currently aged 60 is assumed to live on average for a further 28 years (31 December 2010: 27 years) if they are male and for a further 30 years (31 December 2010: 29 years) if they are female.

The overseas schemes are principally in the United States. The mortality assumptions for the United States schemes have been derived from the RP-2000 table with allowance for future mortality improvements. Based on the rates used, a member currently aged 45 who retires at age 60 will live on average for a further 25 years (31 December 2010: 25 years) after retirement if they are male and for a further 26 years (31 December 2010: 26 years) after retirement if they are female. A retired member currently aged 60 is assumed to live on average for a further 23 years (31 December 2010: 23 years) if they are male and for a further 25 years (31 December 2010: 25 years) if they are female. Mortality assumptions for schemes in Sweden and Germany have been derived from the FFFS 2007 tables and the Heubeck 2005 G tables respectively.

TABLE OF CONTENTS**CHARTER INTERNATIONAL PLC****NOTES****11 Cash and cash deposits**

	Nine months ended 30.9.11 £m	Year ended 31.12.10 £m
Cash at bank and on hand	<b>90.2</b>	65.1
Short-term bank deposits	<b>1.1</b>	10.3
Bank deposits with original maturity of more than three months and balances held as cash collateral	<b>5.1</b>	7.9
Cash and cash deposits in the balance sheet	<b>96.4</b>	83.3
Less: Bank deposits with original maturity of more than three months and balances held as cash collateral	<b>(5.1)</b>	(7.9 )
: Bank overdrafts	<b>(18.5)</b>	(14.6 )
Cash, cash equivalents and bank overdrafts in the statement of cash flows	<b>72.8</b>	60.8

For the purposes of the cash flow statement, cash, cash equivalents and bank overdrafts includes bank overdrafts repayable on demand and excludes bank deposits with an agreed maturity of more than three months.

Cash and cash deposits in the balance sheet includes balances of £1.7 million (31 December 2010: £5.1 million) held as cash collateral in connection with certain local trading practices or banking facilities.

**12 Notes to the cash flow statement**

(i) Cash generated from operations

	Nine months ended 30.9.11 £m	Nine months ended 30.9.10 £m
Operating profit	<b>36.0</b>	94.2
Depreciation and impairment of property, plant and equipment	<b>27.9</b>	21.5
Amortisation and impairment of intangible assets	<b>29.6</b>	10.2
Amortisation of government grants	<b>(0.5)</b>	(0.5 )
Charge for share-based payments	<b>1.5</b>	0.8
Profit on disposal of business	<b>(0.5)</b>	
Profit on sale of property, plant and equipment	<b>(0.2)</b>	(0.5 )

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Increase in inventories	<b>(29.1)</b>	(60.7 )
Increase in receivables	<b>(49.2)</b>	(33.9 )
Increase in payables	<b>82.4</b>	28.2
Movement in working capital	<b>4.1</b>	(66.4 )
Movements in provisions	<b>(3.4)</b>	(7.2 )
Movements in net retirement benefit obligations	<b>(22.1)</b>	(22.6 )
	<b>72.4</b>	29.5

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TABLE OF CONTENTS**CHARTER INTERNATIONAL PLC****NOTES****12 Notes to the cash flow statement (continued)**

(ii) Reconciliation of net cash flow to movement in net debt

	Nine months ended 30.9.11 £m	Nine months ended 30.9.10 £m
Net movement in cash, cash equivalents and bank overdrafts	<b>12.0</b>	(7.2 )
Cash inflow from debt and lease financing	<b>(147.3)</b>	(69.9 )
Decrease in cash on deposit	<b>(10.7)</b>	(2.6 )
Change in net debt resulting from cash flows	<b>(146.0)</b>	(79.7 )
New finance leases	<b>(0.5)</b>	(0.1 )
Cash deposits acquired	<b>8.4</b>	
Short-term borrowings acquired	<b>(0.6)</b>	
Long-term borrowings acquired	<b>(0.6)</b>	
Movement in interest accrual	<b>(0.2)</b>	(0.1 )
Currency variations on borrowings and cash deposits	<b>0.1</b>	
Movement in net debt in the period	<b>(139.4)</b>	(79.9 )
Opening net cash	<b>1.8</b>	50.9
Closing net debt	<b>(137.6)</b>	(29.0 )

**13 Provisions for other liabilities**

	Disposal and restructuring £m	Warranty and product liability £m	Legal and environmental £m	Other £m	Total £m
At 1 January 2011	<b>4.6</b>	<b>28.5</b>	<b>21.9</b>	<b>5.6</b>	<b>60.6</b>
Exchange adjustments	<b>0.1</b>	<b>(0.3)</b>		<b>(0.4)</b>	<b>(0.6)</b>
Acquisitions (note 15)		<b>3.5</b>	<b>0.4</b>		<b>3.9</b>
Amounts provided	<b>15.7</b>	<b>9.7</b>	<b>1.8</b>	<b>2.2</b>	<b>29.4</b>
Amounts released	<b>(0.6)</b>	<b>(4.1)</b>	<b>(4.0)</b>		<b>(8.7)</b>
Utilised in the period	<b>(11.3)</b>	<b>(7.2)</b>	<b>(4.4)</b>	<b>(1.3)</b>	<b>(24.2)</b>
Unwinding of discount (note 4)			<b>0.1</b>		<b>0.1</b>
At 30 September 2011	<b>8.5</b>	<b>30.1</b>	<b>15.8</b>	<b>6.1</b>	<b>60.5</b>

	Nine months ended 30.9.11 £m	Year ended 31.12.10 £m
Analysed as:		
Current	<b>43.4</b>	41.4
Non-current	<b>17.1</b>	19.2
	<b>60.5</b>	60.6

Disposal and restructuring costs include £6.1 million (31 December 2010: £3.5 million) in respect of employee severance costs, of which £5.9 million (31 December 2010: £2.7 million) is in the welding, cutting and automation business and £0.2 million (31 December 2010: £0.8 million) is in the air and gas handling business, £1.3 million (31 December 2010: £0.7 million) in respect of property costs in the welding, cutting and automation business and (i) £1.1 million in respect of other closure costs of which £1.1 million (31 December 2010: £nil) is in the welding, cutting and automation business and £nil (31 December 2010: £0.4 million) is in the air and gas handling business. This is expected to result in cash expenditure in the next one to two years. The effect of discounting these provisions is not material.

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## NOTES

### 13 Provisions for other liabilities (continued)

- Warranty and product liability provisions relate to continuing businesses and are expected to be utilised over a period of one to two years dependent on the warranty period provided but will also be replaced by comparable amounts as they are utilised. The effect of discounting these provisions is not material. Provision has been made for the probable exposure arising from legal and environmental claims and disputes, both existing and threatened, in some cases arising from warranties given on disposal of businesses. Provisions have been made representing the best estimate of the outcome of the claims including costs before taking account of insurance recoveries. Where the outcome of a claim is uncertain the legal costs of defence have been provided for to the extent that they are reliably measurable. Where appropriate, insurance recoveries are recognised in receivables . At 30 September 2011, these receivables amounted to £2.8 million (31 December 2010: £5.6 million).
- (ii) If the effect of discounting is material, provisions are determined by discounting the expected value of future cash flows at a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Due to their nature, it is not possible to predict precisely when these provisions will be utilised though most are expected to be utilised over the short to medium term with utilisation in the next year expected to be in the region of £8 million (31 December 2010: £9 million) before taking account of insurance recoveries.
- Other provisions include various amounts which are not individually material. Due to their nature it is not possible (iv) to predict precisely when these provisions will be utilised but utilisation in the next year is expected to be in the region of £3 million (31 December 2010: £2 million).

### 14 Contingent liabilities

#### (i) Central operations

Since about 1985, certain subsidiaries of Charter have been named as defendants (the 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 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 litigation is reviewed each year and, based on that review and legal advice, the Directors believe that the aggregate of any such liability is unlikely to have a material effect on Charter's financial position.



In these circumstances, the Directors have concluded that it is not appropriate to make provision for any liability in respect of such actions.

## **(ii) Welding**

The ESAB Group Inc. ( 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.

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## NOTES

### 14 Contingent liabilities (continued)

There is 1 manganese fume trial scheduled for the balance of 2011. One trial is also scheduled for 2012. Additional trials could also be scheduled. There have been no manganese fume trials involving EGI during the first nine months 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. Whilst litigation is notoriously uncertain and the risk of an adverse jury verdict in any trial exists, having considered the advice of EGI's counsel in the United States, the Directors believe that EGI has meritorious defences to these claims, most of which should be covered in whole or in part by insurance. 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 US\$4.7 million, which is reflected in EGI's balance sheet at 30 September 2011. In view of the foregoing and, in particular, the legal advice received in the United States, the Directors do not consider that such claims will have a material adverse effect on Charter's financial position.

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.

Upon the advice of counsel, the Directors believe that EGI has meritorious defences to these claims and 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.

### (iii) Air and gas handling

Howden North America Inc. (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 11,731 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 Directors believe, based on legal advice, that the majority of asbestos-related lawsuits against Howden North America, including those resulting from the historical operations of a predecessor of Howden North America known as Buffalo Forge Company, will continue to be covered, in substantial part, by applicable insurance. The situation is reviewed regularly and based on the most recent review and legal advice obtained by Howden North America, the Directors believe that the aggregate of any potential liability is unlikely to have a material effect on Charter's financial position.

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# CHARTER INTERNATIONAL PLC

## NOTES

### 14 Contingent liabilities (continued)

#### (iv) Other

In addition there are contingent liabilities arising in the normal course of business from which no liability is expected to crystallise. Various of the Company's subsidiaries are, from time to time, parties to legal proceedings and claims which arise in the ordinary course of business. The Directors do not anticipate that the outcome of these proceedings, actions and claims, either individually or in aggregate, will have a material adverse effect upon the Company's financial position.

### 15 Acquisitions

#### (i) Sychevsky

On 3 March 2011, Charter acquired 100% of the issued share capital of LLC Sychevsky Electroodny Zavod (Sychevsky), a leading Russian electrode manufacturer based in the Smolensk region for a cash consideration of £11.8 million. Sychevsky's product range primarily comprises premium electrodes for use in the oil & gas, energy and bridge building sectors, which are sold through a network of distributors. Acquisition costs of £0.2 million have been expensed. The combined customer bases and product ranges of ESAB and Sychevsky are expected to create further opportunities for ESAB to increase its presence in Russia. The acquisition will also provide ESAB with additional manufacturing capacity in Russia.

Goodwill of £4.4 million arose on the acquisition and principally reflects the anticipated profitability of the new markets to which the Group has gained access and to additional profitability and operating efficiencies in respect of existing markets. None of the goodwill recognised is expected to be deductible for income tax purposes.

Intangible assets acquired principally represent customer relationships and brands.

For acquired trade and other receivables, the fair value and gross amount receivable is £0.5 million.

The value attributed to the assets acquired, as shown in the table below, represents the Directors' current estimate of the fair value of the net assets acquired. In accordance with IFRS 3, the values attributable to the acquisition of Sychevsky are provisional and may be revised as further information becomes available, particularly in relation to the value of the intangible assets.

The revenue and profit after tax of Sychevsky for the nine months ended 30 September 2011 was £8.7 million and £1.3 million respectively of which £1.6 million and £0.2 million respectively was for the period prior to acquisition.

## **(ii) Thomassen**

On 28 March 2011, Charter acquired 100% of the issued share capital of Thomassen Compression Systems BV ( Thomassen ), a leading supplier of high-power engineered compressors to the oil and gas and petrochemical industries, for a cash consideration of £88.1 million (€100 million). Acquisition costs of £0.8 million have been expensed. The acquisition is in line with Charter's strategy for growing Howden through developing its compressor business, its position in higher growth economies and further developing its aftermarket presence.

Goodwill of £31.3 million arose on the acquisition and principally reflects the anticipated profitability of the new markets to which the Group has gained access and to additional profitability and operating efficiencies in respect of existing markets. None of the goodwill recognised is expected to be deductible for income tax purposes.

Intangible assets acquired principally represent customer relationships and brands.

For acquired trade receivables, the fair value and gross amount receivable is £33.8 million and £34.7 million respectively. £0.9 million is the best estimate of contractual cash flows not expected to be collected. The fair value and gross amount receivable of other acquired receivables is £2.1 million.

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# CHARTER INTERNATIONAL PLC

## NOTES

### 15 Acquisitions (continued)

The value attributed to the assets acquired, as shown in the table below, represents the Directors' current estimate of the fair value of the net assets acquired. In accordance with IFRS 3, the values attributable to the acquisition of Thomassen are provisional and may be revised as further information becomes available, particularly in relation to the value of the intangible assets.

The revenue and profit after tax (including the amortisation of acquired intangibles) of Thomassen for the nine months ended 30 September 2011 was £73.0 million and £6.0 million respectively of which £28.3 million and £4.4 million respectively was for the period prior to acquisition.

#### (iii) Condor

On 1 July 2011, ESAB acquired a 60 per cent shareholding in Condor Equipamentos Industriais Ltda ( Condor ), a leading Brazilian gas apparatus manufacturer, for a cash consideration of £10.0 million. £3.0 million was paid on completion with the remaining balance of £7.0 million being payable in January 2012. Acquisition costs of £0.4 million have been expensed.

Goodwill of £5.1 million arose on the acquisition and principally reflects the anticipated profitability of the new markets to which the Group has gained access and to additional profitability and operating efficiencies in respect of existing markets. None of the goodwill recognised is deductible for income tax purposes.

Intangible assets acquired principally represent customer relationships and brands.

For acquired trade and other receivables, the fair value and gross amount receivable is £1.5 million.

The value attributed to the assets acquired, as shown in the table below, represents the Directors' current estimate of the fair value of the net assets acquired. In accordance with IFRS 3, the values attributable to the acquisition of Condor are provisional and may be revised as further information becomes available, particularly in relation to the value of the intangible assets.

The revenue and profit after tax of Condor for the nine months ended 30 September 2011 was £6.4 million and £0.4 million respectively of which £4.1 million and £0.2 million respectively was for the period prior to acquisition.

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The provisional fair value of the assets and liabilities acquired was as follows:

	Sychevsky £m	Thomasser £m	Condor £m	Total £m
Intangible assets	<b>4.4</b>	<b>48.9</b>	<b>4.3</b>	<b>57.6</b>
Property, plant and equipment	<b>2.0</b>	<b>5.0</b>	<b>5.2</b>	<b>12.2</b>
Inventories	<b>1.6</b>	<b>6.0</b>	<b>1.0</b>	<b>8.6</b>
Trade and other receivables – current	<b>0.5</b>	<b>35.9</b>	<b>1.5</b>	<b>37.9</b>
Cash and cash deposits	<b>0.4</b>	<b>11.7</b>	<b>0.1</b>	<b>12.2</b>
Bank overdrafts and borrowings		<b>(4.8)</b>	<b>(1.3)</b>	<b>(6.1)</b>
Trade and other payables – current	<b>(0.7)</b>	<b>(27.7)</b>	<b>(1.1)</b>	<b>(29.5)</b>
Income tax liabilities		<b>(1.9)</b>	<b>(0.1)</b>	<b>(2.0)</b>
Retirement benefit obligations		<b>(0.2)</b>		<b>(0.2)</b>
Provisions		<b>(3.9)</b>		<b>(3.9)</b>
Deferred income tax liabilities	<b>(0.8)</b>	<b>(12.2)</b>	<b>(1.4)</b>	<b>(14.4)</b>
Net assets acquired	<b>7.4</b>	<b>56.8</b>	<b>8.2</b>	<b>72.4</b>
Non-controlling interests			<b>(3.3)</b>	<b>(3.3)</b>
Goodwill	<b>4.4</b>	<b>31.3</b>	<b>5.1</b>	<b>40.8</b>
Total consideration	<b>11.8</b>	<b>88.1</b>	<b>10.0</b>	<b>109.9</b>
Cash outflow in cash flow statement				
Cash consideration paid – prior year acquisitions				<b>(0.2)</b>
Cash consideration paid – current year acquisitions				<b>(102.9)</b>
Net bank overdrafts acquired				<b>(1.1)</b>
Purchase of subsidiary undertakings, net of cash and overdrafts acquired				<b>(104.2)</b>
Cash deposits acquired				<b>8.4</b>
Borrowings acquired				<b>(1.2)</b>
Net cash outflow				<b>(97.0)</b>

During the nine months ended 30 September 2011, no adjustments have been made to the estimated fair value of the net assets acquired in prior years.

**16 Dividends**

Nine months ended	Nine months ended
	30.9.10

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	30.9.11	£m
	£m	
Second interim dividend for 2010 of 15.5p paid on 6 May 2011	<b>25.9</b>	
First interim dividend for 2011 of 8.0p paid on 2 September 2011	<b>13.4</b>	
Second interim dividend for 2009 of 14.5p paid on 7 May 2010		24.2
First interim dividend for 2010 of 7.5p paid on 10 September 2010		12.5
	<b>39.3</b>	<b>36.7</b>

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# CHARTER INTERNATIONAL PLC

## NOTES

### 16 Dividends (continued)

Income Access Share arrangements have been put in place to enable shareholders in the Company to elect to receive their dividends from a UK source (the IAS election ). All elections remain in force indefinitely unless revoked. Unless shareholders make an IAS election, dividends will be received from an Irish source and will be taxed accordingly.

The Charter Employee Trust has waived its entitlement to receive dividends on its holding of 46,346 ordinary shares in the Company.

### 17 Related party transactions

There were no significant changes in the nature and size of related party transactions since 31 December 2010.

### 18 Share capital

During the period 66,413 ordinary shares were issued for consideration of £92,912 on the vesting of awards under an employee share option scheme. In May 2010 65,893 ordinary shares were issued for nil consideration on the vesting of awards under the Charter International Long-Term Incentive Plan.

In connection with the Deferred Bonus Plan (details of which were disclosed in the 2010 annual report), during the period the Group acquired 35,816 (31 December 2010: 14,670) of its own shares with an aggregate nominal value of £716.32 (31 December 2010: £293.40) through purchases on the London Stock Exchange by the Charter Employee

Trust. The consideration paid of £0.3 million (31 December 2010: £0.1 million) has been deducted from retained earnings. In 2011 78,260 shares were released from the Charter Employee Trust on vesting of the conditional awards granted. At 30 September 2011 the Charter Employee Trust held 46,346 (31 December 2010: 88,790) ordinary shares with a market value of £0.4 million (31 December 2010: £0.7 million).

### 19 Subsequent events

On 12 September 2011, a recommended cash and share offer for Charter International plc by Colfax Corporation was announced. On 18 October 2011, documentation relating to the Acquisition was posted to Charter shareholders.

### 20 Change in Directors

M G Foster resigned as a Director on 27 June 2011 and G Rhys Williams became a Director on 15 July 2011. The other Directors of Charter International plc are as listed in the Charter International plc Annual Report for the year ended 31 December 2010.



TABLE OF CONTENTS**STOCK OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT OF COLFAX**

The following table sets forth certain information, as of November 28, 2011, unless otherwise specified, with respect to the beneficial ownership of our Common Stock by (i) each person who is known to us to own beneficially more than 5% of our Common Stock; (ii) each of our directors; (iii) each named executive officer (as listed below); and (iv) all of our current executive officers and directors as a group. Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to the securities. Shares of Common Stock subject to options or warrants that are currently exercisable or exercisable within 60 days of November 14, 2011 are deemed to be outstanding and beneficially owned for the purpose of computing the percentage ownership of the beneficial owner but are not treated as outstanding for the purpose of computing the percentage ownership of any other person. As of November 28, 2011, 43,679,032 shares of our Common Stock were issued and outstanding.

Beneficial Owner	Amount and Nature Of Beneficial Ownership		Percent of Class
<b>5% Holders</b>			
T. Rowe Price Associates, Inc. 100 E. Pratt Street Baltimore, MD 21202	3,319,980	(1)	7.6 %
Keeley Asset Management Corp. 401 South LaSalle Street Chicago, IL 60605	2,754,090	(2)	6.3 %
Keeley Small Cap Value Fund 401 South LaSalle Street Chicago, IL 60605	2,298,890	(2)	5.3 %
FMR LLC 82 Devonshire Street Boston, MA 02109	2,177,250	(3)	5.0 %
Steven M. Rales 2099 Pennsylvania Avenue N.W., 12th Floor Washington, D.C. 20006	9,145,610	(4)	21.0 %
5% Holder and Director Mitchell P. Rales 2099 Pennsylvania Avenue N.W., 12th Floor Washington, D.C. 20006	9,170,610	(5)	21.0 %
<b>Directors</b>			
Patrick W. Allender	222,307	(6)(7)	*
Joseph O. Bunting III	202,894	(7)	*
Thomas S. Gayner	19,860	(7)	*
Rhonda L. Jordan	43,408	(7)	*
A. Clayton Perfall	4,280	(7)	*
Steven E. Simms	305	(7)	*

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Rajiv Vinnakota Named Executive Officer and Director	12,090	(7)	*
Clay H. Kiefaber Named Executive Officers	128,961	(8)(9)	*
C. Scott Brannan	31,995	(8)(9)	*
John A. Young	41,667	(8)(11)	*

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Beneficial Owner	Amount and Nature Of Beneficial Ownership	Percent of Class
G. Scott Faison	104,203 (8)(11)	*
William E. Roller	97,635 (8)	*
Joseph E. Niemann	38,337 (8)	*
Dr. Michael Matros	0 (8)(11)	*
Thomas M. O'Brien	79,302 (8)(11)	*
Steven W. Weidenmuller	62,385 (8)(11)	*
All of our directors and executive officers as a group (15 persons)	9,960,139 (5)(6)(7)(8)(9)(10)(11)	22.5 %

\* Represents beneficial ownership of less than 1%

(1) 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. These securities are owned by various individual and institutional investors which T. Rowe Price Associates, Inc. ( 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.

(2) 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.

(3) Beneficial ownership amount and nature of ownership as reported on Schedule 13G filed with the SEC on February 11, 2011 on the behalf of FMR LLC and its direct and indirect subsidiaries.

(4) The total number of shares of common stock beneficially owned by Steven M. Rales is 9,145,610. 9,126,222 shares are held directly by Steven M. Rales and 19,388 are held by Capital Yield Corporation, of which Mitchell P. Rales and Steven M. Rales are the sole stockholders, and 25,000 shares are held by his spouse.

(5) The total number of shares of common stock beneficially owned by Mitchell P. Rales is 9,170,610. 9,126,222 shares are held directly by Mitchell P. Rales, 19,388 are held by Capital Yield Corporation, of which Mitchell P. Rales and Steven M. Rales are the sole stockholders.

(6) Includes 199,259 shares owned by the John W. Allender Trust, of which Patrick 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) Beneficial ownership by directors (other than Mitchell P. Rales) includes: (i) for all directors except for Ms. Jordan, Mr. Perfall and Mr. Simms, 12,090 restricted stock units or deferred stock units ( DSUs ) that have vested or will vest within 60 days of November 28, 2011, (ii) for Ms. Jordan, 10,238 restricted stock units or DSUs that have vested or will vest within 60 days of September 30, 2011, (iii) for Mr. Perfall, 1,852 restricted stock units or DSUs that have vested or will vest within 60 days of September 30, 2011 and (iv) DSUs received in lieu of annual cash retainers and committee chairperson retainers as follows: Mr. Allender 9,991, Mr. Gayner 7,770, Ms. Jordan 8,170, Mr. Perfall 2,428, Mr. Simms 305.

(8) Beneficial ownership by named executive officers and our executive officers as a group includes shares that such individuals have the right to acquire upon the exercise of options that have vested or will vest within 60 days of November 28, 2011. The number of shares included in the table as beneficially owned which are subject to such options is as follows: Mr. Kiefaber 99,729, Mr. Young 41,667, Mr. Faison 53,203, Mr. Roller 48,719, Mr. Niemann 30,337, Mr. O'Brien 31,662, Mr. Weidenmuller 20,435, Mr. Brannan 19,905, Ms. Puckett 19,424.

(9)

Each of Mr. Kiefaber and Mr. Brannan's beneficial ownership includes restricted stock units or DSUs received for service on the Board of Directors prior to their appointment as executive officers of Colfax in the following amounts: 10,482 director restricted stock units for Mr. Kiefaber and 12,090 DSUs for Mr. Brannan.

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(10) Beneficial ownership for executive officers does not reflect performance-based restricted stock units ( 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 executive officer. This transaction is shown in the Form 4 as an acquisition of our Common Stock pursuant to SEC guidance regarding Section 16 reporting for grants of restricted stock awards.

(11) Each of Messrs. Young, Faison, Matros, O Brien and Weidenmuller are listed pursuant to the requirement set forth in Item 403 of Regulation S-K to include in this table each named executive officer as defined in Item 402(a)(3) of Regulation S-K (i.e., those included in our proxy statement for our 2011 annual meeting of stockholders). Each is no longer employed by Colfax.

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## **STOCKHOLDER PROPOSALS FOR THE 2012 ANNUAL MEETING OF STOCKHOLDERS**

*Requirements for Stockholder Proposals to be Considered for Inclusion in our Proxy Materials.* To be considered for inclusion in next year's proxy statement, stockholder proposals must be received by our Corporate Secretary at our principal executive offices no later than the close of business on December 17, 2011.

*Requirements for Stockholder Proposals to be Brought Before an Annual Meeting.* Our Bylaws provide that, for stockholder nominations to the Board of Directors or other proposals to be considered at an annual meeting, the stockholder must have given timely notice thereof in writing to the Secretary of the Company at Colfax Corporation, 8170 Maple Lawn Boulevard, Suite 180, Fulton, Maryland 20759, Attn: Corporate Secretary. To be timely for the 2012 annual meeting, the stockholder's notice must be delivered to or mailed and received by not less than 90 days nor more than 120 days before the anniversary date of the preceding annual meeting, except that if the annual meeting is set for a date that is more than 30 days before or more than 70 days after such anniversary, the nomination must be received not earlier than the close of business on the 120<sup>th</sup> day prior to the annual meeting date and not later than the close of business on the later of the 90<sup>th</sup> day prior to such annual meeting or the tenth day following the day when we make a public announcement of the annual meeting date. Such notice must provide the information required by Section 2.2 of our Bylaws with respect to each matter other than stockholder nominations the stockholder proposes to bring before the 2012 annual meeting. Notice of stockholder nominations must provide the information required by Section 3.3 of our Bylaws.

## **ABSENCE OF APPRAISAL RIGHTS**

We are incorporated in the State of Delaware and, accordingly, are subject to the Delaware General Corporation Law. Under the Delaware General Corporation Law, our stockholders are not entitled to appraisal rights with respect to any of the proposals to be acted upon at the special meeting.

## **PRINCIPAL ACCOUNTANTS**

Our financial statements included in this proxy statement have been audited by Ernst & Young LLP, registered public accounting firm, to the extent and for the periods set forth in their report included in this proxy statement. We expect representatives of Ernst & Young LLP to be available at the special meeting of stockholders by telephone with an opportunity to make statements and to respond to appropriate questions.

## **WHERE YOU CAN FIND MORE INFORMATION**

We file reports, proxy statements and other information with the SEC as required under the Exchange Act.

You may read and copy any reports, statements or other information filed by Colfax at the public reference facilities maintained by the SEC in Room 1590, 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for additional information on the operation of the SEC's public reference facilities. The SEC maintains a website that contains reports, proxy statements and other information, including those filed by Colfax, at <http://www.sec.gov>. You may also access the SEC filings and obtain other information about Colfax through the website maintained by Colfax, which is <http://www.colfaxcorp.com>. The information contained on the website is not



incorporated by reference in, or in any way part of, this proxy statement.

None of Colfax, the Investors or Charter has authorized any person to give any information or make any representation about the transactions set forth in this proxy statement that is different from, or in addition to, that contained in this proxy statement. Therefore, if anyone does give you information of this sort, you should not rely on it. The information contained in this proxy statement speaks only as of the date of this document unless the information specifically indicates that another date applies.

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## **OTHER MATTERS**

As of the date of this proxy statement, our Board of Directors does not intend to present any matters other than those described herein at the special meeting and is unaware of any matters to be presented by other parties. If other matters are properly brought before the meeting for action by the stockholders, proxies returned to us in the enclosed form will be voted in accordance with the recommendation of the Board of Directors or, in the absence of such a recommendation, in accordance with the judgment of the proxy holder.

By Order of the Board of Directors

A. Lynne Puckett  
Secretary

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**Annex I**

**Execution Copy**

**12 September 2011**

**COLFAX CORPORATION  
and  
COLFAX UK HOLDINGS LTD  
and**

**CHARTER INTERNATIONAL PLC**

**IMPLEMENTATION AGREEMENT**

Slaughter and May  
One Bunhill Row  
London  
EC1Y 8YY  
(RRO/CPYC)  
509605423

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**THIS AGREEMENT** is made on

12 September 2011

**PARTIES:**

- (1) **COLFAX CORPORATION**, a corporation incorporated in Delaware whose registered office is 8170 Maple Lawn Boulevard, Suite 180 Fulton, Maryland ( **Colfax** );
- (2) **COLFAX UK HOLDINGS LTD**, a company incorporated in England with company number 07766350 and whose registered office is 40 Bank Street, Canary Wharf, London E14 5DS ( **Bidco** ); and
- (3) **CHARTER INTERNATIONAL PLC**, a company incorporated in the Bailiwick of Jersey with company number 100249 and whose registered office is 22 Grenville Street, St Helier, Jersey JE4 8PX ( **Charter** ), together referred to as the parties and each as a party to this Agreement.

**RECITALS:**

(A) Bidco is a wholly-owned subsidiary of Colfax.

(B) Bidco intends to acquire the entire issued and to be issued share capital of Charter on the terms and subject to the conditions set out in the Announcement.

The Acquisition is intended to be effected by means of a scheme of arrangement under Article 125 of the (B) Companies (Jersey) Law 1991 (the **Jersey Law** ) but may, if Bidco determines in its absolute discretion (subject to the consent of the Panel), be effected by way of a takeover offer.

(C) The parties have agreed to take certain steps to effect the completion of the Acquisition and wish to enter into this Agreement to record their respective obligations relating to such matters.

**IT IS AGREED** as follows:

**1. INTERPRETATION**

1.1 In this Agreement each of the following words and expressions shall have the following meanings:

2006 Act	means the Companies Act 2006;
Acquisition	means the proposed acquisition of the entire issued and to be issued ordinary share capital of Charter by Bidco (or Colfax or another wholly-owned subsidiary of Colfax) to be effected by the Scheme or, if Bidco (or Colfax or another wholly-owned subsidiary of Colfax) so elects, by means of the Offer;
Announcement	means the announcement in the agreed form set out in Schedule 1;
Approach	means an approach, offer, enquiry, proposal or similar action;
Board Recommendation	means the unanimous unqualified recommendation of all of the Charter Directors to the Charter Shareholders, in the form stated in the Announcement as being intended to be given (with such appropriate amendments as are necessary if the Acquisition is to be implemented by means of an Offer rather than the Scheme);
Break Payment	an amount (exclusive of any amounts chargeable in respect of VAT) equal to £15, 275,000 as may be adjusted in accordance with Clause 10;
Business Day	means a day (excluding Saturdays, Sundays and public holidays) on which banks in London, in St Helier (Jersey) and in New York City are generally open for business;





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Capital Change Event	means: (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 Shares pursuant to the Acquisition as compared to the existing Colfax shareholders (taken as a class);
Capital Reduction	means the proposed reduction of the share capital of Charter pursuant to the Scheme;
Charter Directors	means the directors of Charter from time to time;
Charter Employee Share Schemes	means the Charter International Plc Long Term Incentive Plan approved by the shareholders of Charter on 27 August 2008 and adopted by Charter on 22 October 2008; and the Charter International Plc Deferred Share Bonus Plan approved by the shareholders of Charter on 27 August 2008 and adopted by Charter on 22 October 2008;
Charter GM	means the general meeting of the Charter Shareholders to be convened in connection with the Acquisition, and any adjournment thereof;
Charter Group	means Charter and its subsidiaries and subsidiary undertakings from time to time and <b>member of the Charter Group</b> shall be construed accordingly;
Charter Redundancy Policy	means a policy in place for up to 120 employees in aggregate of Charter International plc, Charter Central Services Limited and ESAB Holdings Limited relating to enhanced rights on redundancy to the extent disclosed in documentation released to Colfax on 9 September 2011 and in writing to Colfax's advisers on 11 September 2011;
Charter Shareholders	means holders of Charter Shares;
Charter Shares	means the ordinary shares of 2 pence each in the capital of Charter;
Clearances	means the merger control, competition and regulatory consents, clearances, permissions and waivers referred to in Conditions (C), (D), (E), (G) and (H) (inclusive);
Code	means the City Code on Takeovers and Mergers issued from time to time by or on behalf of the Panel;
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 per cent. 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); or

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	(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;
Competing Proposal Payment	an amount (exclusive of any amounts chargeable in respect of VAT) equal to £7,638,000 as may be adjusted in accordance with Clause 10;
Conditions	means the conditions to the Acquisition which are set out in Appendix 1 to the Announcement;
Consent Condition	has the meaning given to it in Clause 9.1(A)(ii);
Court	means the Royal Court of Jersey;
Court Documents	means all the necessary evidence and pleadings in relation to the Scheme and the Capital Reduction;
Court Meeting	means the meeting of Charter Shareholders to be convened by order of the Court pursuant to Article 125 of the Jersey Law for the purposes of considering and, if thought fit, approving the Scheme (with or without amendment), and any adjournment thereof;
Disclosed	means (i) fairly disclosed by or on behalf of Charter or any of its advisors to Colfax, Bidco or any of their respective advisors in connection with or in contemplation of the Acquisition prior to the date of the Announcement, whether by electronic means, physical form or orally; (ii) disclosed in Charter's report and accounts for the year ended 31 December 2010 or its interim accounts for the 6 month period ended 30 June 2011; or (iii) disclosed in the Announcement;
Effective	means:
	(i)
	if the Acquisition is implemented by means of the Scheme, the Scheme having become effective in accordance with its terms; or
	(ii)
	if the Acquisition is implemented by means of the Offer, the Offer having been declared or become unconditional in all respects;
Effective Date	means the date on which the Acquisition becomes Effective;
Equity Capital Raising	has the meaning given to it in the Announcement and as further described to Charter's legal advisers in an email timed at approximately 7.24 a.m. from Colfax's legal advisers on 12 September 2011;

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Exchange Ratio	means 0.1241 Colfax Shares for every 1 Charter Share;
Excluded Shares	means Charter Shares legally or beneficially held by Colfax or any of its Subsidiaries or subsidiary undertakings;
Forms of Proxy	means the forms of proxy for use at the Court Meeting and the Charter GM which will accompany the Scheme Document;
Jersey Law	has the meaning given in the Recitals;

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Law	means any applicable statutes, common laws, rules, ordinances, regulations, codes, orders, judgments, injunctions, writs, decrees, governmental guidelines or interpretations having the force of law or by-laws, in each case, of a Relevant Authority;
Colfax Board	means the board of directors of Colfax;
Colfax Group	means Colfax, Bidco and Colfax's other subsidiaries and subsidiary undertakings from time to time and <b>member of the Colfax Group</b> shall be construed accordingly;
Colfax Preferred Shares	means the preferred stock of Colfax proposed to be issued in the Equity Capital Raising;
Colfax Shares	means the common stock of Colfax having a par value of \$0.01 per share;
Colfax Shareholders	means holders of Colfax Shares;
Colfax Shareholders Meeting	means the meeting of the Colfax Shareholders in respect of the Equity Capital Raising, and any adjournment thereof;
Loan Note Form of Election	has the meaning given in the Announcement;
London Stock Exchange	means London Stock Exchange plc;
Long Stop Date	means 30 March 2012 or such later date as Bidco and Charter may agree and the Court (if required) may allow;
Meetings	means the Court Meeting and/or the Charter GM, as the case may be;
New Colfax Shares	has the meaning given to that term in the Announcement; means, if Bidco elects to effect the Acquisition by means of a takeover offer, the 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 so admits, any subsequent revision, variation, extension or renewal thereof, on the terms and Conditions set out in the Announcement and which are to be set out in the Offer Document;
Offer	means, if Bidco elects to effect the Acquisition by means of the Offer, the offer document to be sent to the Charter Shareholders in connection with the Offer which will contain, <i>inter alia</i> , the terms and conditions of the Offer;
Offer Document	means the offer period, as defined in the Code, which began on 29 June 2011;
Offer Period	means the consideration payable by Bidco in connection with the Acquisition;
Offer Price	means the UK Panel on Takeovers and Mergers;
Panel	means the Charter Pension Scheme currently governed by a trust deed and rules dated 1 November 2005 (as amended from time to time), the HCL Pension Scheme currently governed by a trust deed and rules dated 6 November 2007 (as amended from time to time), the Howden Group Pension Plan currently governed by a trust deed and rules dated 25 November 2009 (as amended from time to time) and the ESAB Group (UK) Limited Pension and Life Assurance Scheme currently governed by a trust deed and rules dated 11 October 1999 (as amended from time to time);
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Personnel	means in relation to any person, its board of directors, members of their immediate families, related trusts and persons connected with them;
Proceedings	means any proceedings, suit or action arising out of or in connection with this Agreement, whether contractual or non-contractual;
Prospectus	has the meaning given to that term in Clause 4.5;
Proxy Statement	means Colfax's proxy statement, as amended or supplemented from time to time, on Schedule 14A under the U.S. Securities Exchange Act of 1934, as amended, relating to the Equity Capital Raising and any other documents prepared by Colfax and sent to Colfax Shareholders in connection with the Equity Capital Raising or the Acquisition;
Reduction Court Hearing	means the hearing by the Court of the petition to confirm the Capital Reduction;
Reduction Court Order	means the act of Court confirming the Capital Reduction;
Relevant Authority	means any central bank, ministry, governmental, quasi-governmental (including the European Union), supranational, statutory, regulatory or investigative body or authority (including any national or supranational anti-trust or merger control authority), national, state, municipal or local government (including any subdivision, court, administrative agency or commission or other authority thereof), private body exercising any regulatory, taxing, importing or other authority, trade agency, association, institution or professional or environmental body or any other person or body whatsoever in any relevant jurisdiction, including, for the avoidance of doubt, the Panel and the Financial Services Authority;
Relevant Payment	means the Break Payment or the Competing Proposal Payment, as the case may be;
Resolution	means the resolution to approve, <i>inter alia</i> , the cancellation of all Scheme Shares, the alteration of Charter's articles of association and such other matters as may be necessary to facilitate the implementation of the Scheme;
Revised Code	means the Code with such amendments as are to become effective from 19 September 2011;
Scheme	means the proposed scheme of arrangement under Article 125 of the Jersey Law, on the terms and Conditions set out in the Announcement, the terms and Conditions of which are to be set out in the Scheme Document, with or subject to any modification, addition or condition thereto approved or imposed by the Court and agreed to by Charter and Colfax;
Scheme Court Hearing	means the hearing by the Court to sanction the Scheme;
Scheme Document	means the document addressed to Charter Shareholders containing, <i>inter alia</i> , the Scheme and the notices of the Meetings together with any supplemental documents addressed to the Charter Shareholders in connection with the Scheme and its approval by the Court;
Scheme Record Time	means 6.00 p.m. on the day before that date on which the Reduction Court Order is made;





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Scheme Shares	means:
	(i)
	the Charter Shares in issue at the date of the Scheme Document;
	(ii)
	any Charter Shares issued after the date of the Scheme Document and before the Voting Record Time; and
	(iii)
	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, other than the Excluded Shares;
SEC	means the United States Securities and Exchange Commission;
Service Document	means a claim form, application notice, order, judgment or other document relating to any Proceedings;
Timetable	has the meaning given to it in Clause 3.2;
	means any tax imposed by any Member State of the European Union in conformity with the Directive of the Council of the European Union on the common system of value added tax (2006/112/EC);
VAT	means the time and date specified in the Scheme Document by reference to which entitlement to vote on the Scheme will be determined, expected to be 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; and
Voting Record Time	means 9.30 a.m. to 5.30 p.m. on a Business Day.

Working Hours

1.2

In this Agreement, except where the context otherwise requires:

- (A) the expressions **subsidiary** and **subsidiary undertaking** shall have the meanings given in the 2006 Act;
- (B) the expression **offer** shall have the meaning given in the Code;
- (C) the expression **takeover offer** shall have the meaning given in Article 116(1) of the Jersey Law; a reference to an enactment or statutory provision shall include a reference to any subordinate legislation made
- (D) under the relevant enactment or statutory provision and is a reference to that enactment, statutory provision or subordinate legislation as from time to time amended, consolidated, modified, re-enacted or replaced;
- (E) words in the singular shall include the plural and vice versa;
- (F) references to one gender include other genders;
- (G) a reference to a **person** shall include a reference to an individual, an individual's executors or administrators, a partnership, a firm, a company, an unincorporated association, government, state or agency of a state, local or municipal authority or government body, a joint venture or association (in any case, whether or not having separate legal personality);
- (H) references to a **company** shall be construed so as to include any company, corporation or other body corporate, wherever and however incorporated or established;
- (I) a reference to a Recital, Clause, paragraph or Schedule (other than to a schedule to a statutory provision) shall be a reference to a Recital, Clause, or paragraph of or Schedule to (as the case may be) this Agreement;

(J) references to times are to London time;

(K) if a period of time is specified as from a given day, or from the day of an act or event, it shall be calculated exclusive of that day;

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- (L) any reference to a **day** (including within the phrase **Business Day** ) shall mean a period of 24 hours running from midnight to midnight;  
references to any English legal term for any action, remedy, method of judicial proceeding, legal document, legal status, court, official or any legal concept or thing shall in respect of any jurisdiction other than England be deemed to include what most nearly approximates the English legal term in that jurisdiction;
- (M) references to **writing** shall include any modes of reproducing words in any legible form and shall include email except where otherwise expressly stated;
- (N) a reference to **includes** or **including** shall mean **includes without limitation** or **including without limitation** respectively;  
the rule known as the *ejusdem generis* rule shall not apply and accordingly general words introduced by the
- (P) (i) word other shall not be given a restrictive meaning by reason of the fact that they are preceded by words indicating a particular class of acts, matters or things; and  
(ii) general words shall not be given a restrictive meaning by reason of the fact that they are followed by particular examples intended to be embraced by the general words;
- (Q) a reference to any other document referred to in this Agreement is a reference to that other document as amended, varied, novated or supplemented at any time; and
- (R) references to this Agreement include this Agreement as amended or supplemented in accordance with its terms.
- 1.3 The headings in this Agreement are for convenience only and shall not affect the interpretation of this Agreement.  
The Schedules form part of this Agreement and shall have the same force and effect as if set out in the body of this
- 1.4 Agreement and any reference to this Agreement shall include the Schedules.

**2.**

**ANNOUNCEMENT**

- 2.1 The parties shall procure the release of the Announcement at or before 09.30 a.m. on 12 September 2011, or such other time and date as may be agreed by the parties in writing.  
The obligations of the parties under this Agreement (other than Clauses 2, 12, 10, 12 and 14 to 27 (inclusive) which shall have immediate effect) shall be conditional upon the release of the Announcement in accordance with Clause 2.1.

**3.**

**IMPLEMENTATION OF THE ACQUISITION**

- The parties undertake to use all their respective reasonable endeavours to implement the Acquisition in accordance with, and subject to the terms and Conditions set out in the Announcement, the Timetable, the Scheme Document
- 3.1 or, if Bidco elects to proceed by way of an Offer, the Offer Document, provided that this Clause 3.1 shall be subject to and without prejudice to (to the extent permitted by the Panel) Bidco's right to invoke one or more of the Conditions and also to Clause 3.9.  
Each of the parties shall promptly provide such reasonable assistance and information and shall co-operate and consult with each other in the implementation of an appropriate timetable for the Acquisition consistent with and substantially in the form set out in Schedule 3 (the **Timetable** ), including the timing of the posting of the Scheme Document, or, if Bidco elects to proceed by way of an Offer, the Offer Document, preparation of the Court Documents, preparation and filing of the Prospectus, filing the Proxy Statement with the SEC, convening the
- 3.2 Meetings and the Colfax Shareholders Meeting, posting of the Proxy Statement to the Colfax Shareholders, co-ordinating filings with Relevant Authorities and the likely date of the Effective Date. The parties agree that as soon as reasonably practicable and in any event no later than 5 Business Days following release of the Announcement, the Timetable shall be prepared by (and may at any time be amended by) Charter in consultation with and taking into account the reasonable requests of Colfax, including in relation to the preparation time required in respect of the

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- Proxy Statement and the potential review period in the event the SEC elects to review the Proxy Statement. This clause is, for the avoidance of doubt, subject to Clause 3.9 and Clause 3.10.
- 3.3 Charter undertakes to Bidco that it shall comply with Appendix 7 of the Revised Code as though its provisions were in force from the date of this Agreement.
- 3.4 Bidco agrees that, if Bidco elects to implement the Acquisition by way of an Offer, Bidco shall: treat the acceptance condition under the Offer as satisfied, and shall make an appropriate public announcement confirming the acceptance condition is satisfied accordingly, if it has received
- (A) acceptances in respect of, acquired, or agreed to acquire (either pursuant to the Offer or otherwise) Charter Shares carrying 75 per cent. (or more) of the voting rights attaching to Charter Shares; and maintain the first closing date of the Offer as the date which is 60 days following the date on which the Offer
- (B) Document is published or such later date which is the longest date under the Code as the Panel may permit, which the parties agree to seek the Panel to permit.
- Charter shall, save as otherwise agreed with Bidco, on each Business Day from and including the day falling five
- 3.5 Business Days after the posting of the Scheme Document or the Offer Document (as the case may be) to and including the Business Day immediately before the day for which the Meetings have been convened, use its reasonable endeavours to inform Bidco of:
- (i) the number of Charter Shareholders who have submitted valid Forms of Proxy for the Court Meeting and the number of valid proxy votes in respect of the Court Meeting with the number of proxy votes for and against the resolution to be proposed at the Court Meeting being separately identified; and
- (ii) the number of Charter Shareholders who have submitted valid Forms of Proxy for the General Meeting and the number of valid proxy votes in respect of the General Meeting, with the number of proxy votes for and against the resolutions to be proposed at the General Meeting being separately identified.
- 3.6 Charter undertakes that it shall not, without the prior written consent of Colfax except as required by Law:
- (A) after dispatch of the first Scheme Document, seek to amend any of the resolutions proposed at the Meetings in respect of the Scheme or modify the Scheme in any way;
- (B) after dispatch of the first Scheme Document, apply for, agree to or make any amendment, addition or revision to the terms of the Scheme, or the withdrawal or non-enforcement, in whole or in part, of the Scheme; or
- (C) allot or issue any Charter Shares between the Scheme Record Time and the time at which the Scheme becomes Effective.
- Charter shall, if reasonably requested by Colfax and unless the Charter Directors (or a duly authorised committee thereof) determine, acting in their good faith discretion, after consultation with their legal and financial advisors, at
- 3.7 a meeting (howsoever held) of the Charter Directors (or a duly authorised committee thereof) that to do so would not be in the best interests of Charter, agree to and, subject to any necessary consent of the Court or of the Panel, effect:
- (A) an extension of time, or variation or amendment to the Scheme or any adjournment, postponement or reconvention of either of the Meetings; or
- (B) the amendment, revision or withdrawal, in whole or in part, of the Scheme.
- 3.8 Colfax shall procure that Bidco shall comply in full with Bidco's obligations under this Agreement.

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Notwithstanding anything (save for the provisions of Clause 3.6 and Clause 3.10) to the contrary in this Agreement but subject to Clause 3.6 and Clause 3.10, Charter shall be entitled in its discretion to deal with other parties who may be interested in pursuing a proposal which is an alternative to, or competitive with, the Acquisition as it considers appropriate. This may include, without limitation but subject to Clause 3.6 and Clause 3.10:

(A) the provision of information (in addition to information required to be made available pursuant to Rule 20.2 of the Code) or holding of meetings or development of implementation documentation with any interested party; and

(B) any changes to the Timetable, extension of time, adjournment, postponement or reconvention of either of the Meetings,

provided that in all cases the Charter Directors (or a duly authorised committee thereof) have determined, acting in their good faith discretion, after consultation with their legal and financial advisors, at a meeting (howsoever held) of the Charter Directors (or a duly authorised committee thereof) that it is in the best interests of Charter to do so.

Notwithstanding any other provision of this Agreement (save for Clause 13) but subject to Clause 13 and the requirements of the Panel, Charter shall not be entitled to make any changes to the Timetable, extension of time, adjournment, postponement or reconvention of either of the Meetings if such action itself as a procedural matter would, or would reasonably be expected to, prevent the Scheme (assuming for these purposes the requisite majorities being obtained at the Meetings) from becoming effective prior to the Long Stop Date.

The parties agree that an appropriate adjustment shall be made to the Exchange Ratio if there is any Capital Change Event between the date of this Agreement and the Effective Date that results in value leakage from the Charter Shareholders out of the Colfax Group compared to the Colfax Shareholders, with the intent that a greater number of New Colfax Shares would be issued to cover the amount of such leakage.

**4. ACQUISITION DOCUMENTS**

Each of the parties shall promptly provide such reasonable assistance and information and shall co-operate and consult with each other in the preparation and publication of the Scheme Document, the Offer Document, Court Documents, the Forms of Proxy and the Loan Note Forms of Election and any other document, announcement or filing which is required or which Charter or Colfax reasonably considers to be necessary or appropriate in accordance with the requirements of the Jersey Law, the Code or any other Laws for the purposes of implementing the Acquisition in an efficient manner.

4.2 If the Acquisition is being implemented by way of the Scheme:

Colfax undertakes to provide to Charter all such information about Colfax, other members of the Colfax Group and their respective Personnel as may reasonably be required by Charter for inclusion in the Scheme Document or the Court Documents and to provide all such other assistance as Charter may reasonably require in connection with the preparation of the Scheme Document and the Court Documents (in each case having regard to the Code and applicable Laws) including access to, and procuring (so far as reasonable able) the provision of assistance by the management and relevant professional advisors to Colfax and Bidco;

Charter agrees that it shall submit drafts and revised drafts of the Scheme Document, Court Documents, the Forms of Proxy and the Loan Note Forms of Election to Colfax for review and comment and, having afforded Colfax reasonable time to consider such draft and forms, discuss such comments with Colfax and relevant professional advisors to Colfax and Bidco for the purposes of preparing revised drafts;

Charter agrees that it shall despatch the Scheme Document, together with the Forms of Proxy and Loan Note Form of Election, by no later than the day which falls 28 days from the date of the Announcement (or such later date as the Panel agrees);

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- (D) Colfax and Bidco will procure that the directors of Colfax and Bidco accept responsibility for all of the information in the Scheme Document relating to Colfax and Bidco respectively and other members of the Colfax Group (excluding, for the avoidance of doubt, Charter and Charter Group) and their respective Personnel; and
- (E) Charter will procure that Charter Directors accept responsibility for the information relating to Charter and the other members of the Charter Group set out in the Scheme Document and all information in the Scheme Document other than information for which responsibility is accepted by the directors of Colfax or Bidco under Clause 4.2 (D).
- 4.3 If the Acquisition is being implemented by way of the Offer:
- (A) Charter undertakes to provide Bidco with all such information about Charter, other members of Charter Group and their respective Personnel as may reasonably be required for inclusion in the Offer Document and to provide all such other assistance as Bidco may reasonably require in connection with the preparation of the Offer Document, including access to, and ensuring the provision of assistance by, its management and relevant professional advisers;
- (B) Bidco agrees that it shall submit drafts and revised drafts of the Offer Document and the forms of acceptance to Charter for review and comment and, having afforded Charter reasonable time to consider such draft and forms, discuss such comments with Charter for the purposes of preparing revised drafts;
- (C) Bidco agrees that it shall despatch the Offer Document, together with the forms of acceptance as soon as reasonably practicable, provided however that Bidco will only despatch the Offer Document with the written consent of Charter (such consent not to be unreasonably withheld or delayed);
- (D) Charter will procure that Charter Directors accept responsibility for their views set out in the Offer Document and all of the information provided by Charter relating to Charter and the other members of the Charter Group and their respective Personnel in the Offer Document; and
- (E) Colfax and Bidco will procure that the directors of Colfax and Bidco accept responsibility for all of the information in the Offer Document other than information for which responsibility is accepted by Charter Directors under Clause 4.3 (D).
- 4.4 If any:
- (A) supplemental circular or document is required to be published or submitted to the Court in connection with the Scheme or any variation or amendment to the Scheme (a **Scheme Supplemental Document** ); or
- (B) (if the Acquisition is implemented by way of an Offer) any supplemental circular or document is required to be published in connection with the Offer or any variation or amendment to the Offer (an **Offer Supplemental Document** ),
- the parties will, as soon as reasonably practicable, provide such co-operation and information as may reasonably be required by Charter, Bidco or Colfax for inclusion in the Scheme Supplemental Document or the Offer Supplemental Document (as applicable) and provide all such other assistance as may reasonably be required in connection with the preparation of the Scheme Supplemental Document or the Offer Supplemental Document (as applicable) (in each case having regard to the Code and applicable Laws) including access to, and procuring (so far as reasonable able) the provision of assistance by the management and relevant professional advisors to Colfax and Bidco.
- 4.5 The parties agree that the provisions of Clause 4, Clause 6.4 and Clause 6.10 shall apply to the preparation and publication of a prospectus (the **Prospectus** ) in accordance with the requirements and practice of the UK Listing Authority and its Prospectus Rules by Colfax in respect of the New Colfax Shares offered to Charter Shareholders pursuant to the terms of the Acquisition *mutatis mutandis*.

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**5. RECOMMENDATION AND DIRECTORS DUTIES**

5.1 Subject to Clause 5.2, Charter agrees:

(A) that the Scheme Document, when issued and posted to the Charter Shareholders, shall include a unanimous and unqualified recommendation from the Charter Directors to the Charter Shareholders to vote in favour of: (i) the resolution to be proposed at the Court Meeting; and (ii) the Resolution, such recommendation to be in the form set out in the Announcement; and

(B) if Bidco elects to implement the Acquisition by means of the Offer, that the Offer Document, when issued and posted to the Charter Shareholders, shall include a unanimous and unqualified recommendation from the Charter Directors to the Charter Shareholders to accept the Offer, such recommendation to be in the form set out in the Announcement with such amendments as necessary to reflect that the Acquisition is to be implemented by means of the Offer rather than the Scheme; and

(C) the Charter Directors shall not withdraw, qualify or adversely modify the Board Recommendation.

5.2 The obligations in Clause 5.1 shall not apply if the Charter Directors have determined, acting in their good faith discretion, after consultation with their legal and financial advisors, at a meeting (howsoever held) of the Charter Directors (or a duly authorised committee thereof) that the Board Recommendation should not be given or should be withdrawn, qualified or adversely modified in order to comply with their duties under Law.

5.3 Colfax agrees that if the circumstances are such that Clause 5.2 is applicable, Charter will be free to explain to the Court, the Charter Shareholders and any other person that Charter sees fit why the Charter Directors have not given or have withdrawn, qualified or adversely modified the Board Recommendation provided that in giving such explanation Charter shall not make any disparaging comments in relation to Colfax or Bidco.

5.4 For the avoidance of doubt, for the purposes of this Agreement, each of the following circumstances shall be deemed to constitute an adverse modification to the Board Recommendation:

- (A) (save to the extent attributable to a breach by Colfax of its obligations under this Agreement) any announcement of the postponement or the postponement of the despatch of the Scheme Document from its position in the sequence set out in the Timetable in respect of which Colfax has not given its prior agreement in writing; or
- (B) any announcement of the postponement or postponement of the date for which either of the Meetings is convened from its position in the sequence set out in the Timetable or any adjournment of such Meetings in respect of which Colfax has not given its prior agreement in writing.

**6. COLFAX SHAREHOLDERS MEETING**

6.1 Colfax undertakes to:

(A) prepare and file with the SEC the Proxy Statement as promptly as practicable after the date of this Agreement and in any event by no later than 14 October 2011 or such other date as may be agreed in writing by Colfax and Charter;

(B) use all reasonable endeavours to cause the Proxy Statement to be cleared by the SEC, as promptly as practicable after the date of this Agreement and in any event prior to the Court hearing date for the sanction of the Scheme as set out in the Scheme Document, subject to and in accordance with Law;

(C) mail the Proxy Statement to its shareholders at the earliest practicable time;

(D) duly call, give notice of, convene and hold the Colfax Shareholders Meeting as promptly as practicable (subject to Law) after the date of this Agreement; and

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(E) use reasonable endeavours to procure that Condition (B) is satisfied as soon as reasonably practicable following publication of the Announcement and in any event prior to the Court hearing date for the sanction of the Scheme as set out in the Scheme Document.

6.2 Colfax agrees that it shall, before filing the Proxy Statement with the SEC, submit drafts and revised drafts of the Proxy Statement (including any amendments or supplements thereto) and forms of proxy to Charter for review and comment and, having afforded Charter reasonable time to consider such draft and forms, discuss such comments with Charter and relevant professional advisors to Charter for the purposes of preparing revised drafts.

6.3 Colfax agrees that the Proxy Statement shall:

(A) state that the Colfax Board has approved the issue of Colfax shares pursuant to the Equity Capital Raising and the related amendments to the constitution of Colfax; and

(B) include, and Colfax agrees (subject only to the fiduciary duties of the directors of Colfax, acting in their good faith discretion, after consultation with their legal and financial advisors) to maintain and not withdraw an unqualified recommendation from the Colfax Board to the Colfax Shareholders to vote in favour of the resolutions proposed at the Colfax Shareholders Meeting in connection with the Equity Capital Raising.

6.4 Charter undertakes to use all reasonable endeavours to provide Colfax with all such information about itself, the Charter Group (including any officers and employees), the Charter Directors as may reasonably be required for inclusion in the Proxy Statement and provide as soon as reasonably practicable all such other assistance as Colfax may reasonably require in connection with the preparation of the Proxy Statement (in each case having regard to the requirements of any applicable Laws) including access to, and procuring (so far as it is reasonably able) the provision of assistance by, relevant professional advisors and auditors to the Charter Group provided that no representation, undertaking, warranty or responsibility is made, given or accepted by Charter, any member of the Charter Group, the Charter Directors or the relevant professional advisors to the Charter Group as to the accuracy or completeness of any information so provided or as to the reasonableness of any assumptions on which any of the same is based or the use or fitness for purpose of any of the same.

6.5 Colfax agrees to notify Charter promptly after receiving any comments of the SEC with respect to the Proxy Statement and any requests by the SEC for any amendments or supplements there to or for additional information. Colfax shall promptly provide to Charter copies of all material correspondence with the SEC relating to the Proxy Statement. Charter shall use all reasonable endeavours to provide such information, on a no responsibility basis, as Colfax shall reasonably request or which otherwise shall be necessary to enable Colfax to respond in a timely manner to any comments of the SEC or its staff and to have the Proxy Statement cleared by the SEC as promptly as practicable after the date of this Agreement.

6.6 Colfax agrees that it shall not (subject to Law and the fiduciary duties of the directors of Colfax, acting in their good faith discretion, after consultation with their legal and financial advisors), following the mailing of the Proxy Statement, adjourn or postpone the Colfax Shareholders Meeting without notification to and consultation with Charter. Colfax agrees (subject to Law and the fiduciary duties of the directors of Colfax, acting in their good faith discretion, after consultation with their legal and financial advisors) to solicit from its shareholders proxies to vote in favour of the approval of the Equity Capital Raising.

6.7 Colfax agrees to keep Charter informed reasonably promptly of any communications Colfax receives from Colfax Shareholders or which are publicly made by Colfax Shareholders in connection with the Equity Capital Raising (other than communications of a routine or administrative nature) which are material relating to the Colfax Shareholders Meeting, the Equity Capital Raising or the Acquisition.

6.8 Colfax agrees that it shall not, without the prior written consent of Charter, make any material change to the structure, amount, terms or nature of the Equity Capital Raising.



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- Colfax shall, save as otherwise agreed with Charter, on each Business Day from and including the day falling five Business Days after the posting of the Proxy Statement to and including the Business Day immediately before the day for which the Colfax Shareholders Meeting has been convened, use its reasonable endeavours to inform
- 6.9 Charter of the number of Colfax Shareholders who have submitted valid forms of proxy for the Colfax Shareholders Meeting and the number of valid proxy votes in respect of the Colfax Shareholders Meeting, with the number of proxy votes for and against the resolutions to be proposed at the Colfax Shareholders Meeting being separately identified.
- Charter shall procure that its accounting personnel shall reasonably assist Colfax on a no responsibility basis in the preparation of the pro forma financial statements to be included in the Proxy Statement as required by SEC regulations. Charter shall also use reasonable endeavours to procure that its independent auditor provides reasonable assistance and cooperation with Colfax and its advisors in connection with the preparation of the
- 6.10 Proxy Statement and any comments from the SEC related thereto; Charter shall use reasonable endeavours to procure that such auditor shall consent to inclusion of its audit reports relating to the Charter financial statements to be included in the Proxy Statement as required by SEC Regulations and that such auditor provides reasonable assistance in connection with the preparation of the pro forma financial statements to be included in the Proxy Statement as required by SEC regulations.

**7. REGULATORY FILINGS**

- 7.1 Each party undertakes to the other parties, subject to Clause 7.2:
- (A) to use its best endeavours to procure that the Clearances applicable to it are obtained as soon as reasonably practicable and in any event before the Long Stop Date;
- to provide as promptly as reasonably practicable, and in any event before any applicable deadline or due date, in consultation and co-operation with the other party, all such information as may reasonably be requested to determine in which jurisdictions any merger control or similar filing with a Relevant Authority may be necessary
- (B) for the purposes of obtaining the Clearances and for inclusion in any submission to any Relevant Authority for the purpose of obtaining the Clearances save that where such information is reasonably considered by the party concerned to be sensitive it may at its option provide such information to the other parties on an external counsel basis;
- to provide all such other assistance as may reasonably be requested in connection with obtaining the Clearances,
- (C) including assistance in connection with such pre-notification contacts with Relevant Authorities as may be reasonably required;
- to use all reasonable endeavours to make as promptly as reasonably practicable and within applicable deadlines
- (D) and due dates such filings with all appropriate Relevant Authorities, jointly or separately, as are necessary to obtain the Clearances;
- subject to Law, promptly to notify the other party and provide draft copies of all written submissions and significant communications with any Relevant Authority in connection with obtaining the Clearances at such time as will allow the other party a reasonable opportunity to provide comments on such submissions and
- (E) communications before they are submitted or sent and provide copies of all such submissions and communications in the form submitted or sent, save in respect of any information which is reasonably considered by that party to be sensitive, which may at that party's option be provided to the other party's legal advisers on an external counsel basis;
- subject to Law, to use all reasonable endeavours to procure that each party and its advisers are able to attend and
- (F) where appropriate make oral submissions in any significant meetings, telephone calls or hearings and participate in any substantive discussions with any Relevant Authority in connection with obtaining the Clearances; and
- to keep the other party informed reasonably promptly of developments which are material or potentially material to the obtaining of the Clearances or the satisfaction of the Conditions relating to the Clearances, save that nothing
- (G) in this Agreement (but without prejudice to the requirements of the Code) shall oblige Bidco to waive any Condition or treat any Condition as satisfied or any party



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to provide any information which is reasonably considered by such party to be sensitive, which may at such party's option be provided to the other party's legal advisers on an external counsel basis.

- 7.2 Nothing in this Agreement shall require any member of the Colfax Group or any member of the Charter Group to:
- (A) agree to any undertaking, order, agreement, commitment or assurance in connection with obtaining any Clearance;
  - or
  - (B) divest, sell, hold separate, license or otherwise dispose of, or agree to any condition to or limitation on the operation of, any of their existing assets or businesses.

**8. CHARTER EMPLOYEE SHARE SCHEMES AND REDUNDANCY SCHEMES**

8.1 The parties shall respectively take the steps and other actions provided for in Schedule 2 in relation to Charter Employee Share Schemes.

8.2

Charter shall:

- (A) facilitate, and co-operate with Colfax to seek to arrange and co-ordinate such meetings with the trustees of any Pension Scheme and the UK Pensions Regulator (established under Part I of the Pensions Act 2004) as Colfax shall request and co-operate with Colfax and provide such reasonable assistance to Colfax in connection therewith as Colfax shall reasonably request provided that Colfax hereby acknowledges and agrees that the trustees of the Pension Schemes and the UK Pensions Regulator are independent of Charter and Charter shall have no liability for any failure of any such persons to agree to or attend any such meetings;
- (B) promptly provide to Colfax such information as the Charter Group possess relating to the Charter Group in respect of the Pension Schemes, or relating to the Pension Schemes, as Colfax shall reasonably request in connection with such approaches or meetings referred to in Clause 8.2(A) above; and
- (C) consult with Colfax on the terms of any announcement issued by Charter to the members of any Pension Scheme regarding the Acquisition.

8.3 During the 12 month period immediately following the Effective Date, Colfax shall not, and shall procure that each member of the Charter Group shall not, challenge the application of, or make any amendment to, any Charter Redundancy Policy.

**9. CONDUCT AND ACCESS PENDING COMPLETION OF THE ACQUISITION**

9.1 Without prejudice to the application of the provisions of Rule 21 of the Code, with which Charter agrees to comply, and (in respect of paragraph (A) below) Clause 3.9, Charter shall, and shall procure that the other members of the Charter Group shall,

- (A) save for any actions taken pursuant to commitments or other obligations that have been Disclosed or that are required to give effect to the Acquisition and the terms of this Agreement:
  - (i) subject to Clause 9.1 (A) (ii), during the period from the date of the Announcement to the Effective Date, conduct its business in the ordinary and usual course consistent with past practice; and
  - if the Scheme is validly approved by the requisite majority at the Court Meeting and the Resolution is validly passed by the requisite majority at the Charter GM the **Consent Condition** ), during the period from the date of the
- (ii) Meetings to the Effective Date, conduct its business in the ordinary and usual course consistent with past practice taking into account all reasonable requests of Colfax;

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(B) without prejudice to Charter's obligations pursuant to paragraph (A) above, not take or agree any of the following actions without the prior written consent of Colfax:

- (i) any merger, de-merger or consolidation (other than a takeover offer for Charter, howsoever to be implemented) of Charter or any other member of the Charter Group with any other entity;
  - enter into any share sale, business sale or other corporate finance transaction (including the grant any option or right of pre-emption) for the acquisition or disposal of (including by purchase, sale, transfer, lease, licence or hire
- (ii) purchase) any corporate entities, undertakings or group of assets, or enter into any joint venture or strategic alliance in respect of any assets or group of assets, where the consideration for or the value of such acquisition, disposal or other transaction, whether in a single transaction or a series of related transactions, exceeds £5,000,000.

Without prejudice to the application of the provisions of Rule 21 of the Code with which Charter agrees to comply, 9.2 Charter shall, and shall procure that each other member of the Charter Group shall, not agree or consent to any of the following:

- increases to the contributions payable to any Pension Scheme other than reasonable increases agreed with the
- (A) trustees of the Howden Group Pension Plan or the HCL Pension Scheme as a result of those plans' triennial valuations effective as at 31 December 2010;
  - changes to the basis upon which the liabilities of the Pension Schemes are valued other than reasonable changes
- (B) agreed with the trustees of the Charter Pension Scheme as a result of that scheme's triennial valuation effective as at 31 March 2010 or the trustees of the Howden Group Pension Plan or the trustees of the HCL Pension Scheme as a result of those plans' triennial valuations effective as at 31 December 2010; or
  - changes to the terms of the trust deeds constituting a Pension Scheme, or to the basis on which qualification for, or
- (C) accrual or entitlement to benefits or pensions under any Pension Scheme are calculated or determined where those changes would result in any material increase to the benefits which accrue under any Pension Scheme or to the pensions which are payable thereunder.

Charter agrees to provide Colfax with such reasonable access to its senior management and information as Colfax 9.3 may reasonably request in relation to integration planning for the Charter business following the Acquisition, provided that:

- (A) no member of the Charter Group shall be required to produce any financial reporting or other information in a form which is materially different from that prepared by the Charter Group in its usual practice;
  - (B) any meetings with Charter senior management shall take place in London; and
- (C) prior to satisfaction of the Consent Condition Charter shall not be obliged to arrange any site visit (other than to Charter's offices in London or Ireland).

Notwithstanding the foregoing, for the purposes of this Clause 9.3 the parties agree that prior to the satisfaction of the Consent Condition reasonable access shall be interpreted such that Charter shall not be required by this Clause 9.3 to provide any access or assistance to the extent that it would or would be reasonably likely to lead to Charter's commercially sensitive information being provided to a third party pursuant to Rule 20.2 of the Code.

If Charter receives any request for information pursuant to Rule 20.2 of the Code, or Charter is otherwise permitted to provide information regarding the Charter Group to a third party in accordance with the provisions of this 9.4 Agreement and intends to provide such information, Charter shall provide to Colfax such information (and in the same form and substantially at the same time (and in any event within one Business Day)) as is provided to such third party (whether or not Colfax submits a request for information pursuant to Rule 20.2 of the Code).

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9.5 Charter represents and warrants that it has not, at any time in the 12 months prior to the date of this Agreement, entered into or agreed to enter into, and undertakes to Colfax not to enter into, any agreement providing for the payment of a break, inducement or termination fee (or any fee having a similar effect) in connection with the acquisition of the entire issued and to be issued ordinary share capital of Charter.

**10. INDUCEMENT FEE**

10.1 Subject to Clause 10.4, Charter shall pay the Break Payment to Bidco if:  
 (A) following the release of the Announcement, a Competing Proposal is announced, whether under Rule 2.4 or Rule 2.5 of the Code or otherwise, before the Acquisition lapses or is withdrawn; and  
 (B) such Competing Proposal or any other Competing Proposal announced during the Offer Period subsequently becomes or is declared wholly unconditional or is otherwise completed or if implemented by way of a scheme of arrangement, becomes effective.

10.2 The Break Payment referred to in Clause 10.1 shall be payable as follows:  
 (A) if the Competing Proposal is implemented by way of a scheme of arrangement, prior to such Scheme becoming effective;  
 (B) if the Competing Proposal is implemented by way of takeover offer, prior to the date on which such Competing Proposal becomes or is declared wholly unconditional; or  
 (C) otherwise, on the earlier of the expiry of the Offer Period and the Business Day falling 5 Business Days prior to such Competing Proposal being completed.

10.3 Without prejudice to its obligations pursuant to Clause 10.1 but subject to Clause 10.4, Charter shall pay the Competing Proposal Payment to Bidco if:  
 (A) the Scheme Document, containing a Board Recommendation, is not posted to Charter Shareholders within 28 days of the Announcement (or such longer period as the Panel shall permit for the posting of such document) unless such failure is caused by a default of Colfax or Bidco, such payment to be made within 5 Business Days following the earlier of the Long Stop Date and expiry of the Offer Period;

(B) following posting of the Scheme Document, the Charter Directors recommend a Competing Proposal or (for any reason whatsoever) withdraw, qualify or adversely modify their recommendation to accept, or vote in favour of, the Acquisition or such recommendation ceases to be unanimous, such payment to be made within 5 Business Days of the expiry of the Offer Period;

(C) Charter shall issue any scheme document in respect of a Competing Proposal or the Charter Directors or any member of the Charter Group (or their respective representatives) shall otherwise take any steps to implement any Competing Proposal, such payment to be made within 5 Business Days of the expiry of the Offer Period;  
 Charter makes any changes to the Timetable, extension of time, adjournment, postponement or reconvention of either of the Meetings if such action itself as a procedural matter would, or would reasonably be expected to,  
 (D) prevent the Scheme (assuming for these purposes the requisite majorities being obtained at the Meetings) from becoming effective prior to the Long Stop Date, such payment to be made within 5 Business Days of the expiry of the Offer Period,

10.4 The obligation of Charter to make any Relevant Payment pursuant to Clause 10.1 or Clause 10.3 shall immediately cease and determine:

(A) where the Acquisition becomes or is declared wholly unconditional or otherwise becomes effective; or

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if, following the announcement of a Competing Proposal, the Acquisition lapses or is withdrawn (save in circumstances where the Panel has agreed that Bidco may invoke a condition to the Acquisition or may lapse or withdraw the Acquisition other than in reliance on a Condition relating to a Clearance or a Condition relating to a material adverse change not occasioned by any action of Charter).

The Relevant Payment shall be paid by no later than the last date for payment of such sum pursuant to Clause 10.1, 10.2 or 10.3 (as the case may be) and shall be made in immediately available funds (without any deduction or withholding and without regard to any lien, right of set-off, counter-claim or otherwise, except as required by Law) to Colfax's bank pursuant to details which shall be notified in writing to Charter by no later than three Business Days after the event as a result of which the Relevant Payment becomes payable.

Without prejudice to the obligation of Charter to make payment of the Relevant Payment on the date set out in Clause 10.5, the parties consider, and shall use all reasonable endeavours to secure, that the Relevant Payment will be outside the scope of VAT and will not for VAT purposes be treated as consideration for a taxable supply. If, however, the Relevant Payment is determined by Her Majesty's Revenue & Customs or the Irish Revenue Commissioners or any other tax authority to be in whole or in part the consideration for a taxable supply for VAT purposes then:

if the Relevant Payment is determined by HM Revenue & Customs or the Irish Revenue Commissioners or any other applicable tax authority to be consideration for a taxable supply in respect of which Colfax (or the representative member of any VAT group of which Colfax is a member) is liable to account for VAT then:

if and to the extent that such VAT is recoverable by Charter (or the representative member of any VAT group of which Charter is a member) by repayment or credit, the amount of the Relevant Payment shall be increased to take account of such recoverable VAT, such that (A) the Relevant Payment (including any amount in respect of VAT); less (B) an amount equal to any VAT which Charter (or such representative member) is entitled to recover by credit or repayment, shall be equal to the amount that the Relevant Payment would have been in the absence of this Clause 10.6; and/or

if and to the extent that such VAT is irrecoverable by Charter (or such representative member) then no additional amount shall be paid in respect of such VAT; and

if under a reverse charge mechanism the Relevant Payment is determined by HM Revenue & Customs or the Irish Revenue Commissioners or such other tax authority (as the case may be) to be consideration for a taxable supply in respect of which Charter (or the representative member of any VAT group of which Charter is a member) is liable to account for VAT then, to the extent that such VAT is not recoverable by Charter (or the representative member of any VAT group of which Charter is a member) by repayment or credit, the amount of the Relevant Payment shall be reduced to take account of such irrecoverable VAT, such that (A) the Relevant Payment; plus (B) an amount equal to the amount of such irrecoverable VAT, shall be equal to the amount that the Relevant Payment would have been in the absence of this Clause 10.5.

Such adjusting payment as may be required to be made by Charter to give effect to Clause 10.6(A) above shall be made five Business Days after the date on which the determination by HM Revenue & Customs or the Irish Revenue Commissioners or such other applicable tax authority has been communicated by Colfax to Charter (together with such evidence of it as is reasonable in the circumstances to provide). If and to the extent that the Relevant Payment is determined by HM Revenue & Customs or the Irish Revenue Commissioners or such other applicable tax authority to be consideration for a taxable supply in respect of which Colfax (or the representative member of any VAT group of which Colfax is a member) is liable to account for VAT, Colfax (or the representative member of any VAT group of which Colfax is a member) shall promptly issue a valid VAT invoice to Charter in respect of that supply.

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If, following payment of any amount under this Clause 10 it subsequently transpires that the amounts taken into account as recoverable or irrecoverable VAT of Charter for the purposes of calculating the quantum of such payment were incorrect, the parties shall make such adjusting payments between themselves as will place them in the position they would have been in had the correct amounts of recoverable or irrecoverable VAT of Charter been taken into account.

Nothing in this Agreement shall oblige Charter to pay any amount (i) which the Panel determines would not be permitted by Rule 21.2 of the Code; (ii) if (but only to the extent that) the payment of such amount would otherwise be unlawful; or (iii) if (but only to the extent that) such payment would, when aggregated with any prior payment pursuant to this Clause 10, otherwise exceed £15,275,000. The parties agree that if the Panel shall determine that the payment of any amount payable pursuant to this Clause 10 would not be permitted by Rule 21.2, the amount payable shall for the purposes of paragraph sub-paragraph (i) above be reduced to the maximum amount that would be permitted to be paid pursuant to Rule 21.2 of the Code.

**11. CODE**

Nothing in this Agreement shall in any way limit the parties' obligations under the Code, and any uncontested rulings of the Panel as to the application of the Code in conflict with the terms of this Agreement shall take precedence over such terms.

**12. APPROVALS AND CONFIRMATION**

Colfax, Bidco and Charter each confirms to each of the other parties that it has the requisite power and authority to enter into and perform its obligations under this Agreement and that the obligations expressed to be assumed by it hereunder are valid and binding and enforceable against it in accordance with their terms.

**13. TERMINATION**

13.1 Subject to Clauses 13.2 and 13.3, this Agreement may be terminated and all rights and obligations of Colfax, Bidco and Charter under this Agreement shall cease:

- (A) as agreed in writing by the parties;
- (B) in the event that the Board Recommendation is no longer unanimous or is withdrawn, qualified or adversely modified at any time;
  - (C) if the Effective Date has not occurred by the Long Stop Date;
  - (D) on the earliest to occur of:
    - (i) the date on which the Scheme lapses, terminates or is withdrawn; and
    - (ii) the Effective Date,provided this Clause 13.1(D) shall not apply if Colfax has elected to implement the Acquisition by way of the Offer before such lapse, termination or withdrawal;
  - (E) on the earliest to occur of:
    - (i) the date on which the Offer lapses terminates or is withdrawn; and
    - (ii) the Effective Date,provided that this Clause 13.1(E) shall not apply if Colfax has elected to implement the Acquisition by way of a Scheme before such lapse, termination or withdrawal;
- (F) if the Scheme is not approved by the requisite majority at the Court Meeting or the Resolution is not passed by the requisite majority at the Charter GM;
- (G) if the Scheme is not sanctioned at the Scheme Court Hearing or the Capital Reduction is not confirmed by the Court at the Reduction Court Hearing; or

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(H) if the resolutions to be proposed at the Colfax Shareholder Meeting is not approved by the requisite majority at the Colfax Shareholder Meeting and Colfax has not, within 10 Business Days thereof, presented a proposal (which meets the requirements of the Code) for alternative funding for the Acquisition in place of the Equity Capital Raising.

13.2 Termination of this Agreement shall be without prejudice to the rights of any of the parties which have arisen before termination.

13.3 This Clause and Clauses 1, 10, 13.2 and 14 to 27 (inclusive) shall survive termination of this Agreement.

**14. NOTICES**

14.1 A notice under this Agreement shall only be effective if it is in writing (which, for this purpose, does not include email).

14.2 Notices under this Agreement shall be sent to a party at its address or facsimile number and for the attention of the individual set out below:

Party and title of individual	Address	Facsimile no.
Colfax and Bidco (Senior Vice President and General Counsel)	A. Lynne Puckett	
	Colfax Corporation	
	8170 Maple Lawn Blvd, Suite 180	+1 301-323-9001
	Fulton, MD 20759	
Charter (Company Secretary and General Counsel)	U.S.A.	
	Michael Hampson	
	Charter International plc	
	27 Northwood Park	+353 1816 1587
	Santry	
	Dublin 9	
	Ireland	

provided that a party may change its notice details on giving notice to each of the other parties of the change in accordance with this Clause 14.2 and Clause 14.1. That notice shall only be effective on the date falling one Business Day after the notification has been received or such later date as may be specified in the notice.

14.3 Any notice given under this Agreement shall, in the absence of earlier receipt, be deemed to have been duly given:

- (A) if delivered personally, on delivery;
- (B) if sent by first class inland post, two clear Business Days after the date of posting;
- (C) if sent by airmail, six clear Business Days after the date of posting; or

(D) if sent by facsimile, when the sender's facsimile system generates a message confirming successful transmission of the notice.

14.4 Any notice given under this Agreement outside Working Hours in the place to which it is addressed shall be deemed not to have been given until the start of the next period of Working Hours in such place.

14.5 The provisions of this Clause shall not apply in relation to the service of Service Documents.

**15. REMEDIES AND WAIVERS**

15.1 No delay or omission by any party to this Agreement in exercising any right, power or remedy provided by law or under this Agreement shall:

- (A) affect that right, power or remedy; or
- (B) operate as a waiver of it.



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15.2 The single or partial exercise of any right, power or remedy provided by law or under this Agreement shall not preclude any other or further exercise of it or the exercise of any other right, power or remedy.

15.3 The rights, powers and remedies provided in this Agreement are cumulative and not exclusive of any rights, powers and remedies provided by law.

Without prejudice to any other rights and remedies which either party may have, each party acknowledges and agrees that damages would not be an adequate remedy for any breach by either party of the provisions of this Agreement and either party shall be entitled to seek the remedies of injunction, specific performance and other equitable remedies (and neither of the parties shall contest the appropriateness or availability thereof), for any threatened or actual breach of any such provision of this Agreement by either party and no proof or special damages shall be necessary for the enforcement by either party of the rights under this Agreement.

**16. VARIATION**

No variation of this Agreement shall be valid unless it is in writing (which, for this purpose, does not include email) and signed by or on behalf of each of the parties.

**17. INVALIDITY**

If at any time any provision of this Agreement is or becomes illegal, invalid or unenforceable in any respect under the law of any jurisdiction, that shall not affect or impair:

- (A) the legality, validity or enforceability in that jurisdiction of any other provision of this Agreement; or
- (B) the legality, validity or enforceability under the law of any other jurisdiction of that or any other provision of this Agreement.

**18. ENTIRE AGREEMENT**

18.1 Save for the confidentiality agreement between Colfax and Charter dated 23 August 2011 (which remains in force), this Agreement constitutes the whole and only agreement between the parties relating to the Acquisition and supersedes any previous agreement whether written or oral between the parties in relation to the Acquisition.

18.2 Each party acknowledges that in entering into this Agreement it is not relying upon any pre-contractual statement that is not set out in this Agreement.

18.3 Except in the case of fraud, no party shall have any right of action against the other party arising out of or in connection with any pre-contractual statement except to the extent that it is repeated in this Agreement.

18.4 For the purposes of this Clause, pre-contractual statement means any draft, agreement, undertaking, representation, warranty, promise, assurance or arrangement of any nature whatsoever, whether or not in writing, relating to the subject matter of this Agreement made or given by any person at any time before the date of this Agreement.

**19. LANGUAGE**

Each notice or other communication under or in connection with this Agreement shall be in English.

**20. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999**

The parties do not intend that any term of this Agreement should be enforceable, by virtue of the Contracts (Rights of Third Parties) Act 1999, by any person who is not a party to this Agreement.

**21. ASSIGNMENT**

No party shall be entitled to assign, transfer or create any trust in respect of the benefit or burden of any provision of this Agreement without the prior written consent of the other party.

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**22. ANNOUNCEMENTS**

22.1 Subject to Clause 22.2, no announcement (other than the Announcement) concerning the Acquisition or any ancillary matter contemplated by this Agreement (but excluding for avoidance of doubt the Colfax Shareholders Meeting) shall be made by either party without the prior written approval of the other, such approval not to be unreasonably withheld or delayed.

22.2 Any party may make an announcement concerning the Acquisition or any ancillary matter: if required by law or any securities exchange or regulatory or governmental body to which that party is subject, wherever situated, including (among other bodies) the London Stock Exchange, the Financial Services Authority, the Panel and the SEC whether or not the requirement has the force of law provided that the party concerned shall (A) (to the extent permitted by applicable law and regulation) take all such steps as may be reasonable and practicable in the circumstances to agree the contents, form and timing of such announcement with the other party before making such announcement; or

(B) if the Charter Directors withdraw, qualify or adversely modify the Board Recommendation.

**23. COSTS AND EXPENSES**

Each party shall pay its own costs and expenses in relation to the negotiation, preparation, execution and carrying into effect of this Agreement and any matter contemplated by it.

**24. FURTHER ASSURANCE**

Each party shall do and execute and perform all such further deeds, documents, assurances, acts and things as may reasonably be requested by another party to give effect to this Agreement.

**25. COUNTERPARTS**

25.1 This Agreement may be executed in any number of counterparts, and by the parties on separate counterparts, but shall not be effective until each party has executed at least one counterpart.

25.2 Each counterpart shall constitute an original of this Agreement, but all the counterparts shall together constitute but one and the same instrument.

**26. APPLICABLE LAW AND JURISDICTION**

26.1 This Agreement is to be governed by and construed in accordance with English law. Any matter, claim or dispute arising out of or in connection with this Agreement, whether contractual or non-contractual, is to be governed by and determined in accordance with English law.

26.2 The parties irrevocably submit to the exclusive jurisdiction of the Courts of England and Wales in respect of any matter, claim or dispute arising out of or in connection with this Agreement, whether contractual or non-contractual.

**27. AGENT FOR SERVICE**

27.1 Colfax irrevocably appoints Bidco of Skadden, Arps, Slate, Meagher & Flom (UK) LLP, 40 Bank Street, Canary Wharf, London E14 5DS, to be its agent for the receipt of Service Documents. Colfax agrees that any Service Document may be effectively served on it in connection with Proceedings in England and Wales by service on its agent effected in any manner permitted by the Civil Procedure Rules.

27.2 A copy of any Service Document served on an agent shall be sent by post to Bidco. Failure or delay in so doing shall not prejudice the effectiveness of service of the Service Document.

IN WITNESS of which the parties have executed this Agreement on the date first mentioned above.

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**SCHEDULE 1  
ANNOUNCEMENT**

NOT FOR RELEASE, PUBLICATION OR DISTRIBUTION, IN WHOLE OR IN PART, DIRECTLY OR INDIRECTLY, IN, INTO OR FROM ANY JURISDICTION WHERE TO DO SO WOULD CONSTITUTE A VIOLATION OF THE RELEVANT SECURITIES LAWS OF SUCH JURISDICTION

**12 September 2011**

**RECOMMENDED CASH AND SHARE OFFER**

**for**

**CHARTER INTERNATIONAL PLC**

**by**

**COLFAX UK HOLDINGS LTD  
a wholly-owned subsidiary of**

**COLFAX CORPORATION**

The Board of Charter and the Board of Colfax are pleased to announce that they have reached agreement on the terms of a recommended cash and share offer to be made by Bidco, a wholly-owned subsidiary of Colfax, for the entire issued and to be issued share capital of Charter.

**Highlights**

Under the terms of the Acquisition, Charter Shareholders will be entitled to receive:

**for each Charter Share:           730 pence in cash; and  
                                                  0.1241 New Colfax 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 US\$23.04 per Colfax Share on 9 September

2011, being the last Business Day before this announcement).

The Offer Consideration, with Charter Shareholders having already received the interim dividend of 8 pence per Charter Share, represents a premium of:

Ø approximately 48.0 per cent. to the Closing Price of 615 pence per Charter Share on 28 June 2011 (being the last Business Day before Charter announced it had received a preliminary approach from Melrose regarding a possible offer);

Ø approximately 16.7 per cent. to Melrose's initial offer of 780 pence per Charter Share made by Melrose on 28 June 2011; and

Ø a premium of approximately 13.2 per cent. to the Closing Price of 804 pence per Charter Share on 9 September 2011 (being the last Business Day before this announcement).

A Mix and Match Facility will be provided, which will allow Charter Shareholders to elect to vary the proportions in which they receive New Colfax Shares and cash.

A Loan Note Alternative will also be available to Charter Shareholders.

The Acquisition will be funded from a combination of proceeds of an equity issue by Colfax, new debt facilities and Colfax's existing cash resources.

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, or if Bidco elects, a takeover offer (as that term is defined under Article 116(1) of the Companies (Jersey) Law 1991) to Charter Shareholders. 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 set out in this announcement, will require the sanction of the Court.

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On 29 July 2011, concurrently with the release of its interim results for the second quarter of 2011, Colfax provided earnings guidance to the market which the Panel has determined amounted to profit forecasts for the purpose of Rule 28 of the City Code. Colfax will therefore prepare a report on such forecasts pursuant to Rule 28.3 of the City Code as soon as practicable. When the report has been completed, a public announcement will be released and the report will be made available on Colfax's website at [www.colfaxcorp.com](http://www.colfaxcorp.com).

The Board of Charter, which has been so advised by Goldman Sachs International, J.P. Morgan Cazenove and RBS, considers the terms of the Acquisition to be fair and reasonable. In providing financial advice to the Board of Charter, Goldman Sachs International, J.P. Morgan Cazenove and RBS have taken into account the Board's commercial assessments. Goldman Sachs International is providing the independent financial advice for the purposes of Rule 3 of the City Code and J.P. Morgan Cazenove and RBS are also acting as financial advisers to the Board of Charter.

Accordingly, the Board of Charter intends unanimously to recommend that Charter Shareholders 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 an Offer, to accept or procure acceptance of such Offer).

Colfax has received irrevocable undertakings from those members of the Board of Charter who hold beneficial interests in the Charter Shares to vote in favour of the Scheme (or, in the event that the Acquisition is implemented by way of a takeover offer, to accept the Offer) in respect of their entire beneficial holdings which total 176,977 Charter Shares in aggregate representing approximately 0.1 per cent. of Charter's issued share capital as at the date of this announcement. Further details of these irrevocable undertakings are set out in Appendix 3 to this announcement.

Further details of the Acquisition and the Scheme will be contained in the Scheme Document that will be posted to Charter Shareholders and, for information purposes only, to participants in the Charter Executive Share Schemes and the Phantom Restricted Scheme Plans as soon as practicable.

Commenting on the Acquisition, Mitchell P. Rales, the Chairman of Colfax and Clay H. Kiefaber, Colfax President and Chief Executive Officer of Colfax said:

*This is a transformational acquisition for Colfax that accelerates our growth strategy, enhances our business profile and continues our journey to becoming a premier global enterprise. We are very pleased that Charter's Board has recommended our offer, which we believe will bring significant benefits for both companies' shareholders. Charter shareholders will receive an immediate premium and share in the upside of the combined company through the stock component of our offer, while Colfax shareholders will benefit from the significant earnings accretion and value creation opportunities that this combination will create.*

*Charter International, with its global brands, is an excellent strategic fit that will significantly enhance our position in emerging markets, create an even balance of short- and long-cycle businesses and grow our aftermarket revenues, said Clay H. Kiefaber, Colfax President and Chief Executive Officer. Howden will be a great complement to our existing specialty fluid handling business and ESAB will be the nucleus of a new growth platform. In addition, we believe the application of the Colfax Business System will drive meaningful operational improvements.*

Commenting on the decision by the Board of Charter to recommend the Acquisition, Lars Emilson, the Chairman of Charter said:

*The Board believes this is an attractive offer for Charter shareholders, reflecting the strengths of both ESAB and Howden's market leading positions, and their growth prospects. The proposed acquisition represents a premium of approximately 48.0 per cent. to Charter's share price before we entered into an offer period and before the recent decline in global financial markets. Colfax is a global engineering company which is complementary to Charter, with a strong reputation for its quality brands, leading positions, and a long term vision for growth and returns. Colfax has committed to providing continued stability for our employees and continued development of the ESAB and Howden offering for our customers. The Board of Charter intends to recommend the proposed acquisition to shareholders.*



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**This summary should be read in conjunction with the following full announcement and the Appendices.**

The Acquisition will be subject to the Conditions and other terms set out in Appendix 1 to the announcement and to the full terms and conditions which will be set out in the Scheme Document. Appendix 2 contains bases and sources of certain information contained in this announcement. Details of irrevocable undertakings received by Colfax are set out in Appendix 3 to the announcement. Certain terms used in this summary and the full announcement are defined in Appendix 4 to the announcement.

A copy of this announcement will be available, subject to certain restrictions in relation to persons resident in Restricted Jurisdictions, at Charter's website at [www.charter.ie](http://www.charter.ie) and at Colfax's website at [www.colfaxcorp.com](http://www.colfaxcorp.com). Neither the contents of Charter's website, the contents of Colfax's website, nor the content of any other website accessible from hyperlinks on either Charter's or Colfax's website, is incorporated into or forms part of this announcement.

**Enquiries:**

**Colfax and Bidco**

Scott Brannan, Colfax (SVP and Chief Financial Officer) +1 (301) 323 9000

**Citigate Dewe Rogerson**

*(Public relations adviser to Colfax and Bidco)*

Patrick Donovan +44 (0)20 7282 2915

Ginny Pulbrook +44 (0)20 7282 2945

**Deutsche Bank** +44 (0)20 7545 8000

*(Financial adviser and corporate broker to Colfax and Bidco)*

Richard Sheppard

James Cass

Charles Wilkinson (corporate broking)

**Charter**

Gareth Rhys Williams, Chief Executive +44 (0)20 3206 0843

Aidan Wallis, Corporate Development Director

**Brunswick Group LLP** +44 (0)20 7404 5959

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Jonathan Glass

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**Goldman Sachs International** +44 (0)20 7774 1000

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Dominic Lee

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Adrian Beidas

**J.P. Morgan Cazenove** +44 (0)20 7588 2828

*(Financial adviser and corporate broker to Charter)*

Edmund Byers

Robert Constant

Dwayne Lysaght

**RBS Corporate Finance Limited** +44 (0)20 7678 8000

*(Financial adviser and corporate broker to Charter)*

John MacGowan

Simon Hardy

David Smith

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*This announcement is not intended to and does not constitute or form part of any offer to sell or subscribe for or any invitation to purchase or subscribe for any securities or the solicitation of any vote or approval in any jurisdiction pursuant to the Acquisition or otherwise. The Acquisition will be made solely pursuant to the terms of the Scheme Document (or, if applicable, the Offer Document), which will contain the full terms and conditions of the Acquisition, including details of how to vote in respect of the Acquisition or to elect to sell shares in connection with the acquisition, as the case may be. Any decision in respect of, or other response to, the Acquisition should be made only on the basis of the information contained in the Scheme Document.*

*The release, publication or distribution of this announcement in jurisdictions other than the United Kingdom, Jersey and the United States may be restricted by law and therefore any persons who are subject to the laws of any jurisdiction other than the United Kingdom, Jersey and the United States should inform themselves about, and observe any applicable requirements. In particular, the ability of persons who are not resident in the United Kingdom, Jersey or the United States to vote their Charter Shares with respect to the Scheme at the Meetings, or to execute and deliver forms of proxy appointing another to vote at the Meetings on their behalf, may be affected by the laws of the relevant jurisdictions in which they are located. This announcement has been prepared for the purpose of complying with Jersey law and the City Code and the information disclosed may not be the same as that which would have been disclosed if this announcement had been prepared in accordance with the laws of jurisdictions outside the United Kingdom or Jersey.*

*Copies of this announcement and any formal documentation relating to the Acquisition are not being, and must not be, directly or indirectly, mailed or otherwise forwarded, distributed or sent in or into or from any Restricted Jurisdiction and persons receiving such documents (including custodians, nominees and trustees) must not mail or otherwise forward, distribute or send it in or into or from any Restricted Jurisdiction. If the Acquisition is implemented by way of an Offer (unless otherwise permitted by applicable law and regulation), the Offer may not be made directly or indirectly, in or into, or by the use of mails or any means or instrumentality (including, but not limited to, facsimile, e-mail or other electronic transmission, telex or telephone) of interstate or foreign commerce of, or of any facility of a national, state or other securities exchange of any Restricted Jurisdiction and the Offer may not be capable of acceptance by any such use, means, instrumentality or facilities.*

*Notice to US investors in Charter: The Acquisition relates to the shares of a Jersey company that is a foreign private issuer (as defined under Rule 3b-4 under the US Exchange Act) and is being made by means of a scheme of arrangement provided for under Jersey company law. A transaction effected by means of a scheme of arrangement is not subject to the tender offer rules or the proxy solicitation rules under the US Exchange Act. Accordingly, the Acquisition is subject to the disclosure requirements and practices applicable in Jersey to schemes of arrangement which differ from the disclosure requirements of United States tender offer and proxy solicitation rules. Financial information included in this announcement and the Scheme Document has been or will have been prepared in accordance with accounting standards applicable in the United Kingdom that may not be comparable to financial information of US companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the United States. If, in the future, Bidco exercises the 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 securities of Colfax referred to in this announcement have not been registered under the Securities Act, and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act.*

*The issuance of New Colfax Shares pursuant to the Scheme will not be registered under the Securities Act, and will be issued pursuant to the exemption provided by Section 3(a)(10) under the Securities Act. In the event that Colfax*

*determines to conduct the Acquisition pursuant to a takeover offer or otherwise in a manner that is not exempt from the registration requirements of the Act, it will file a registration statement with the Securities and Exchange Commission ( **SEC** ) that will contain a prospectus. In this event, Charter Shareholders are urged to read these documents and any other relevant documents filed with the SEC, as well as any amendments or supplements to those documents, because they will contain important information, and such documents will be available free of charge at the SEC s website at [www.sec.gov](http://www.sec.gov).*

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*Neither the US Securities and Exchange Commission, nor any US state securities commission, has approved or disapproved of the Loan Notes or the New Colfax Shares to be issued in connection with the Acquisition, or determined if this announcement is accurate or complete. Any representation to the contrary is a criminal offence in the US.*

*Deutsche Bank AG is authorised under German Banking Law (competent authority: BaFin – Federal Financial Supervisory Authority) and authorised and subject to limited regulation by the Financial Services Authority. Details about the extent of Deutsche Bank AG's authorisation and regulation by the Financial Services Authority 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 announcement 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 any matters referred to in this announcement.*

*Goldman Sachs International, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting exclusively for Charter and for no-one else in connection with the matters set out in this announcement and will not be responsible to any person other than Charter for providing the protections afforded to clients of Goldman Sachs International, nor for providing advice in relation to the matters set out in this announcement.*

*J.P. Morgan Limited, which conducts its UK investment banking business as J.P. Morgan Cazenove and is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting exclusively as financial adviser and corporate broker to Charter and for no one else in connection with the matters set out in this announcement and will not be responsible to anyone other than Charter for providing the protections afforded to its clients nor for providing advice in relation to the matters set out in this announcement.*

*RBS Corporate Finance Limited, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting as financial adviser and corporate broker to Charter and no one else in connection with the matters set out in this announcement and will not be responsible to anyone other than Charter for providing the protections afforded to its clients nor for providing advice in relation to the matters set out in this announcement.*

## **Cautionary Note Regarding Forward-Looking Statements**

*This document contains certain statements about Colfax and Charter that are or may be forward-looking statements – that is, statements related to future, not past, events, including forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. These statements are based on the current expectations of the management of Colfax and Charter (as the case may be) and are subject to uncertainty and changes in circumstances, and involve risks and uncertainties that could cause actual results to differ materially from those expressed or implied in such forward-looking statements.*

*The forward-looking statements contained in this press release may include statements about the expected effects on Charter and Colfax of the Acquisition, the expected timing and scope of the Acquisition, strategic options and all other statements in this document other than historical facts. Without limitation, any statements preceded or followed by or that include the words targets, plans, believes, expects, aims, intends, will, may, anticipates, estimates, projects, seeks, sees, should, would, expect, positioned, strategy, or words or terms of similar substance or the negative thereof, are forward-looking statements. Forward-looking statements include statements relating to the following: (i) future capital expenditures, expenses, revenues, earnings, synergies, economic performance, indebtedness, financial condition, losses and future prospects; (ii) business and*

*management strategies and the expansion and growth of Colfax's or Charter's operations and potential synergies resulting from the Acquisition; (iii) the effects of government regulation on Colfax's or Charter's business, and (iv) Colfax's plans, objectives, expectations and intentions generally.*

*There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements, including the satisfaction of the conditions to the Acquisition and other risks related to the Acquisition and actions related thereto. Additional particular uncertainties that could cause Colfax's actual results to be materially different than those expressed in its forward-looking statements include: risks associated with Colfax's international operations; significant*

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*movements in foreign currency exchange rates; changes in the general economy, as well as the cyclical nature of Colfax's markets; Colfax's ability to accurately estimate the cost of or realize savings from Colfax's restructuring programs; availability and cost of raw materials, parts and components used in Colfax products; the competitive environment in Colfax's industry; Colfax's ability to identify, finance, acquire and successfully integrate attractive acquisition targets, including Charter should the Acquisition be successful; Colfax's ability to complete the Acquisition as planned and achieve expected synergies in connection with the Acquisition, and risks relating to any unforeseen liabilities of Charter; Colfax's ability to achieve or maintain credit ratings (in light of the Acquisition and financing of the Acquisition or otherwise) and the impact on its funding costs and competitive position if Colfax does not do so; and others risks and factors as disclosed in Colfax's Annual Report on Form 10-K under the caption Risk Factors. Other unknown or unpredictable factors could also cause actual results to differ materially from those in any forward-looking statement.*

*Due to such uncertainties and risks, readers are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date hereof. None of Colfax or Charter undertakes any obligation to update publicly or revise forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent legally required.*

## **Dealing and Opening Position Disclosure Requirements**

*Under Rule 8.3(a) of the City Code, any person who is interested in one per cent. or more of any class of relevant securities of an offeree company or of any paper offeror (being any offeror other than an offeror in respect of which it has been announced that its offer is, or is likely to be, solely in cash) must make an Opening Position Disclosure following the commencement of the offer period and, if later, following the announcement in which any paper offeror is first identified.*

*An Opening Position Disclosure must contain details of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any paper offeror(s). An Opening Position Disclosure by a person to whom Rule 8.3(a) applies must be made by no later than 3.30 pm (London time) on the 10<sup>th</sup> business day following the commencement of the offer period and, if appropriate, by no later than 3.30 pm (London time) on the 10<sup>th</sup> business day following the announcement in which any paper offeror is first identified. Relevant persons who deal in the relevant securities of the offeree company or of a paper offeror prior to the deadline for making an Opening Position Disclosure must instead make a Dealing Disclosure. Under Rule 8.3(b) of the City Code, any person who is, or becomes, interested in 1 per cent. or more of any class of relevant securities of the offeree company or of any paper offeror must make a Dealing Disclosure if the person deals in any relevant securities of the offeree company or of any paper offeror. A Dealing Disclosure must contain details of the dealing concerned and of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any paper offeror, save to the extent that these details have previously been disclosed under Rule 8. A Dealing Disclosure by a person to whom Rule 8.3(b) applies must be made by no later than 3.30 pm (London time) on the business day following the date of the relevant dealing. If two or more persons act together pursuant to an agreement or understanding, whether formal or informal, to acquire or control an interest in relevant securities of an offeree company or a paper offeror, they will be deemed to be a single person for the purpose of Rule 8.3.*

*Opening Position Disclosures must also be made by the offeree company and by any offeror and Dealing Disclosures must also be made by the offeree company, by any offeror and by any persons acting in concert with any of them (see Rules 8.1, 8.2 and 8.4). Details of the offeree and offeror companies in respect of whose relevant securities Opening Position Disclosures and Dealing Disclosures must be made can be found in the Disclosure Table on the Takeover*

*Panel's website at [www.thetakeoverpanel.org.uk](http://www.thetakeoverpanel.org.uk), including details of the number of relevant securities in issue, when the offer period commenced and when any offeror was first identified. If you are in any doubt as to whether you are required to make an Opening Position Disclosure or a Dealing Disclosure, you should contact the Panel's Market Surveillance Unit on +44 (0)20 7638 0129.*

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The parties agree 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 Shares pursuant to the Acquisition as compared to the existing Colfax shareholders (taken as a class).

Colfax has agreed to investigate providing a low cost dealing facility to assist those Charter Shareholders who wish to do so to dispose of the New Colfax Shares they receive under the terms of the Acquisition. The availability of such a facility will be subject to consideration of the results of the Mix and Match Facility, regulatory considerations, the requirements of the City Code and other practicalities.

The Offer Consideration, with Charter Shareholders having already received the interim dividend of 8 pence per Charter Share, represents a premium of:

- Ø approximately 48.0 per cent. to the Closing Price of 615 pence per Charter Share on 28 June 2011 (being the last Business Day before Charter announced it had received a preliminary approach from Melrose regarding a possible offer);
- Ø approximately 16.7 per cent. to Melrose's initial offer of 780 pence per Charter Share made by Melrose on 28 June 2011; and
- Ø a premium of approximately 13.2 per cent. to the Closing Price of 804 pence per Charter Share on 9 September 2011 (being the last Business Day before this announcement).

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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 or, if Bidco elects, a takeover offer (as that term is defined under Article 116(1) of the Companies (Jersey) Law 1991). 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 set out in this announcement, 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.

On 29 July 2011, concurrently with the release of its interim results for the second quarter of 2011, Colfax provided earnings guidance to the market which the Panel has determined amounted to profit forecasts for the purpose of Rule 28 of the City Code. Colfax will therefore prepare a report on such forecasts pursuant to Rule 28.3 of the City Code as soon as practicable. When the report has been completed, a public announcement will be released and the report will be made available on Colfax's website at [www.colfaxcorp.com](http://www.colfaxcorp.com).

### **3. Recommendation**

The Board of Charter, which has been so advised by Goldman Sachs International, J.P. Morgan Cazenove and RBS, considers the terms of the Acquisition to be fair and reasonable. In providing financial advice to the Board of Charter, Goldman Sachs International, J.P. Morgan Cazenove and RBS have taken into account the Board's commercial assessments. Goldman Sachs International is providing the independent financial advice for the purposes of Rule 3 of the City Code and J.P. Morgan Cazenove and RBS are also acting as financial advisers to the Board of Charter.

Accordingly, the Board of Charter intends unanimously to recommend that Charter Shareholders 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 an Offer, to accept or procure acceptance of such Offer) as those members of the Board of Charter who hold beneficial interests in Charter Shares have irrevocably undertaken to do in respect of their entire beneficial holdings which totals 176,977 Charter Shares in aggregate representing approximately 0.1 per cent. of Charter's issued share capital.

Further details of these irrevocable undertakings are set out in Appendix 3.

### **4. Information relating to Colfax and Bidco**

#### **Colfax**

Colfax, headquartered in Fulton, Maryland, U.S.A., 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.

Over the last few years, Colfax has successfully grown its systems business, providing its customers with complete fluid handling systems and solutions. In the 2010 financial year, approximately 15 per cent. of total revenues

(approximately US\$79 million) were derived from systems (up from approximately 4 per cent. in the 2006 financial year). Pumps, including aftermarket parts and services, contributed 82 per cent. of total revenues (approximately US\$445 million) in the 2010 financial year (more than 90 per cent. in the 2006 financial year). Valves and other products accounted for approximately 3 per cent. of total revenues (approximately US\$18 million in the 2010 financial year).

Colfax products are marketed principally under the Allweiler, Baric, Fairmount, Houttuin, Imo, LSC, Portland Valve, Tushaco, Warren and Zenith industrial brand names.

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**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 this announcement (except for entering into transactions relating to the Acquisition).

Further details of Bidco will be contained in the Scheme Document.

**5. Information relating to Charter**

Charter International plc is the holding company of a global group of engineering companies. Charter's businesses are focussed on welding, cutting and automation ( **ESAB** ) and on air and gas handling ( **Howden** ).

**Summarised financial information**

In its most recent financial year, ended 31 December 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 30 June 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 (2009: 32.8 pence). An interim dividend of 8.0 pence per share (2010: 7.5 pence) was declared and was paid to Charter Shareholders on 2 September 2011.

**Additional information on ESAB**

ESAB is a leading international welding and cutting company. With a heritage dating back to the evolution of the welding process, ESAB formulates, develops, manufactures and supplies consumable products and equipment for use in the cutting and joining of steels and other metals.

ESAB's comprehensive range of welding consumables includes electrodes, cored and solid wires, and fluxes. ESAB's welding and cutting equipment ranges from standard equipment to large bespoke plants used in industrial applications.

The principal end-user segments that it supplies are energy, transport, infrastructure and general industrial.

From its origins in Sweden at the start of the twentieth century, ESAB has developed into a highly international business; at present, its sales are split broadly evenly between the developed economies of Europe and North America, and emerging markets. ESAB is a leading participant in the welding industry in Europe, North America, South America and India and is developing its operations in Africa, the Middle East, China and elsewhere in Asia.

In July 2011, ESAB announced its strategic objectives for the further development of its business. By building on its established strengths and pursuing identified opportunities, ESAB aims to achieve 10 per cent. organic revenue CAGR, a through cycle operating margin of 10 per cent., and (by the end of 2013) to reduce working capital to 19 per cent. of revenue.

## **Additional information on Howden**

Howden is a leading international applications engineer. Headquartered in Renfrew, Scotland, Howden designs, manufactures, installs and maintains various types of air and gas handling equipment for use in the power, oil and gas, petrochemical and other industries.

Howden's principal products are fans, heat exchangers and compressors. The fans and heat exchangers are used mainly in the generation of electricity by coal-fired power stations, both in combustion and the control of emissions, and other large scale industrial plant. Howden's compressors are mainly used in the oil, gas and petrochemical industries.

New equipment sales generally account for around two-thirds of Howden's revenues. Howden has successfully grown its aftermarket business which accounts for around one-third of Howden's revenue.

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The coal-fired power industry currently accounts for around one-third of Howden's sales of new equipment as the share of revenue from other industries, especially oil and gas, has increased. Overall, the energy sector is estimated to account for some two-thirds of Howden's revenues in new equipment. These figures are based on the pro forma figures for new product sales in 2010 (inclusive of Thomassen Compression Systems which was not acquired until March 2011).

Howden has significant market positions in Europe, North America, China, South Africa and Australia. Howden has recently increased its presence in India, through a joint venture agreement with Larsen & Toubro, a major engineering and construction company, and in Brazil, where it has opened a much enhanced factory. Overall, around one-half of Howden's sales are made in emerging markets and this proportion is expected to increase progressively over time.

In July 2011, Howden announced its strategic objectives of achieving revenue CAGR of over 10 per cent. and, over the medium to long-term, of achieving an adjusted operating margin of 14 per cent.

### **6. 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.

Earlier this year Colfax identified Charter as a business that would complement its Fluid Handling platform as well as add a new welding and cutting platform. In July 2011, following the unsolicited offer 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 & gas handling business (Howden) would extend Colfax's existing Fluid Handling platform, and Charter's welding, cutting and automation (ESAB) business would establish a new growth platform.

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 company to benefit from strong secular growth drivers and provide a balance of short and long cycle businesses.

Following the Acquisition, Colfax believes there are significant upside opportunities from applying its established management techniques to improve both margin and return on invested capital.

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

The Acquisition is expected to be significantly accretive to earnings<sup>(1)</sup> and to provide double digit returns on invested capital within three to five years.

Colfax takes a disciplined approach to acquisitions with clearly defined strategic and financial criteria, and is committed to maintaining a prudent capital structure. Colfax believes the resulting capital structure will allow it to meet its goal of achieving and maintaining a credit rating of BB-/Ba3 or better and ensure that it retains sufficient flexibility to continue existing and new initiatives without undue balance sheet risk.

Colfax's management are established industrialists who buy businesses with the objective of developing them so that they may achieve their full potential.

(1) This should not be taken as a statement regarding Colfax's expectation for earnings per share during the remainder of 2011, for 2012 or for subsequent periods.

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**7. Background to and reasons for the recommendation**

On 20 June 2011, Charter issued a trading update that warned of the expected outcome for 2011 as a whole being below expectations at the time of the interim management statement in April 2011. This announcement was followed by the resignation of the then Charter Chief Executive, Michael Foster, on 27 June 2011.

On 29 June 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 Charter's Board on 30 June 2011.

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

On 1 September 2011, the Board of Charter 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. Melrose's revised proposal represented an 850 pence per Charter Share offer for the Company, 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 26 July 2011 and paid to Charter Shareholders on 2 September 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.

Melrose continues to conduct due diligence on Charter. There can be no certainty that a formal offer will ultimately be forthcoming from Melrose.

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

The Offer Consideration, with Charter Shareholders having already received the interim dividend of 8 pence per Charter Share, represents a premium of:

approximately 48.0 per cent. to the Closing Price of 615 pence per Charter Share on 28 June 2011 (being the last Business Day before Charter announced it had received a preliminary approach from Melrose regarding a possible offer);

Ø approximately 16.7 per cent. to Melrose's initial offer of 780 pence per Charter Share made by Melrose on 28 June 2011; and

Ø a premium of approximately 13.2 per cent. to the Closing Price of 804 pence per Charter Share on 9 September 2011 (being the last Business Day before this announcement).

The Directors of Charter have also noted the general downward movement in global financial markets which has taken place in recent weeks, in particular since the start of August, and which has impacted shares in many industrial and engineering companies in particular. Since Melrose's initial offer on 28 June 2011 to 9 September 2011 (being the last Business Day before this announcement), the FTSE 350 Industrial Engineering Index has declined by approximately 8.8 per cent. and FTSE 250 Share Index has declined by approximately 12.5 per cent.

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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 intend to recommend the Acquisition to Charter Shareholders. The terms of the Acquisition allow Charter Shareholders to realise 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 enlarged Colfax group.

### **8. Implementation Agreement**

Charter, Bidco and Colfax have entered into the Implementation Agreement in relation to the implementation of the Acquisition and related matters in accordance with an agreed indicative timetable which will be set out in the Scheme Document. The Implementation Agreement contains certain assurances and confirmations between the parties, including provisions reflecting the rules of the Panel which are due to come into force on 19 September 2011, to implement the Scheme on a timely basis.

### **9. Inducement Fee Arrangements**

Charter has agreed to pay an inducement fee of £15,275,000 to Bidco, subject to the terms and conditions set out in the Implementation Agreement, in circumstances where a competing offer (or similar proposal) is announced before the Acquisition lapses or is withdrawn and such competing offer (or similar proposal) or another third party offer (or similar proposal) becomes wholly unconditional or effective or is otherwise consummated.

In addition, Charter has agreed to pay an inducement fee of £7,638,000 to Bidco in certain other circumstances, subject to the terms and conditions set out in the Implementation Agreement. These circumstances include where: (a) the Board of Charter recommends a competing offer (or similar proposal); (b) the Board of Charter withdraws, qualifies or adversely modifies its recommendation of the Acquisition or such recommendation ceases to be unanimous; and (c) where Charter takes any steps to implement a competing offer (or similar proposal) or if Charter makes certain changes to the timetable for the Acquisition or postpones or adjourns the Meetings and as a result the Scheme is reasonably expected not to become effective before the Long Stop Date.

The payments referred to above are not, however, payable by Charter where, following the announcement of a competing offer (or similar proposal) the Acquisition lapses or is withdrawn (save in circumstances where the Panel has agreed that Bidco may invoke a condition to the Acquisition or may lapse or withdraw the Acquisition other than in reliance on a regulatory condition or any condition reflecting material adverse change not occasioned by any action of Charter). The amount payable as an inducement fee cannot exceed (in aggregate) £15,275,000.

Further details of the above arrangements are set out in the Implementation Agreement and will be summarised in the Scheme Document.

### **10. 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 loan facilities has been arranged by Deutsche Bank AG, New York Branch and HSBC Bank USA, N.A. and further details of the debt financing of the Acquisition will be included in the

## **Equity Capital Raising**

BDT CF Acquisition Vehicle, LLC, an entity controlled by BDT Capital Partners Fund I, L.P. has agreed to purchase, six Business Days following the Effective Date, up to 13,877,551 shares of preferred stock and up to 14,756,944 shares of common stock of Colfax for US\$680 million in the aggregate. In addition, Mitchell P. Rales, Steven M. Rales and Markel Corporation (an entity in which one of the Colfax directors is an officer) have agreed to subscribe, six business days following the Effective Date, for common stock in the capital of Colfax for US\$125 million in the aggregate. The net proceeds of these issuances of preferred stock and common stock will be used by Colfax to fund a portion of the Offer Consideration. All these subscriptions for

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shares of common stock are being made at US\$23.04 which is the closing price of a Colfax Share on 9 September 2011, being the last Business Day before this announcement. The Exchange Ratio has also been determined on this basis and so the 0.1241 New Colfax Shares which Charter Shareholders will receive for each Charter Share held are valued at 180 pence accordingly.

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 per cent. of the outstanding common stock. Colfax has undertaken to Charter that it 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 and in any case by this date. The Board of Colfax intends to recommend Colfax shareholders vote in favour of the resolutions to be proposed at the shareholder meeting.

Mitchell P. Rales and Steven M. Rales who together hold or control 18,291,220 Colfax Shares, representing approximately 42 per cent. of Colfax's issued share capital, have agreed with Charter that (save in certain limited specified circumstance) 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 360,296 Colfax Shares in aggregate, representing approximately 0.8265 per cent. of Colfax's issued share capital.

Deutsche Bank has confirmed that they are satisfied that sufficient financial resources are available to Bidco to satisfy, in full, the cash consideration payable to the Charter Shareholders pursuant to the Acquisition.

Further information on the financing of the Acquisition will be set out in the Scheme Document.

### **11. Management, employees and intentions regarding the Charter Group**

Colfax has given assurances to the Board of Charter that, upon and following completion of the Acquisition, the Charter Group employers will continue to comply with the contractual and other entitlements in relation to pension and employment rights of existing employees.

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

### **12. Terms of 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 Shares and cash in respect of their holdings of Charter Shares. However, the total number of New Colfax 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 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 will be included in the Scheme Document.

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**13. Loan Note Alternative**

Charter Shareholders (other than certain Overseas Shareholders) 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 privileged relations 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.

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 0.50 per cent. below LIBOR. Interest will be payable semi-annually on 30 June and 31 December each year, or if that day is not a Business Day, on the immediately following Business Day, with the first interest payment date being 30 June 2012 or, if later, at least six months from the date of issue. 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 on 30 June 2012 and subsequently semi-annually on 30 June and 31 December 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 (5) years after the Effective Date.

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 30 June 2012 (or, if later, 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 will be contained in the Scheme Document or, as the case may be, the Offer Document and the Loan Note Form of Election. The Loan Notes are not being offered to Overseas Shareholders.

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.

**14. Charter Executive Share Schemes and Phantom Restricted Scheme Plan**

In due course, Charter and Bidco will write to participants in the Charter Executive Share Schemes to inform them of the effect of the Scheme on their rights under the Charter Executive Share Schemes and the actions they may take to enable them to participate in the Scheme.

Charter and Bidco will also write in due course to participants in the Charter Executive Share Schemes and the Phantom Restricted Scheme Plan to inform them of the effect of the Scheme on their rights under that plan.

It is proposed to amend the articles of association of Charter at the Charter General Meeting to provide that, if the Scheme becomes effective, any Charter Shares issued (other than to Bidco or 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 in exchange for cash and New Colfax Shares as described in paragraph 2 above on the same basis as under the Scheme. Consequently, participants in the Charter Executive Share Schemes whose rights to

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receive Charter Shares under awards vest after the Scheme Record Time will receive cash and New Colfax Shares as described in paragraph 2 above.

### **15. Expected timetable**

It is expected that the Scheme Document containing further details of the Scheme (including an expected timetable) will be dispatched to Charter Shareholders as soon as practicable (and, in any event, not later than 28 days after the date of this announcement).

### **16. Disclosure of interests in Charter Shares**

As at the close of business on 9 September 2011 (the last Business Day prior to this announcement) and save as discussed above and for the irrevocable undertakings referred to in Appendix 3, neither Bidco, nor any Bidco Directors nor, so far as Bidco is aware, any person acting in concert (within the meaning of the City Code) with Bidco has any interest in, owns or has owned or controls or has controlled any Charter Shares (including pursuant to any short or long exposure, whether conditional or absolute, to changes in the prices of securities) or any rights to subscribe for or purchase the same, or holds or has held options (including traded options) in respect of, or has or has had any option to acquire, any Charter Shares or has entered into any derivatives referenced to Charter Shares ( **Relevant Shares** ) which remain outstanding, nor does any person have or has any such person had any arrangement in relation to Relevant Shares. An **arrangement** for these purposes also includes any indemnity or option arrangement, or any arrangement or understanding, formal or informal, of whatever nature, relating to Relevant Shares which may be an inducement to deal or refrain from dealing in such securities, or any borrowing or lending of Relevant Shares that have not been on-lent or sold.

On 4 September 2011, Colfax made an announcement falling under Rule 2.4 of the City Code that it was in preliminary discussions regarding a possible all-cash offer to acquire Charter ( **Possible Offer Announcement** ) that would generally require it to make an Opening Position Disclosure by no later than 12 noon on the day falling 10 Business Days after the Possible Offer Announcement. Bidco will not be releasing an Opening Position Disclosure today disclosing interests in the relevant securities of each of Colfax and Melrose as this Opening Position Disclosure would not disclose any interests. With the Panel's consent, Bidco will make an Opening Position Disclosure as soon as possible, and in any event before 12 noon on the day 10 Business Days after the date of this announcement disclosing interests in the relevant securities of Colfax.

### **17. Scheme of Arrangement**

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 consideration on the basis set out in paragraph 2 of this announcement (including, the issue of New Colfax Shares to Scheme Shareholders);

Ø 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

Ø the issue of New Charter Shares to Bidco provided for in the Scheme that will result in Charter becoming an indirect, wholly-owned subsidiary of Colfax.

The Acquisition will be subject to the Conditions and further terms and conditions referred to in Appendix 1 to this announcement and to be set out in the Scheme Document.

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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. The bases and sources of certain information contained in this announcement are set out in Appendix 2. Certain terms used in this announcement are defined in Appendix 4.

### **18. 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 which total 176,977 Charter Shares representing in aggregate approximately 0.1 per cent. of Charter's issued share capital at the date of this announcement. 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.

Further details of these irrevocable undertakings are set out in Appendix 3.

### **19. 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.

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

### **20. Overseas Charter Shareholders**

The distribution of this announcement 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 will be contained in the Scheme Document.

### **Scheme Shareholders in the US**

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 Jersey and under the Code to schemes of arrangement, which differ from the disclosure requirements of the US tender offer rules. Financial information included in this announcement has been prepared, unless specifically stated otherwise, in accordance with accounting standards applicable in Jersey and thus may not be comparable to the financial information of US companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the US. 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 securities of Colfax referred to in this announcement have not been registered under the Securities Act, and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act.

The issuance of New Colfax shares pursuant to the Scheme will not be registered under the Securities Act, and will be issued pursuant to the exemption provided by Section 3(a)(10) under the Securities Act. In the event that Colfax determines to conduct the Acquisition pursuant to a takeover offer or otherwise in a manner that is not exempt from the registration requirements of the Act, it will file a registration statement with the SEC that will contain a prospectus. In this event, Charter Shareholders are urged to read these documents and any other relevant documents filed with the SEC, as well as any amendments or supplements to those documents, because they will contain important information, and such documents will be available free of charge at the SEC's website at [www.sec.gov](http://www.sec.gov).

Neither the US Securities and Exchange Commission, nor any US state securities commission, has approved or disapproved of the Loan Notes or the New Colfax Shares to be issued in connection with the Acquisition, or determined if this announcement is accurate or complete. Any representation to the contrary is a criminal offence in the US.

### **21. Rule 2.10 disclosure**

In accordance with Rule 2.10 of the City Code, Colfax confirms that as at the close of business on 9 September 2011, being the last Business Day before this announcement, it had 43,590,915 shares of Colfax's common stock in issue and admitted to trading on the New York Stock Exchange under the ISIN US1940141062.

### **22. General**

Colfax reserves the right to elect to implement the Acquisition by way of an Offer for the entire issued and to be issued share capital of Charter not already held by Bidco or any subsidiary or nominees of Colfax as an alternative to the Scheme. In such an event, an Offer will be implemented on the same terms (subject to appropriate amendments), so far as applicable, as those which would apply to the Scheme but with an acceptance condition which will be set at 75 per cent. (or such lower percentage as Colfax may decide or the Panel may require) as referred to in Part A of Appendix 1 to this announcement. Colfax has agreed that any such Offer would remain open for acceptance for at least 60 days after the Offer Document is published.

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If the Acquisition is effected by way of an Offer and such Offer becomes or is declared unconditional in all respects and acceptances of more than 75 per cent. of the voting rights attaching to Charter Shares are received Bidco intends to: (i) request the London Stock Exchange and the UK Listing Authority to cancel trading in Charter Shares on the London Stock Exchange's main market for listed securities and the listing of the Charter Shares from the Official List; and (ii) exercise its rights, to the extent applicable, to apply the provisions of Articles 116 to 118 and Article 121 of the Companies (Jersey) Law 1991 to acquire compulsorily the remaining Charter Shares in respect of which the Offer has not been accepted.

The Acquisition will be subject to the Conditions and other terms set out in this announcement and to the full terms and conditions which will be set out in the Scheme Document. Appendix 2 contains bases and sources of certain information contained in this announcement. Details of irrevocable undertakings received by Bidco are set out in Appendix 3. Certain terms used in this announcement are defined in Appendix 4.

A copy of this announcement will be available, subject to certain restrictions relating to persons resident in Restricted Jurisdictions at Charter's website at [www.charter.ie](http://www.charter.ie) and at Colfax's website at [www.colfaxcorp.com/](http://www.colfaxcorp.com/). Neither the contents of Charter's website, the contents of Colfax's website, nor the content of any other website accessible from hyperlinks on either Charter's or Colfax's website, is incorporated into or forms part of this announcement.

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*This announcement is not intended to and does not constitute or form part of any offer to sell or subscribe for or any invitation to purchase or subscribe for any securities or the solicitation of any vote or approval in any jurisdiction pursuant to the Acquisition or otherwise. The Acquisition will be made solely pursuant to the terms of the Scheme Document (or, if applicable, the Offer Document), which will contain the full terms and conditions of the Acquisition or to elect to sell shares in connection with the acquisition, as the case may be), including details of how to vote in respect of the Acquisition. Any decision in respect of, or other response to, the Acquisition should be made only on the basis of the information contained in the Scheme Document.*

*The release, publication or distribution of this announcement in jurisdictions other than the United Kingdom, Jersey and the United States may be restricted by law and therefore any persons who are subject to the laws of any jurisdiction other than the United Kingdom, Jersey or the United States should inform themselves about, and observe any applicable requirements. In particular, the ability of persons who are not resident in the United Kingdom, Jersey or the United States to vote their Charter Shares with respect to the Scheme at the Meetings, or to execute and deliver forms of proxy appointing another to vote at the Meetings on their behalf, may be affected by the laws of the relevant jurisdictions in which they are located. This announcement has been prepared for the purpose of complying with Jersey law and the City Code and the information disclosed may not be the same as that which would have been disclosed if this announcement had been prepared in accordance with the laws of jurisdictions outside the United Kingdom or Jersey.*

*Copies of this announcement and any formal documentation relating to the Acquisition are not being, and must not be, directly or indirectly, mailed or otherwise forwarded, distributed or sent in or into or from any Restricted Jurisdiction and persons receiving such documents (including custodians, nominees and trustees) must not mail or otherwise forward, distribute or send it in or into or from any Restricted Jurisdiction. If the Acquisition is implemented by way of an Offer (unless otherwise permitted by applicable law and regulation), the Offer may not be made directly or indirectly, in or into, or by the use of mails or any means or instrumentality (including, but not limited to, facsimile, e-mail or other electronic transmission, telex or telephone) of interstate or foreign commerce of, or of any facility of a national, state or other securities exchange of any Restricted Jurisdiction and the Offer may not be capable of acceptance by any such use, means, instrumentality or facilities.*

*Notice to US investors in Charter: The Acquisition relates to the shares of a Jersey company that is a foreign private issuer (as defined under Rule 3b-4 under the US Exchange Act) and is being made by means of a scheme of arrangement provided for under Jersey company law. A transaction effected by means of a scheme of arrangement is not subject to the tender offer rules or the proxy solicitation rules under the US Exchange Act. Accordingly, the Acquisition is subject to the disclosure requirements and practices applicable in Jersey to schemes of arrangement which differ from the disclosure requirements of United States tender offer and proxy solicitation rules. Financial information included in this announcement and the Scheme Document has been or will have been prepared in accordance with accounting standards applicable in the United Kingdom that may not be comparable to financial information of US companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the United States. If, in the future, Bidco exercises the right to implement the Acquisition by way of a takeover offer and determines to extend the offer into the United States, the Acquisition will be made in compliance with applicable United States laws and regulations.*

*The securities of Colfax referred to in this announcement have not been registered under the Securities Act, and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act.*

*The issuance of New Colfax Shares pursuant to the Scheme will not be registered under the Securities Act, and will be issued pursuant to the exemption provided by Section 3(a)(10) under the Act. In the event that Colfax determines to*

*conduct the Acquisition pursuant to a takeover offer or otherwise in a manner that is not exempt from the registration requirements of the Securities Act, it will file a registration statement with the SEC that will contain a prospectus. In this event, Charter Shareholders are urged to read these documents and any other relevant documents filed with the SEC, as well as any amendments or supplements to those documents, because they will contain important information, and such documents will be available free of charge at the SEC's website at [www.sec.gov](http://www.sec.gov).*

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*Neither the US Securities and Exchange Commission, nor any US state securities commission, has approved or disapproved of the Loan Notes or the New Colfax Shares to be issued in connection with the Acquisition, or determined if this announcement is accurate or complete. Any representation to the contrary is a criminal offence in the US.*

*It may be difficult for US holders of Charter Shares to enforce their rights and any claim arising out of the US federal laws, since Bidco and Charter are located in a non-US jurisdiction, and some or all of their officers and directors may be residents of a non-US jurisdiction. US holders of Charter Shares may not be able to sue a non-US company or its officers or directors or enforce a judgment rendered by a US court in a non-US court for violations of the US securities laws. Further, it may be difficult to compel a non-US company and its affiliates to subject themselves to a US court's judgment.*

*Deutsche Bank AG is authorised under German Banking Law (competent authority: BaFin – Federal Financial Supervisory Authority) and authorised and subject to limited regulation by the Financial Services Authority. Details about the extent of Deutsche Bank AG's authorisation and regulation by the Financial Services Authority 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 announcement 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 any matters referred to in this announcement.*

*Goldman Sachs International, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting exclusively for Charter and for no-one else in connection with the matters set out in this announcement and will not be responsible to any person other than Charter for providing the protections afforded to clients of Goldman Sachs International, nor for providing advice in relation to the matters set out in this announcement.*

*J.P. Morgan Limited, which conducts its UK investment banking business as J.P. Morgan Cazenove and is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting exclusively as financial adviser and corporate broker to Charter and for no one else in connection with the matters set out in this announcement and will not be responsible to anyone other than Charter for providing the protections afforded to its clients nor for providing advice in relation to the matters set out in this announcement.*

*RBS Corporate Finance Limited, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting as financial adviser and corporate broker to Charter and no one else in connection with the matters set out in this announcement and will not be responsible to anyone other than Charter for providing the protections afforded to its clients nor for providing advice in relation to the matters set out in this announcement.*

## **Cautionary Note Regarding Forward-Looking Statements**

*This document contains certain statements about Colfax and Charter that are or may be forward-looking statements – that is, statements related to future, not past, events, including forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. These statements are based on the current expectations of the management of Colfax and Charter (as the case may be) and are subject to uncertainty and changes in circumstances, and involve risks and uncertainties that could cause actual results to differ materially from those expressed or implied in such forward-looking statements.*

*The forward-looking statements contained in this press release may include statements about the expected effects on*

*Charter and Colfax of the Acquisition, the expected timing and scope of the Acquisition, strategic options and all other statements in this document other than historical facts. Without limitation, any statements preceded or followed by or that include the words targets , plans , believes , expects , aims , intends , will , may , anticipates , estimates , projects , seeks , sees , should , would , expect , positioned , strategy , or words or terms of similar substance or the negative thereof, are forward-looking statements. Forward-looking statements include statements relating to the following: (i) future capital expenditures, expenses, revenues, earnings, synergies, economic performance, indebtedness, financial condition, losses and future prospects; (ii) business and management strategies and the expansion*

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and growth of Colfax's or Charter's operations and potential synergies resulting from the Acquisition; (iii) the effects of government regulation on Colfax's or Charter's business, and (iv) Colfax's plans, objectives, expectations and intentions generally.

There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements, including the satisfaction of the conditions to the Acquisition and other risks related to the Acquisition and actions related thereto. Additional particular uncertainties that could cause Colfax's actual results to be materially different than those expressed in its forward-looking statements include: risks associated with Colfax's international operations; significant movements in foreign currency exchange rates; changes in the general economy, as well as the cyclical nature of Colfax's markets; Colfax's ability to accurately estimate the cost of or realize savings from Colfax's restructuring programs; availability and cost of raw materials, parts and components used in Colfax products; the competitive environment in Colfax's industry; Colfax's ability to identify, finance, acquire and successfully integrate attractive acquisition targets, including Charter should the Acquisition be successful; Colfax's ability to complete the Acquisition as planned and achieve expected synergies in connection with the Acquisition, and risks relating to any unforeseen liabilities of Charter; Colfax's ability to achieve or maintain credit ratings (in light of the Acquisition and financing of the Acquisition or otherwise) and the impact on its funding costs and competitive position if Colfax does not do so; and others risks and factors as disclosed in Colfax's Annual Report on Form 10-K under the caption Risk Factors . Other unknown or unpredictable factors could also cause actual results to differ materially from those in any forward-looking statement.

Due to such uncertainties and risks, readers are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date hereof. None of Colfax or Charter undertakes any obligation to update publicly or revise forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent legally required.

## **Dealing and Opening Position Disclosure Requirements**

Under Rule 8.3(a) of the City Code, any person who is interested in one per cent. or more of any class of relevant securities of an offeree company or of any paper offeror (being any offeror other than an offeror in respect of which it has been announced that its offer is, or is likely to be, solely in cash) must make an Opening Position Disclosure following the commencement of the offer period and, if later, following the announcement in which any paper offeror is first identified.

An Opening Position Disclosure must contain details of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any paper offeror(s). An Opening Position Disclosure by a person to whom Rule 8.3(a) applies must be made by no later than 3.30 pm (London time) on the 10<sup>th</sup> business day following the commencement of the offer period and, if appropriate, by no later than 3.30 pm (London time) on the 10<sup>th</sup> business day following the announcement in which any paper offeror is first identified. Relevant persons who deal in the relevant securities of the offeree company or of a paper offeror prior to the deadline for making an Opening Position Disclosure must instead make a Dealing Disclosure. Under Rule 8.3(b) of the City Code, any person who is, or becomes, interested in 1 per cent. or more of any class of relevant securities of the offeree company or of any paper offeror must make a Dealing Disclosure if the person deals in any relevant securities of the offeree company or of any paper offeror. A Dealing Disclosure must contain details of the dealing concerned and of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any paper offeror, save to the extent that these details have previously been disclosed under Rule 8. A Dealing Disclosure by a person to whom Rule 8.3(b) applies must be made by no later than 3.30 pm

*(London time) on the business day following the date of the relevant dealing. If two or more persons act together pursuant to an agreement or understanding, whether formal or informal, to acquire or control an interest in relevant securities of an offeree company or a paper offeror, they will be deemed to be a single person for the purpose of Rule 8.3.*

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*Opening Position Disclosures must also be made by the offeree company and by any offeror and Dealing Disclosures must also be made by the offeree company, by any offeror and by any persons acting in concert with any of them (see Rules 8.1, 8.2 and 8.4). Details of the offeree and offeror companies in respect of whose relevant securities Opening Position Disclosures and Dealing Disclosures must be made can be found in the Disclosure Table on the Takeover Panel's website at [www.thetakeoverpanel.org.uk](http://www.thetakeoverpanel.org.uk), including details of the number of relevant securities in issue, when the offer period commenced and when any offeror was first identified. If you are in any doubt as to whether you are required to make an Opening Position Disclosure or a Dealing Disclosure, you should contact the Panel's Market Surveillance Unit on +44 (0)20 7638 0129.*

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**APPENDIX 1**

**CONDITIONS AND CERTAIN FURTHER TERMS OF  
THE SCHEME AND THE ACQUISITION**

Part A:

Conditions of the Scheme

The Acquisition will be conditional upon the Scheme becoming unconditional and becoming effective by no later than the Long Stop Date, or such later date (if any) as Bidco and Charter may (with the consent of the Panel) agree and, if required, the Court may allow.

(A) the Scheme will be conditional upon:

- (i) its approval 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 and at any separate class meeting which may be required by the Court or at any adjournment of any such 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:
  - (a) the delivery of the Scheme Court Order to the Registrar of Companies; and
  - (b) the registration of the Reduction Court Order and minute of the Capital Reduction being filed with and registered by the Registrar of Companies.

In addition, Bidco and Charter have agreed that the Acquisition will be conditional upon the following conditions and, accordingly, the necessary actions to make the Scheme effective will not be taken unless the following conditions (as amended if appropriate) have been satisfied (and continue to be satisfied pending the commencement of the Court Hearing) or, where relevant, waived prior to the Scheme being sanctioned by the Court:

- (B) the approval of the shareholders of Colfax of the Equity Capital Raising by the requisite simple majority at a duly convened meeting of Colfax's shareholders;
- (C) insofar as the Acquisition constitutes, or is deemed to constitute, a concentration with an European Union dimension within the scope of Council Regulation (EC) 139/2004 (as amended) (the **Regulation**) or the European Commission otherwise accepts jurisdiction to examine the Acquisition under the Regulation:
  - (i) the European Commission indicating that it does not intend to initiate proceedings under Article 6(1)(c) of the Regulation 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 the Regulation); and
  - (ii) in the event that any request or requests under Article 9(2) of the Regulation 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 the Regulation; 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 the Regulation in relation to the proposed acquisition of Charter by Bidco or any aspect of such acquisition or its financing;
- (D) 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;

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- 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;
- (E) except as Publicly Announced or disclosed in Disclosed Information, there being no provision of any agreement, arrangement, licence, permit or other instrument to which any member of the Wider Charter Group is a party or by or to which any such member or any of its assets may be bound, entitled or subject, which in each case as a consequence of the Acquisition, the acquisition or proposed acquisition of any shares or other securities in Charter or because of a change in the control or management of Charter, would or might reasonably be expected to result in (to an extent or in a manner which is material and adverse in the context of the Acquisition or would have a material and adverse effect on the Wider Charter Group as a whole):
- (F) any such agreement, arrangement, licence, permit or instrument or the rights, liabilities, obligations or interests or business of any member of the Wider Charter Group thereunder, or interests or business of any such member in or
- (i) with any other person, firm, company or body (or any arrangements to which any such member is a party relating to any such interests or business), being or becoming capable of being terminated or modified or adversely affected or any obligation or liability arising or any action being taken or arising thereunder;
- (ii) any assets owned or used by any member of the Wider Charter Group, or any interest in such asset, being or falling to be disposed of or charged or ceasing to be available to any member of the Wider Charter Group or any right arising under which any such asset or interest could be required to be disposed of or charged or cease to be available to any member of the Wider Charter Group;
- (iii) the creation or enforcement of any mortgage, charge or other security interest over the whole or any part of the business, property, assets or interest of any member of the Wider Charter Group or any such mortgage, charge or other security (whenever created, arising or having arisen) becoming enforceable or being capable of being enforced;
- (iv) the rights, liabilities, obligations or interests of any member of the Wider Charter Group in, or the business of any such member with, any person, firm or body (or any arrangement or arrangements relating to any such interest or business) being terminated, adversely modified or adversely affected;
- (v) the value of any member of the Wider Charter Group or its financial or trading position or prospects being prejudiced or adversely affected;
- (vi) any member of the Wider Charter Group ceasing to be able to carry on business under any name under which it presently does so;
- (vii) the creation of any liability, actual or contingent, by any member of the Wider Charter Group;
- (viii) any liability of any member of the Wider Charter Group to make any severance, termination, bonus or other payment to any of its directors or senior executives; or
- (ix) any moneys borrowed by or any other indebtedness (actual or contingent) of, or grant available to any member of the Wider Charter Group, being or becoming capable of being declared repayable immediately or earlier than the repayment date stated in such agreement, instrument or other arrangement or the ability of such member of the Wider Charter Group to borrow moneys or incur any indebtedness being withdrawn or inhibited or being capable of becoming or being withdrawn or inhibited;



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and no event having occurred which, under any provision of any agreement, arrangement, licence, permit or other instrument to which any member of the Wider Charter Group is a party or by or to which any such member or any of its assets may be bound, entitled or subject, could reasonably be expected to result in any of the events or circumstances as are referred to in sub-paragraphs (i) to (ix) of this condition;

- no government or governmental, quasi-governmental, supranational, statutory, regulatory, environmental or investigative body, central bank, court, trade agency, association, institution or any other body or person whatsoever in any jurisdiction (each a **Third Party**) having decided to take, institute, implement or threaten any (G) action, proceeding, suit, investigation, enquiry or reference, or enacted, made or proposed any statute, regulation, decision or order, or having taken any other steps, and there not continuing to be outstanding any statute, regulation or order of any Third Party, in each case which would or might reasonably be expected to (to an extent or in a manner which is material and adverse in the context of the Acquisition):
- (i) require, prevent or delay the divestiture, or materially alter the terms envisaged for any proposed divestiture by any member of the Wider Colfax Group or any member of the Wider Charter Group of all or any portion of their respective businesses, assets or property or impose any limitation on the ability of any of them to conduct their respective businesses (or any of them) or to own any of their respective assets or properties or any part thereof;
  - (ii) require, prevent or delay the divestiture by any member of the Wider Colfax Group of any shares or other securities in Charter;
    - (iii) impose any limitation on, or result in a delay in, the ability of any member of the Wider Colfax Group directly or indirectly to acquire or to hold or to exercise effectively any rights of ownership in respect of shares or loans or securities convertible into shares or any other securities (or the equivalent) in any member of the Wider Charter Group or the Wider Colfax Group or to exercise management control over any such member;
  - (iv) profits, operational performance or prospects of any member of the Wider Colfax Group or of any member of the Wider Charter Group;
    - (v) make the Acquisition or its implementation or the acquisition or proposed acquisition by Bidco or any member of the Wider Colfax Group of any shares or other securities in, or control or management of Charter void, illegal, and/or unenforceable under the laws of any jurisdiction, or otherwise, directly or indirectly, restrain, restrict, prohibit, delay or otherwise interfere with the same, or impose additional material adverse conditions or obligations with respect thereto, or otherwise challenge or interfere therewith;
  - (vi) require any member of the Wider Colfax Group or the Wider Charter Group to offer to acquire any shares or other securities (or the equivalent) or interest in any member of the Wider Charter Group or the Wider Colfax Group owned by any third party;
  - (vii) impose any limitation on the ability of any member of the Wider Charter Group to co-ordinate its business, or any part of it, with the businesses of any other members; or
  - (viii) result in any member of the Wider Charter Group ceasing to be able to carry on business under any name under which it presently does so,
- and all applicable waiting and other time periods during which any such Third Party could institute, implement or threaten any action, proceeding, suit, investigation, enquiry or reference or any other step under the laws of any jurisdiction in respect of the Acquisition or the acquisition or proposed acquisition of any Charter Shares having expired, lapsed or been terminated;

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- all notifications, notices, filings or applications in connection with the Acquisition or any aspect of the Acquisition or its financing, that are necessary having been made and all authorisations, orders, grants, consents, clearances, licences, confirmations, permissions and approvals which are necessary ( **Authorisations** ), in any jurisdiction, for and in respect of the Acquisition or any aspect of the Acquisition or its financing, or the acquisition or proposed acquisition by any member of the Wider Colfax Group of any shares or other securities in, or control of, Charter by any member of the Wider Colfax Group having been obtained in terms and in a form reasonably satisfactory to Bidco from all appropriate Third Parties and persons or bodies with whom any member of the Wider Charter
- (H) Group has entered into contractual arrangements, and all such Authorisations together with all authorisations, orders, grants, consents, clearances, licences, confirmations, permissions and approvals ( **Business Authorisations** ) necessary or appropriate for any member the Wider Colfax Group to carry on its business remaining in full force and effect (where the absence of such Authorisations or Business Authorisations would be material and adverse in the context of the Acquisition) and all filings necessary for such purpose have been made and there being no notice or intimation of any intention to revoke or not to renew any of the same at the time at which the Acquisition becomes otherwise unconditional and all necessary statutory or regulatory obligations in any jurisdiction having been complied with;
- since 31 December 2010 and except as Publicly Announced or fairly disclosed in Disclosed Information, no
- (I) member of the Wider Charter Group having (to an extent or in a manner which is material in the context of the Acquisition or would have a material and adverse effect on the Wider Charter Group, taken as a whole):
- save as between Charter and wholly-owned subsidiaries of Charter or for Charter Shares issued pursuant to the
- (i) award of Charter Shares under the Charter Executive Share Schemes, issued, agreed to issue, authorised or proposed the issue of additional shares of any class;
- save as between Charter and wholly-owned subsidiaries of Charter or for the award of Charter Shares under the
- (ii) Charter Executive Share Schemes, issued or agreed to issue, authorised or proposed the issue of securities convertible into shares of any class or rights, warrants or options to subscribe for, or acquire, any such shares or convertible securities;
- (iii) other than to another member of the Charter Group, recommended, declared, paid or made or proposed to recommend, declare, pay or make any bonus, dividend or other distribution whether payable in cash or otherwise; save for intra-Charter Group transactions, merged or demerged with any body corporate or acquired or disposed of or transferred, mortgaged or charged or created any security interest over any assets or any right, title or interest in
- (iv) any asset (including shares and trade investments) or authorised or proposed or announced any intention to propose any merger, demerger, acquisition or disposal, transfer, mortgage, charge or security interest, in each case, other than in the ordinary course of business;
- save for intra-Charter Group transactions, made or authorised or proposed or announced an intention to propose
- (v) any change in its loan capital;
- issued, authorised or proposed the issue of any debentures or, save for intra-Charter Group transactions and save
- (vi) in the ordinary course of business, incurred or increased any indebtedness or become subject to any contingent liability;
- purchased, redeemed or repaid or announced any proposal to purchase, redeem or repay any of its own shares or
- (vii) other securities or reduced or, save in respect to the matters mentioned in sub-paragraphs (i) or (ii) above, made any other change to any part of its share capital;
- implemented, or authorised, proposed or announced its intention to implement, any reconstruction,
- (viii) amalgamation, scheme, commitment or other transaction or arrangement otherwise than in the ordinary course of business or in respect of the Acquisition;

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- entered into or varied or authorised, proposed or announced its intention to enter into or vary any contract, transaction, arrangement or commitment (whether in respect of capital expenditure or otherwise) which is of a long term, onerous or unusual nature or magnitude or which is or could be materially restrictive on the businesses of any member of the Wider Charter Group or the Wider Colfax Group or which involves or could involve an obligation of such a nature or magnitude or which is other than in the ordinary course of business and which is material in the context of the Wider Charter Group taken as a whole;
- (ix) (other than in respect of a member which is dormant and was solvent at the relevant time) taken any corporate action or had any legal proceedings started or threatened against it or order made (in each case not discharged within 21 days or not being contested in good faith) for its winding-up, dissolution or reorganisation or for the appointment of a receiver, administrative receiver, administrator, trustee or similar officer of all or any of its assets or revenues or any analogous proceedings in any jurisdiction or had any such person appointed;
- (x) been unable to pay its debts as they fall due or having stopped or suspended (or threatened to stop or suspend) payment of its debts generally or ceased or threatened to cease carrying on all or a substantial part of its business;
- (xi) entered into any contract, transaction or arrangement which would be materially restrictive on the business of any member of the Wider Charter Group or the Wider Colfax Group other than to a nature and extent which is normal in the context of the business concerned;
- (xii) (xiii) waived or compromised any material claim otherwise than in the ordinary course of business; entered into any material contract, commitment, arrangement or agreement otherwise than in the ordinary course of business or passed any resolution or made any offer (which remains open for acceptance) with respect to or announced any intention to, or to propose to, effect any of the transactions, matters or events referred to in this condition;
- (xiv) in respect of the Charter Group, made any alteration to its memorandum or articles of association (in each case, other than an alteration in connection with the Scheme);
- (xv) proposed, agreed to provide or modified the terms of any employee share scheme, incentive scheme or other benefit relating to the employment or termination of employment of any person employed by the Wider Charter Group or entered into or changed the terms of any contract with any director or senior executive,
- (xvi) and, for the purposes of paragraphs (iii), (iv) and (v) of this condition, the term Charter Group shall mean Charter and its wholly-owned subsidiaries;

except as disclosed in the accounts for the period then ended, Publicly Announced or fairly disclosed in Disclosed (J) Information, or where not material in the context of the Wider Charter Group taken as a whole, since 31 December 2010:

- (i) 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;
- (ii) no litigation, arbitration proceedings, prosecution or other legal proceedings to which any member of the Wider Charter Group is or may become a party (whether as a plaintiff, defendant or otherwise) and no investigation by any Third Party against or in respect of any member of the Wider Charter Group having been instituted announced or threatened by or against or remaining outstanding in respect of any member of the Wider Charter Group;

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- (iii) no contingent or other material liability in respect of any member of the Wider Charter Group having arisen (or increased) or become apparent to Bidco; and  
no steps having been taken which are likely to result in the withdrawal, cancellation, termination or modification
- (iv) of any licence held by any member of the Wider Charter Group which is necessary for the proper carrying on of its business,  
in each case, to an extent or in a manner which is material in the context of the Acquisition and would have a material and adverse effect on the Wider Charter Group, taken as a whole;
- (K) except as Publicly Announced or fairly disclosed in Disclosed Information, Bidco not having discovered: that any financial, business or other information concerning the Wider Charter Group as contained in the information publicly disclosed at any time by or on behalf of any member of the Wider Charter Group, is
- (i) misleading or contains any misrepresentation of fact or omits to state a fact necessary to make that information not misleading;  
that any member of the Wider Charter Group, partnership, company or other entity in which any member of the Wider Charter Group has a significant economic interest and which is not a subsidiary undertaking of Charter is subject to any liability (contingent or otherwise) which is not disclosed in the annual report and accounts of Charter for the year ended 31 December 2010; or
- (ii) any information which affects the import of any information disclosed in writing at any time by or on behalf of any member of the Wider Charter Group,  
in each case, to an extent or in a manner which is material in the context of the Acquisition and would have a material and adverse effect on the Wider Charter Group, taken as a whole; and
- (L) except as Publicly Announced or fairly disclosed in Disclosed Information, Bidco not having discovered that: any past or present member of the Wider Charter Group has failed to comply with any and/or all applicable legislation or regulation, of any jurisdiction with regard to the disposal, spillage, release, discharge, leak or emission of any waste or hazardous substance or any substance likely to impair the environment or harm human health or animal health or otherwise relating to environmental matters, or that there has otherwise been any such
- (i) disposal, spillage, release, discharge, leak or emission (whether or not the same constituted a non-compliance by any person with any such legislation or regulations, and wherever the same may have taken place) any of which disposal, spillage, release, discharge, leak or emission would be likely to give rise to any liability (actual or contingent) on the part of any member of the Wider Charter Group;  
there is, or is likely to be, for that or any other reason whatsoever, any liability (actual or contingent) of any past or present member of the Wider Charter Group to make good, repair, reinstate or clean up any property or any
- (ii) controlled waters now or previously owned, occupied, operated or made use of or controlled by any such past or present member of the Wider Charter Group, under any environmental legislation, regulation, notice, circular or order of any Third Party in any jurisdiction;  
any past or present member of the Wider Charter Group has not complied with the OECD Convention on
- (iii) Combating Bribery of Foreign Public Officials in International Business Transactions and any laws implementing the same, the UK Bribery Act 2010 and the U.S. Foreign Corrupt Practices Act of 1977; or

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- (iv) there is, or is likely to be expected to be, or there has been, any:
- (a) claim brought against any member of the Wider Charter Group by a person or class of persons in respect of;
  - (b) circumstances that exist whereby a person or class of persons would be likely to have a claim; or
  - (c) liability (actual or contingent) of any member of the Wider Charter Group as a result of or relating to, any material, chemical, product or process of manufacture or materials now or previously held, used, sold, manufactured, carried out or under development or research by any past or present member of the Wider Charter Group,

in each case, other than under paragraphs (i) and (ii), which is material in the context of the Wider Charter Group, taken as a whole.

For the purposes of these conditions the **Wider Charter Group** means 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 and the **Wider Colfax Group** means 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 and for these purposes **subsidiary undertaking** and **undertaking** have the meanings given by the Companies Act 2006, **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, and **significant interest** means a direct or indirect interest in ten per cent. or more of the equity share capital (as defined in the Companies Act 2006).

Bidco reserves the right to waive, in whole or in part, all or any of conditions (A) to (L) above, except for conditions (A), (B) and (D).

If Colfax or Bidco is required by the Panel to make an offer for Charter Shares under the provisions of Rule 9 of the City Code, Colfax or Bidco may make such alterations to any of the above conditions as are necessary to comply with the provisions of that Rule.

Conditions (A) to (L) (inclusive, but excluding Condition A(iii)) 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. Bidco shall be under no obligation to waive (if capable of waiver), to determine to be or remain satisfied or treat as fulfilled any of the Conditions (A) to (L) (inclusive) at any time prior to the Long Stop Date, notwithstanding that the other Conditions (or any of them) may at an earlier date have been waived (if capable of waiver), satisfied or fulfilled and that there are, at such earlier date, no circumstances indicating that any such Condition may not be capable of satisfaction or fulfilment.

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 Council 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.

Bidco reserves the right to elect (with the consent of the Panel) to implement the Acquisition by way of a takeover offer (as defined in Article 116 of the Companies (Jersey) Law 1991) as it may determine in its absolute discretion. In such event, such offer will be implemented on the same terms, so far as applicable, as those which would apply to the Scheme, subject to appropriate amendments to reflect the change in method of effecting the Acquisition, but with an acceptance condition which will be set by reference to shares carrying 75 per cent. (or such lower percentage as Colfax may decide or the Panel may require) of the voting rights in Charter. Colfax has agreed that any such Offer

would remain open for acceptance for at least 60 days after the Offer Document is published.

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The availability of the Acquisition to persons not resident in the United Kingdom or Jersey may be affected by the laws of the relevant jurisdictions. Persons who are not resident in the United Kingdom or Jersey should inform themselves about and observe any applicable requirements.

The Scheme will be governed by Jersey law and be subject to the jurisdiction of the Jersey courts, to the conditions set out above and in the formal Scheme Document and related Forms of Proxy and Loan Note Form of Election. The Scheme will comply with the applicable rules and regulations of the FSA and the London Stock Exchange and the City Code.

Part B: Certain further terms of 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 announcement.

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## APPENDIX 2

# SOURCES OF INFORMATION AND BASES OF CALCULATION

In this announcement:

1. Unless otherwise stated: financial information relating to the Colfax Group has been extracted or derived (without any adjustment) from the audited consolidated financial accounts for Colfax for the year ended 31 December 2010 in Colfax's annual report on form 10-K filed with the SEC on 25 February 2011; and financial information relating to the Charter Group has been extracted or derived (without any adjustment) from the audited annual report and accounts for Charter for the year ended 31 December 2010 and Charter's announcement dated 26 July 2011 of its interim results (which are unaudited).
2. The value of the Acquisition is calculated: by reference of the price of US\$23.04 per Colfax Share, being the closing price on 9 September 2011, the last Business Day prior to this announcement; and on the basis of the fully diluted number of Charter Shares in issue referred to in paragraph 4 below. As at the close of business on 9 September 2011, being the last Business Day prior to the date of this announcement, Charter had in issue 167,087,473 Charter Shares. The International Securities Identification Number for Charter Shares is JE00B3CX4509.
4. The fully diluted share capital of Charter (being 167,868,402 Charter Shares) is calculated on the basis of: the number of issued Charter Shares referred to in paragraph 3 above; and the maximum number of Charter Shares which could be issued on or after the date of this announcement on the vesting of awards under the Charter International plc Long Term Incentive Plan, amounting in aggregate to 780,929 Charter Shares.
5. Unless otherwise stated, all prices and closing prices for Charter Shares are closing middle market quotations derived from the London Stock Exchange Daily Official List ( **SEDOL** ).
6. The premia implied by the Offer Consideration have been calculated with reference to prices of: 615 pence per Charter Share on 28 June 2011, being the last Business Day before Charter announced it had received a preliminary approach from Melrose regarding a possible offer; Melrose's initial offer of 780 pence per Charter Share made by Melrose on 28 June 2011; and 804 pence per Charter Share on 9 September 2011, being the last Business Day before this announcement. 804 pence per Charter Share on 9 September 2011, being the last Business Day before this announcement.
7. Values for the FTSE 350 Industrial Engineering Index and FTSE 250 Share Index are derived from data provided by Datastream.
9. The £: US\$ exchange rate used in this announcement is the Bloomberg rate as at 4 p.m. New York time on 9 September 2011 (the last Business Day prior to the date of this announcement), being 1.5881.

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Name of Charter Director	Number of Charter Shares	Approximate % of Charter issued share capital
John Biles	8,461	0.0051
James Deeley	12,441	0.0074
Robert Careless	56,797	0.034
Lars Emilson	10,000	0.006
John Neill	87,278	0.052
Andrew Osborne	1,000	0.0006
Grey Denham	1,000	0.0006

These irrevocable undertakings cease to be binding only in the event that (a) the Scheme Document is not published within 28 days of this announcement (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 permitted period in the City Code or as otherwise agreed with the Panel; (c) the Panel agrees or requires that 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.

The undertakings and the numbers referred to in this table refer only to those shares which the relevant director is beneficially entitled to and any share such director is otherwise able to control the exercise of in terms of the rights attaching to such share, including the ability to procure the transfer of such share. These undertakings and the numbers referred to in this table exclude any award that may be outstanding under the Charter Executive Share Schemes.

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## APPENDIX 4

### DEFINITIONS

Acquisition	the proposed acquisition of the entire issued and to be issued share capital of Charter by Colfax (other than the Excluded Shares), to be effected by the Scheme (or by the Offer under certain circumstances described in this announcement)
Bidco	Colfax UK Holdings Ltd (or, if Colfax elects, a nominee or wholly-owned subsidiary of Colfax notified in writing to Charter prior to posting of the Scheme Document (or, if applicable, the Offer Document))
Board	the board of directors of the relevant company
Business Day	a day, (other than a Saturday, Sunday, public or bank holiday) on which banks are generally open for business in London and Jersey
CAGR	the compound annual growth rate
Capital Reduction	the proposed reduction of share capital of Charter pursuant to the Scheme
Charter	Charter International plc, incorporated in Jersey with registered number 100249
Charter General Meeting	the general meeting of Charter Shareholders to be convened to consider and if thought fit pass, <i>inter alia</i> , a special resolution in relation to the Acquisition
Charter Group	Charter and its Subsidiary and associated undertakings
Charter Shareholders	the holders of Charter Shares
Charter Executive Share Schemes	the Charter International plc Long Term Incentive Plan first approved by the shareholders of Charter on 27 August 2008 and first adopted by Charter on 22 October 2008 (including subsequent amendments approved by shareholders on 29 April 2010 and adopted by Charter on 16 February 2011); and the Deferred Bonus Plan approved by the shareholders of Charter on 27 August 2008 and adopted by Charter on 22 October 2008
Charter Shares	the ordinary shares of 2 pence each in the capital of Charter
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
Conditions	the conditions of the Acquisition set out in Appendix 1 to this announcement
Court	the Royal Court of Jersey
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

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or without amendment) and any adjournment thereof  
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 Regulations)  
Deutsche Bank AG, London Branch

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Disclosed Information	any information which has been (i) fairly disclosed by or on behalf of Charter or its or any of its advisers to Colfax or its advisers in connection with or in contemplation of the Acquisition prior to the date of this announcement, whether by electronic means, physical form or orally; (ii) disclosed in Charter's report and accounts for the year ended 31 December 2010 or its interim accounts for the 6 month period ended 30 June 2011; or (iii) disclosed in this announcement
ESAB	the ESAB business focused on welding, cutting and automation
Effective Date	the date on which the Scheme becomes effective in accordance with its terms
Equity Capital Raising	the capital raising described in paragraph 10 (Financing of the Acquisition)
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
Forms of Proxy	the forms of proxy for use at the Court Meeting and the Charter General Meeting which will accompany the Scheme Document
FSA	the Financial Services Authority
Howden	the Howden business focused on air and gas handling
Implementation Agreement	the agreement dated on or about the date of this announcement and entered into by Colfax, Bidco and Charter with respect to the implementation of the Acquisition
Jersey	the Bailiwick of Jersey, Channel Islands
J.P. Morgan Cazenove	J.P. Morgan Limited which conducts its UK investment banking activities as J.P Morgan Cazenove
LIBOR	London Inter Bank Offer Rate
Listing Rules	the rules and regulations made by the FSA in its capacity as the UK Listing Authority under the Financial Services and Markets Act 2000, 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) 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 Note Form of Election	the form of election in relation to the Loan Notes which will accompany the Scheme Document
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	30 March 2012, or such later date as Bidco and Charter may agree and the Court (if required) may allow
Meetings	the Court Meeting and the Charter General Meeting
Melrose	Melrose PLC
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 Shares under the Acquisition

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New Charter Shares	the new ordinary shares of 2 pence each in the capital of Charter to be issued credited as fully paid up to Bidco pursuant to the Scheme
New Colfax Shares	the new ordinary shares in the capital of Colfax to be issued credited as fully paid up to Scheme Shareholders (other than certain Overseas Shareholders) pursuant to the Scheme
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
Official List	the official list maintained by the UK Listing Authority
Opening Position Disclosure	an announcement containing details of interests or short positions in, or rights to subscribe for, any relevant securities of a party to the offer if the person concerned has such a position
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
Phantom Restricted Scheme Plan	the Phantom Restricted Scheme Plan last approved and adopted by Charter Limited (registered number: 2794949) on 17 May 2011 (including all prior versions thereof)
Publicly Announced	announced publicly and delivered by or on behalf of Charter through a Regulatory Information Service prior to the date of this announcement
RBS	RBS Corporate Finance Limited
Reduction Court Order	the act of Court confirming the Capital Reduction
Registrar of Companies	the Registrar of Companies for Jersey
Regulatory Information Service	any of the services set out in Appendix II to the Listing Rules
Restricted Jurisdiction	any jurisdiction where local laws or regulations may result in a significant risk of civil, regulatory or criminal exposure if information concerning the Acquisition is sent or made available to Charter Shareholders in that jurisdiction
Scheme	the proposed scheme of arrangement under Article 125 of the Companies (Jersey) Law 1991 between Charter and Charter Shareholders to implement the Acquisition
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	6.00 p.m. on the Business Day before the date of the Court hearing to confirm the Capital Reduction
Scheme Shareholder	holders of Scheme Shares
Scheme Shares	1. the Charter Shares in issue at the date of the Scheme Document;

2.

any Charter Shares issued after the date of the Scheme Document and prior to the Voting Record Time; and

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3.

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, other than the Excluded Shares

Securities Act

the US Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder

Subsidiary

has the meaning given in section 1159 of the Companies Act 2006

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

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

Voting Record Time

6.00 p.m. on the Business Day prior to the day immediately before the Court Meeting or any adjournment thereof (as the case may be)

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**SCHEDULE 2**

**CHARTER EMPLOYEE SHARE SCHEMES**

Charter will co-operate with and provide such details to Colfax in relation to Charter Employee Share Schemes as Colfax reasonably requests in order to plan and, if necessary, make proposals to the participants of Charter Employee Share Schemes in accordance with the rules of Charter Employee Share Schemes and as necessary to communicate with the participants of the Charter Employee Share Schemes in respect of such proposals. To the extent reasonably requested by Colfax, Charter shall co-operate with Colfax in communicating any proposal under Rule 15 of the Code to the participants of the Charter Employee Share Schemes.

From the date of this Agreement until the Effective Date, Charter shall and shall procure that the members of Charter Group shall procure that any Charter Shares held by the trustee of any employee benefit trust established by any member of Charter Group will, where possible, be used to satisfy the exercise of options or the vesting or release of awards under Charter Employee Share Schemes before any further Charter Shares are issued in that regard.

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**SCHEDULE 3**

**TIMETABLE**

Event	Date*
Release of Announcement	12 September 2011
Charter posts Scheme Circular to Charter Shareholders	21 to 28 days after release of the Announcement
Colfax files preliminary Proxy Statement with the SEC	14 October 2011
Court Meeting and Charter Shareholders Meeting	21 clear days from posting of Scheme Circular
Colfax Shareholders Meeting	As soon as reasonably practicable after the Proxy Statement becoming effective
Court Hearing to approve the Scheme	Within 1 week following the Colfax Shareholders Meeting
Effective Date	As soon as reasonable practicable after the Court Hearing to approve the Scheme

*NB: This Timetable will be affected, inter alia, by the availability of Court dates, the obtaining (or waiver) of \*Clearances required, the process for preparation and dispatch of the Prospectus, the SEC review process and the application of Clause 3.9*

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EXECUTED by	)	
acting for and on behalf of	)	
COLFAX CORPORATION	)	/s/ Dan Pryor
EXECUTED by	)	
acting for and on behalf of	)	
COLFAX UK HOLDINGS LTD	)	/s/ Dan Pryor
EXECUTED by	)	
acting for and on behalf of	)	
CHARTER INTERNATIONAL PLC	)	/s/ Michael Hampson

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**Annex II**  
**EXECUTION VERSION**

SECURITIES PURCHASE AGREEMENT

By and Among

BDT CF ACQUISITION VEHICLE, LLC

and

COLFAX CORPORATION

Dated as of September 12, 2011

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SECURITIES PURCHASE AGREEMENT, dated as of September 12, 2011 (together with the schedules and exhibits hereto, the Agreement ), by and among Colfax Corporation, a Delaware corporation (the Company ) and BDT CF Acquisition Vehicle, LLC, a Delaware limited liability company (the Investor ).

BDT Capital Partners Fund I, L.P., a Delaware limited partnership ( BDT Main ), and BDT Capital Partners Fund I-A, L.P., a Delaware limited partnership ( BDT Parallel ) are parties to this Agreement solely for purposes of Section 5.11. BDT Main and BDT Parallel are referred to herein collectively as the BDT Fund . Mitchell P. Rales and Steven M. Rales (the Designated Stockholders ) are parties to this Agreement solely for purposes of Section 5.12.

## RECITALS

A. The Investor desires to purchase from the Company, and the Company desires to issue and sell to the Investor, against payment of the Investment Amount (as defined below) and pursuant to the terms and conditions set forth in this Agreement, certain shares of (a) the Company's preferred stock, par value \$0.001 per share, designated as Series A Perpetual Convertible Preferred Stock ( Preferred Shares ), having the voting and other powers, preferences and relative, participating, optional or other rights, and the qualifications, limitations and restrictions as specified in the Amended and Restated Certificate of Incorporation of the Company to be adopted on or before the Closing Date in the form attached hereto as Exhibit A (the Amended and Restated Charter ) and the certificate of designations establishing the Preferred Shares to be adopted pursuant to the Amended and Restated Charter on or before the Closing Date in the form attached hereto as Exhibit B (the Certificate of Designations ), and (b) the Company's common stock, par value \$0.001 per share ( Common Stock ). The Preferred Shares to be purchased by the Investor pursuant to this Agreement are referred to herein as the Purchased Preferred Shares ; and the shares of Common Stock to be purchased by the Investor pursuant to this Agreement are referred to herein as the Purchased Common Shares . The Purchased Preferred Shares and the Purchased Common Shares are referred to herein collectively as the Purchased Shares . The sale and purchase of the Purchased Shares and the other transactions contemplated by this Agreement and the Ancillary Agreements are referred to herein collectively as the Transaction .

B. On or prior to the date hereof, certain parties have entered into equity commitment letters (the Commitment Letters ) with the Investor, pursuant to which such parties (the Co-Investors ) have committed, upon the terms and conditions set forth therein, to make aggregate capital contributions of \$290,000,000 to the Investor in order to finance in part the Investor's payment of the Investment Amount pursuant to this Agreement. In addition, the BDT Fund has covenanted and agreed, subject to the terms and conditions set forth in this Agreement, to make an aggregate capital contribution of \$390,000,000 (\$30,000,000 of which will be contributed by BDT Main pursuant to the terms of an equity commitment letter (the BDT Main Equity Commitment Letter )) to the Investor in order to finance in part the Investor's payment of the Investment Amount pursuant to this Agreement. The aggregate capital commitments of the BDT Fund and the Co-Investors pursuant to this Agreement and the Commitment Letters, respectively, are equal to \$680,000,000.

C. Concurrent with the execution and delivery of this Agreement, and in connection with the Acquisition (as defined below), the Company is entering into a credit agreement (the Credit Agreement ), with Deutsche Bank AG New York Branch ( Deutsche Bank ), a syndicate of other financial institutions as lenders (the Lenders ), and Deutsche Bank Securities, Inc., with respect to credit facilities to be provided to the Company and certain of its subsidiaries by Deutsche Bank and the Lenders.

D. Concurrent with the execution and delivery of this Agreement, and in connection with the Acquisition, (i) the Company is entering into purchase agreements with Mitchell P. Rales, Steven M. Rales and Markel Corporation, pursuant to which they shall agree to invest an aggregate amount of \$125,000,000 in newly issued shares of Common

Stock (the Designated Stockholder Investment ), and (ii) Mitchell P. Rales and Stephen M. Rales are entering into a voting agreement, pursuant to which they are agreeing to vote all shares of Common Stock owned or controlled by them in favor of the approval of the Transaction in any meetings of the stockholders of the Company called for such purpose.

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E. In accordance with this Agreement and the Credit Agreement, the Company shall use the proceeds of the Transaction and the Designated Stockholder Investment and a portion of the proceeds of the Company's borrowings under the Credit Agreement to finance the acquisition (the Acquisition) by the Company of Charter International plc (the Target) pursuant to an Offer or a Scheme of Arrangement (each as defined below). The material terms and provisions of the Acquisition are set forth in the form of announcement attached hereto as Exhibit C (the Rule 2.5 Announcement), to be published by the Company in accordance with this Agreement pursuant to Rule 2.5 of the City Code.

NOW, THEREFORE, in consideration of the foregoing and the promises and representations, warranties, covenants and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound hereby, the parties hereto hereby agree as follows:

# ARTICLE 1

## Defined Terms

As used in this Agreement, the following terms shall have the following meanings:

Acquisition has the meaning assigned to such term in Recital E.

Action means any suit, action, proceeding (including any compliance, enforcement or disciplinary proceeding), arbitration, formal or informal inquiry, inspection, investigation or formal order of investigation or complaint, or other litigation of any kind, in each case whether civil, criminal or administrative, at law or in equity.

Affiliate of any person means another person that, directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such first person. A person shall be deemed to control another person if such first person possesses, directly or indirectly, the power to direct, or cause the direction of, the management and policies of such other person, whether through the ownership of voting securities, by contract or otherwise.

Agreement has the meaning assigned to such term in the Preamble.

Amended and Restated Charter has the meaning assigned to such term in Recital A.

Ancillary Agreements means the Registration Rights Agreement and the certificates to be delivered by the parties pursuant to Sections 2.5(a)(ii), 2.5(a)(iii), and 2.5(b)(ii).

Announcement Date has the meaning assigned to such term in Section 2.3.3(a).

Antitrust Laws has the meaning assigned to such term in Section 5.7.

BDT Fund has the meaning assigned to such term in the Preamble to this Agreement.

BDT Main has the meaning assigned to such term in the Preamble to this Agreement.

BDT Main Equity Commitment Letter has the meaning assigned to such term in Recital B.

BDT Parallel has the meaning assigned to such term in the Preamble to this Agreement.

Board of Directors has the meaning assigned to such term in Section 3.2(a).

Business Day means any day except Saturday, Sunday or a day that is a public holiday in England, Jersey or in the United States of America.

Bylaws means the Amended and Restated Bylaws of the Company, adopted effective as of May 13, 2008, in the form provided to the Investor as an annex to the secretary's certificate delivered by the Company pursuant to Section 2.5(a)(iii).

Cash Confirmation Advisor means Deutsche Bank AG, London Branch.

Certificate of Designations has the meaning assigned to such term in Recital A.

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Charter means the Amended and Restated Certificate of Incorporation of the Company, as filed with the Secretary of State of the State of Delaware on May 13, 2008, in the form provided to the Investor as an annex to the secretary's certificate delivered by the Company pursuant to Section 2.5(a)(iii).

City Code means the City Code on Takeovers and Mergers.

Closing has the meaning assigned to such term in Section 2.4.

Closing Date has the meaning assigned to such term in Section 2.4.

Code means the Internal Revenue Code of 1986, as amended.

Co-Investors has the meaning assigned to such term in Recital B.

Common Share Investment Amount has the meaning assigned to such term in Section 2.2.

Common Share Lock Up Period has the meaning assigned to such term in Section 5.8(a).

Common Share Purchase Price has the meaning assigned to such term in Section 2.3.3(b).

Common Stock has the meaning assigned to such term in Recital A.

Common Stock Equivalents means any options, warrants, convertible securities or other securities, instruments or rights convertible into or exchangeable or exercisable for shares of Common Stock.

Companies Act means the Companies (Jersey) Law 1991 as amended from time to time.

Company Disclosure Schedules has the meaning assigned to such term in the introductory statement to ARTICLE 3.

Competitor means a Person that competes with the Company or any of its subsidiaries in a material way in any line of business accounting for twenty (20%) or more of the consolidated revenues of the Company and its subsidiaries, as reflected in the Company's consolidated financial statements filed with the SEC for the calendar quarter immediately preceding the date of determination.

Contract means any contract, agreement, lease, purchase order, license, mortgage, indenture, supplemental indenture, line of credit, note, bond, loan, credit agreement, capital lease, sale/leaseback arrangement, concession agreement, franchise agreement or other instrument, including all amendments, supplements, exhibits and attachments thereto.

Court Meeting means a meeting convened by the High Court of Jersey between the owners of the Target Shares to seek their approval of the Scheme of Arrangement.

Credit Agreement has the meaning assigned to such term in Recital C.

Designated Stockholder has the meaning assigned to such term in the Preamble to this Agreement.

Designated Stockholder Investment has the meaning assigned to such term in Recital D.

Encumbrance means any lien, encumbrance, security interest, pledge, mortgage, hypothecation, charge, restriction on transfer of title, adverse claim, title retention agreement of any nature or kind, or similar claim or right. The term Encumbrance shall not include any restrictions on transfer applicable to the Purchased Shares under applicable securities laws.

Exchange Act means the Securities Exchange Act of 1934, as amended.

Financial Statements has the meaning assigned to such term in Section 3.6(b).

Fund Commitment Amount has the meaning assigned to such term in Section 5.11.

GAAP means generally accepted accounting principles in the United States of America as in effect from time to time.

General Meeting means an extraordinary general meeting of the Target convened at the direction of the High Court of Jersey to cause, and if thought fit, approve one or more resolutions to reduce the ordinary share capital of the Target and approve a Scheme of Arrangement.

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Governmental Authorizations means, collectively, all applicable consents, approvals, permits, orders, authorizations, licenses and registrations, given or otherwise made available by or under the authority of Governmental Entities or pursuant to the requirements of any Applicable Law.

Governmental Entity means any domestic or foreign, transnational, national, Federal, state, municipal or local government, or any other domestic or foreign governmental, regulatory or administrative authority, or any agency, board, department, commission, court, tribunal or instrumentality thereof.

Guarantor means a financial institution that has delivered, for the benefit of the Investor, a performance bond (each, a Guarantee ) of the liabilities of the BDT Fund or a Co-Investor, as applicable, for such entity's committed portion of the Investment Amount.

HSR Act means Hart Scott Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations promulgated thereunder.

including means including, without limitation.

Investor has the meaning assigned to such term in the Preamble.

Investment Amount has the meaning assigned to such term in Section 2.2.

Judgment means any applicable judgment, order or decree of any Governmental Entity.

knowledge of the Company, to the Company's knowledge or other references to the knowledge of the Company mean the knowledge of the particular fact in question by any officer or senior executive of the Company, assuming exercise of reasonable diligence and inquiry.

Lenders has the meaning assigned to such term in Recital C.

Major Representation means each representation and warranty set forth in Sections 3.1, 3.2 and 3.3 of this Agreement

Major Undertaking means each covenant set forth in Section 2.5(a), Section 5.5 and Section 5.6 of this Agreement (other than those set forth in Sections 5.6(g), 5.6(h), 5.6(i), 5.6(j) and 5.6(k)).

Material Adverse Effect means any material adverse effect on (i) the business, results of operations or financial condition of the Company and its subsidiaries, taken as a whole (other than (a) any change, event, occurrence or development that generally affects the industry in which the Company and its subsidiaries operate and does not disproportionately affect (relative to other industry participants) the Company and its subsidiaries, (b) any change, event, occurrence or development to the extent attributable to conditions generally affecting (I) the industries in which the Company participates that does not have a materially disproportionate effect (relative to other industry participants) on the Company and its subsidiaries, (II) the U.S. economy as a whole, or (III) the equity capital markets generally, and (c) any change, event, occurrence or development that results from any action taken by the Company at the request of the Investor or as required by the terms of this Agreement) or (ii) the ability of the Company to perform its obligations hereunder or under the Registration Rights Agreement.

Material Contract means any Contract of a type described in Item 6.01 of Regulation S-K.

Offer means a public offer by the Company in accordance with the City Code and the provisions of the Companies Act to acquire all of the Target Shares not owned, held, or agreed to be acquired by the Company.

Offer Document means an offer document dispatched to shareholders of the Target setting out in full the terms and conditions of the Offer.

Permitted Transferee means the Co-Investors, any direct or indirect partners or members of the Investor or the BDT Fund, or any Affiliates of any of the foregoing (including any pension fund maintained by or for the benefit of any of the foregoing), in each case, other than a Competitor. For purposes of clarity, any other Third Party to whom any shares of Common Stock, Purchased Preferred Shares or Underlying Shares are transferred following the lapse of the applicable restrictions set forth in Section 5.8 shall not be a Permitted Transferee.

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person means any individual, firm, corporation, partnership, limited liability company, trust, joint venture, incorporated or unincorporated association, Governmental Entity or other entity.

Preferred Shares has the meaning assigned to such term in Recital A.

Preferred Share Investment Amount has the meaning assigned to such term in Section 2.2.

Preferred Share Purchase Price has the meaning assigned to such term in Section 2.3.3(c).

Proposed Transferee has the meaning assigned to such term in Section 5.12(a).

Purchased Common Shares has the meaning assigned to such term in Recital A.

Purchased Preferred Shares has the meaning assigned to such term in Recital A.

Purchased Shares has the meaning assigned to such term in Recital A.

Recent Balance Sheet means the most recent consolidated balance sheet of the Company and its consolidated subsidiaries included in the Financial Statements.

Reduction Court Order means the order of the High Court of Jersey confirming the reduction of the capital of the Target provided for by the Scheme of Arrangement.

Registration Rights Agreement means the Registration Rights Agreement, in the form attached hereto as **Exhibit D**, to be executed on the Closing Date by and among, the Company, the Investor, and the other parties specified therein.

Rule 2.5 Announcement has the meaning assigned to such term in Recital E.

Scheme of Arrangement means a scheme of arrangement effected pursuant to Part 18A of the Companies Act under which the Target Shares will be cancelled (or transferred) and the Purchaser will become the holder of new shares issued in place of such cancelled Target Shares (or, as the case may be, the holder of such transferred Target Shares).

Scheme Circular means a circular dispatched by the Target to holders of the Target Shares setting out in full the terms and conditions of a Scheme of Arrangement and convening a General Meeting and a Court Meeting.

Scheme Court Order means the order of the High Court of Jersey sanctioning the Scheme of Arrangement.

SEC means the Securities and Exchange Commission.

SEC Reports has the meaning assigned to such term in Section 3.6(a).

Securities Act means the Securities Act of 1933, as amended.

SOX means the Sarbanes-Oxley Act of 2002.

subsidiary of any person means any person the accounts of which would be consolidated with and into those of the first person in such first person's consolidated financial statements if such financial statement were prepared in accordance with GAAP.

Tag-Along Transaction has the meaning assigned to such term in Section 5.12(a).

Tag-Along Offer has the meaning assigned to such term in Section 5.12(b).

Takeover Panel means the Panel on Takeovers and Mergers.

Target has the meaning assigned to such term in Recital E.

Target Shares means the ordinary shares of the Target subject of an Offer, or as the case may be, a Scheme of Arrangement.

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Tax means any foreign, Federal, state or local income, sales and use, excise, franchise, real and personal property, gross receipt, capital stock, license, stamp, premium, windfall profit, environmental, transfer, alternative or add-on minimum, production, business and occupation, disability, estimated, employment, payroll, severance or withholding tax, value-added tax or other tax, duty, fee, impost, levy, assessment or charge imposed by any taxing authority, and any interest or penalties and other additions to tax related thereto.

Tax Returns means any return, report, claim for refund, declaration, information return or other document required to be filed with any Tax authority with respect to Taxes, including any schedule or attachment thereto, and including any amendments thereof.

Third Party means any person other than the Company, the Investor, or any of their respective subsidiaries or Affiliates.

Transaction has the meaning assigned to such term in Recital A.

Transfer Date has the meaning set forth in Section 5.12(b).

Underlying Shares means the shares of the Company's Common Stock issuable upon conversion of the Purchased Preferred Shares in accordance with the terms and provisions thereof.

Voting Debt means bonds, debentures, notes or other debt securities having the right to vote (or convertible into, or exchangeable for, securities having the right to vote) as to matters on which holders of the Company's Common Stock may vote.

Voting Stock of any person means securities having the right to vote generally in any election of directors or comparable governing persons of any such person.

## ARTICLE 2

### Issuance and Sale of Purchased Shares

**2.1 Issuance and Sale of the Purchased Shares.** On the terms and subject to the conditions set forth in this Agreement, at the Closing (as defined below), the Company shall issue, sell and deliver to the Investor, and the Investor shall purchase from the Company, the Purchased Preferred Shares and the Purchased Common Shares, in each case in certificated form and free and clear of all Encumbrances. The number of Preferred Shares and shares of Common Stock comprising the Purchased Preferred Shares and Purchased Common Shares to be issued and delivered to the Investor at the Closing shall be determined in accordance with Section 2.3.

**2.2 Consideration.** In consideration for the purchase of the Purchased Shares, the Investor shall pay to the Company at the Closing all of the amounts contributed to it by the BDT Fund pursuant to Section 5.11, all of the amounts contributed to it by BDT Main pursuant to the BDT Main Equity Commitment Letter, all of the amounts contributed to it by the Co-Investors pursuant to the Commitment Letters, all of the amounts contributed to it by a Permitted Assignee, and, if applicable, all of the amounts paid to it by the Guarantors under the applicable Guarantees which, subject to the terms of Section 5.11 and the Commitment Letters being fully complied with and/or payment being made under such Guarantees, shall total: (a) with respect to the Purchased Preferred Shares, cash in the amount of

\$340,000,000 (the aggregate amount actually delivered with respect to the Purchased Preferred Shares, the Preferred Share Investment Amount ), and (b) with respect to the Purchased Common Shares, cash in the amount of \$340,000,000 (the aggregate amount actually delivered with respect to the Purchased Common Shares, the Common Share Investment Amount and together with the Preferred Share Investment Amount, the Investment Amount ).

### 2.3 Determination of Purchased Share Amounts.

2.3.1 Purchased Preferred Shares. The number of Preferred Shares comprising the Purchased Preferred Shares to be issued and delivered to the Investor at the Closing pursuant to Section 2.1 shall be equal to the quotient of (a) the Preferred Share Investment Amount, *divided by* (b) the Preferred Share Purchase Price (as defined in Section 2.3.3), rounded up to the nearest whole number of Preferred Shares, which number of Preferred Shares shall be the authorized number of Preferred Shares in the Certificate of Designations.

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2.3.2 Purchased Common Shares. The number of shares of Common Stock comprising the Purchased Common Shares to be issued and delivered to the Investor at the Closing pursuant to Section 2.1 shall be equal to the quotient of (a) the Common Share Investment Amount, *divided by* (b) the Common Share Purchase Price (as defined in Section 2.3.3), rounded up to the nearest whole number of shares of Common Stock.

2.3.3 Certain Definitions. As used in this Section 2.3, the following terms shall have the following meanings:

(a) Announcement Date means the date that the Rule 2.5 Announcement is published.

(b) Common Share Purchase Price shall equal \$23.04.

(c) Preferred Share Purchase Price shall equal \$24.50.

**2.4 Closing.** Subject to the satisfaction of the conditions set forth in ARTICLE 6, the closing of the sale and purchase of the Purchased Shares (the Closing ) shall take place on the date falling six (6) Business Days after the date on which an Offer becomes unconditional in all respects or, as the case may be, the date on which a Scheme of Arrangement becomes effective in accordance with its terms, at the offices of the Company unless another date or place is agreed to in writing by the Investor and the Company. The date on which the Closing occurs is referred to in this Agreement as the Closing Date .

**2.5 Deliveries.**

(a) At the Closing, the Company shall deliver to the Investor:

(i) The Purchased Shares, validly issued and free and clear of Encumbrances, evidenced by certificates registered in the name of the Investor and duly authorized, executed and delivered on behalf of the Company, bearing the legend set forth to in Section 4.3;

(ii) A certificate, dated as of the Closing Date, signed by an authorized officer of the Company, in the form attached hereto as Exhibit E, certifying that the conditions set forth in Section 6.3 have been satisfied;

(iii) A certificate, dated as of the Closing Date, signed by the secretary of the Company, in the form attached hereto as Exhibit F, certifying as to the matters set forth therein; and

(iv) A duly executed counterpart of the Registration Rights Agreement.

(b) At the Closing, the Investor shall deliver to the Company:

(i) The Investment Amount in immediately available funds by wire transfer to such account as the Company shall specify in writing not later than three (3) Business Days prior to the Closing Date;

(ii) A certificate, dated as of the Closing Date, signed by an authorized officer of the Investor, in form attached hereto as Exhibit G, certifying that the conditions set forth in Sections 6.2 have been satisfied; and

(iii) A duly executed counterpart of the Registration Rights Agreement.



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**ARTICLE 3**

**Representations and Warranties  
of the Company**

Subject to the qualifications set forth in the corresponding sections of the disclosure schedules delivered by the Company to the Investor concurrently with the execution and delivery of this Agreement (the Company Disclosure Schedules ), the Company hereby represents and warrants to the Investor, as of the date hereof and as of the Closing Date, as follows:

**3.1 Entity Status.** Each of the Company and its subsidiaries is duly incorporated or otherwise organized, validly existing and in good standing under the applicable laws of its governing jurisdiction and each has all requisite corporate or other power and authority to carry on its business as it is now being conducted and is duly qualified to do business in each of the jurisdictions in which the ownership, operation or leasing of its assets or the conduct of its business requires it to be so qualified, and no proceeding has been instituted in any such jurisdiction revoking, limiting or curtailing, or seeking to revoke, limit or curtail, such power, authority or qualification, in each case, except as has not had and would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.

**3.2 Authorization; Noncontravention.**

(a) Authorization. The Company has all necessary corporate power and authority to execute and deliver this Agreement and the Ancillary Agreements, to perform its obligations hereunder and thereunder, and to consummate the Transaction and the Acquisition. The Company has delivered to the Investor a true and correct copy, certified by the Company's secretary, of the resolutions of its board of directors (the Board of Directors ) authorizing (i) the execution and delivery of this Agreement, (ii) consummation of the Transaction, the Acquisition and the Designated Stockholder Investment, (iii) recommending that the Company's stockholders approve the Transaction and the Designated Stockholder Investment and the adoption of the Amended and Restated Charter and the Certificate of Designations, and (iv) waiving the restrictions set forth in Section 203 of the Delaware General Corporation Law. Such resolutions are in full force and effect, have not been amended, supplemented, revoked or superseded as of the date hereof and are the only resolutions of the Board of Directors pertaining to the authorization, execution and delivery of this Agreement and the Ancillary Agreements and consummation of the Transaction. The execution, delivery and performance of this Agreement and the Ancillary Agreements and the consummation by the Company of the Transaction (including the issuance (or reservation for issuance), sale and delivery of the Purchased Shares and the Underlying Shares and any redemptions of the Purchased Preferred Shares pursuant to the terms thereof) and the Acquisition, have been duly and validly authorized by all necessary corporate action (except the stockholder actions contemplated by Section 5.1), and no other corporate proceedings on the part of the Company or its subsidiaries or (except the stockholder actions contemplated by Section 5.1) vote of holders of any class or series of capital stock of the Company or its subsidiaries is necessary to authorize this Agreement or the Ancillary Agreements or to consummate the Transaction or the Acquisition. This Agreement has been, or, as to Registration Rights Agreement to be executed after the date hereof, will be, duly executed and delivered by the Company and (assuming due authorization, execution and delivery by each other party thereto) each constitutes, a valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally or by general equitable principles (regardless of whether such enforceability is considered in a proceeding in

equity or at law).

(b) Preemptive Rights; Rights of First Offer. None of the sale and issuance of the Purchased Shares pursuant to this Agreement and the issuance of Underlying Shares upon conversion of the Purchased Preferred Shares in accordance with their terms is or will be subject to any preemptive rights, rights of first offer or similar rights of any person (except as set forth in the Certificate of Designations or the Amended and Restated Charter).

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(c) No Conflict. The Company is not in violation or default in any material respect of any provision of its Charter or Bylaws. The execution, delivery and performance by the Company of this Agreement and the Ancillary Agreements do not, and the consummation of the Transaction and compliance with the provisions hereof and thereof will not, result in a change of control (or similar event) under, or conflict with, or result in any default under, or give rise to an increase in, or right of termination, cancellation, acceleration or mandatory prepayment of, any obligation or to the loss of a benefit under, or result in the suspension, revocation, impairment, forfeiture or amendment of any term or provision of or the creation of any Encumbrance upon any of the properties or assets of the Company or any of its subsidiaries under, or require any consent or waiver under, any provision of (i) the Charter, the Bylaws or the comparable organizational documents of any of the Company's subsidiaries (other than the requirement to obtain stockholder approval as contemplated by Section 5.1), (ii) save in relation to the execution of the Credit Agreement, any Material Contract, or (iii) any applicable law, Judgment or Governmental Authorization, in each case applicable to the Company and its subsidiaries or their respective assets. Neither the execution and delivery of this Agreement, nor the consummation of the Transaction or the Acquisition, either alone or in combination with another event (whether contingent or otherwise) will (1) result in any payment of any excess parachute payment under Section 280G of the Code, (2) entitle any current or former employee, consultant or director of the Company or any of its subsidiaries to any payment, (3) increase the amount of compensation or benefits due to any such employee, consultant or director, or (4) accelerate the vesting, funding or time of payment of any compensation, equity award or other benefit.

(d) No Governmental Authorization. Except as contemplated by Section 5.7, no Governmental Authorization, order or authorization of, or registration, qualification, declaration or filing with, or notice to, any Governmental Entity is required to be obtained or made by or with respect to the Company or any of its subsidiaries in connection with the execution, delivery and performance of this Agreement or any of the Ancillary Agreements or the Transaction, including the issuance of the Purchased Shares or the Underlying Shares (and any redemptions or conversions of the Purchased Preferred Shares pursuant to the terms thereof), except for such Governmental Authorizations, orders, authorizations, registrations, qualifications, declarations, filings and notices, the failure of which to be obtained or made would not (i) materially impair the Company's and/or Investor's ability to perform its obligations under this Agreement or the Ancillary Agreements or consummate the Transaction or (ii) have a Material Adverse Effect.

**3.3 Capital Structure.**

(a) As of the date of this Agreement, the authorized capital stock of the Company consists solely of (i) 200,000,000 shares of Common Stock, of which 43,590,915 shares are issued and outstanding and 6,500,000 shares are reserved for issuance pursuant to the Company's 2008 Omnibus Incentive Plan, and (ii) 10,000,000 shares of preferred stock, of which zero (0) shares are issued and outstanding and zero (0) shares are reserved for issuance. As of the Closing, and after giving effect to the Transaction, the authorized capital stock of the Company shall consist solely of 400,000,000 shares of Common Stock and up to 20,000,000 shares of preferred stock, and the number of shares issued, outstanding and reserved for issuance shall consist solely of (x) the shares of Common Stock and preferred stock referred to in the foregoing sentence, (y) the Purchased Shares, and (z) a number of shares of Common Stock to be issued to the Designated Stockholders and to Markel Corporation in connection with the Designated Stockholder Investment at the Common Share Purchase Price and (xx) shares of Common Stock issued or reserved for issuance under the Company's 2008 Omnibus Incentive Plan, as outstanding in the SEC Report for the three months ended June 30, 2011 and any awards under the plan granted in the ordinary course of business since such SEC Report. No other shares of capital stock of the company are authorized, issued and outstanding or reserved for issuance.

(b) Subject to the Company obtaining stockholder approval as contemplated by Section 5.1, the Purchased Shares have been duly authorized and upon the Closing shall be, and the Underlying Shares have been duly authorized and upon issuance shall be, (i) validly issued, fully paid and nonassessable, (ii) not issued in violation of any purchase

option, call option, right of first refusal, preemptive right, subscription right or any similar right under any provision of the Charter or Bylaws of the Company or

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any Contract to which the Company or any of its subsidiaries is a party or by which any of its or their respective assets are bound, and (iii) free and clear of all Encumbrances.

(c) The Company has not issued any Voting Debt that is outstanding. Except as set forth in the SEC Reports or in Schedule 3.3(c) of the Company Disclosure Schedules, there are no (A) outstanding obligations, options, warrants, convertible securities, exchangeable securities, securities or rights that are linked to the value of the Common Stock or other rights, agreements or commitments relating to the capital stock of the Company or that obligate the Company to issue or sell or otherwise transfer shares of capital stock of the Company or any securities convertible into or exchangeable for any shares of capital stock of the Company or any Voting Debt of the Company, (B) outstanding obligations of the Company to repurchase, redeem or otherwise acquire shares of capital stock of the Company, (C) voting trusts, stockholder agreements, proxies or other agreements or understandings in effect with respect to the voting or transfer of shares of capital stock of the Company (but only to the Company's knowledge with respect to any such agreements to which neither the Company nor any subsidiary of the Company is a party), or (D) rights of first refusal, preemptive rights, subscription rights or any similar rights with respect to the capital stock of the Company under the Charter or Bylaws or any Contract to which the Company or any subsidiary of the Company is a party or by which any of its assets are bound. True, correct, and complete copies of the Charter and the Bylaws have been filed as exhibits to the Company's SEC Reports. Neither the Company, nor any of its subsidiaries has any stockholder rights plan, poison pill or any similar arrangement in effect.

(d) The shares of outstanding capital stock of the Company's subsidiaries are duly authorized, validly issued, fully paid and nonassessable, and are held of record and beneficially owned by the Company or a subsidiary of the Company. There is no Voting Debt of any subsidiary of the Company that is outstanding. Except as set forth in the SEC Reports or in Schedule 3.3(d) of the Company Disclosure Schedules, there are no (i) outstanding obligations, options, warrants, convertible securities, exchangeable securities, securities or rights that are linked to the value of the Common Stock or other rights, agreements or commitments, in each case, relating to the capital stock or equity interests of the subsidiaries of the Company or that obligate the Company or its subsidiaries to issue or sell or otherwise transfer shares of the capital stock or any securities convertible into or exchangeable for any shares of capital stock or any Voting Debt of any subsidiary of the Company, (ii) outstanding obligations of the subsidiaries of the Company to repurchase, redeem or otherwise acquire shares of their respective capital stock or equity interests, (iii) voting trusts, stockholder agreements, proxies or other agreements or understandings in effect with respect to the voting or transfer of shares of capital stock of the subsidiaries of the Company (but only to the Company's knowledge with respect to any such agreements to which neither the Company nor any subsidiary of the Company is a party), or (iv) rights of first refusal, preemptive rights, subscription rights or any similar rights under any provision of the governing documents of any material subsidiary or any non-wholly owned subsidiary of the Company.

**3.4 Taxes.**

(a) Except as disclosed in the SEC Reports or except as would not reasonably be expected, individually or in the aggregate, to be material to the Company: (i) the Company and each of its subsidiaries have filed all Tax Returns required to be filed by them; (ii) all such Tax Returns are true, correct and complete; (iii) all Taxes due and owed by the Company and each of its subsidiaries (whether or not shown on any Tax Return) have been paid; (iv) neither the Company nor any of its subsidiaries currently is the beneficiary of any extension of time within which to file any material Tax Return; (v) no claim has ever been made by a Governmental Entity in a jurisdiction where the Company or any of its subsidiaries does not file Tax Returns that the Company or any such subsidiary is or may be subject to taxation by that jurisdiction; (vi) there are no liens on any of the assets or properties of the Company or any of its subsidiaries that arose in connection with any failure (or alleged failure) to pay any Tax; (vii) there are no ongoing, pending or, to the Company's knowledge, threatened audits, assessments, or other proceedings for or relating to any liability in respect of Taxes of the Company or any of its subsidiaries; (viii) neither the Company nor any of its

subsidiaries has waived any statute of limitations in respect of Taxes or agreed to any extension of time with respect to a Tax assessment or deficiency; and (ix) the Company and each of its subsidiaries have timely withheld and paid all Taxes required to

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have been withheld and paid in connection with amounts paid or owing to any employee, independent contractor, creditor, stockholder or other third party.

(b) Neither the Company nor any of its subsidiaries has been a member of any affiliated group filing a consolidated Federal income Tax Return other than a group the common parent of which is the Company.

**3.5 Compliance with Laws.**

(a) The Company and each of its subsidiaries and the conduct and operation of their respective businesses are and have been, since January 1, 2010, in compliance in all material respects with each applicable law that is applicable to the Company or its subsidiaries or their respective businesses, including any laws relating to employment practices, except, in each case, as has not had and would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.

(b) Neither the Company nor any of its subsidiaries has received any written notice or other written communication from any Governmental Entity or any other person regarding (1) any actual, alleged, possible or potential violation of or failure to comply with any material term or requirement of any Governmental Authorization, or (2) any actual, proposed, possible or potential revocation, withdrawal, suspension, cancellation, termination of or modification to any Governmental Authorization, except, in each case, as has not had and would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.

**3.6 SEC Reports and Company Financial Statements.**

(a) Since January 1, 2009, except as disclosed in Schedule 3.6(a) of the Company Disclosure Schedules, the Company has filed all reports, schedules, forms, statements and other documents required to be filed by it with the SEC pursuant to the reporting requirements of the Exchange Act (all the foregoing and all exhibits included or incorporated by reference therein and financial statements and schedules thereto and documents included or incorporated by reference therein being sometimes hereinafter collectively referred to as the SEC Reports ). As of their respective filing dates, the SEC Reports complied with the requirements of the Exchange Act applicable to the SEC Reports (as amended or supplemented), and none of the SEC Reports, at the time they were filed with the SEC, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. No subsidiary of the Company is, or is required to be, a registrant with the SEC.

(b) As of their respective dates, except as set forth therein or in the notes thereto, the financial statements contained in the SEC Reports and the related notes (the Financial Statements ) complied as to form with all applicable accounting requirements and the published rules and regulations of the SEC with respect thereto. The Financial Statements (i) were prepared in accordance with GAAP, consistently applied during the periods involved (except (x) as may be otherwise indicated in the notes thereto or (y) in the case of unaudited interim statements, to the extent that they may not include footnotes or may be condensed or summary statements), (ii) fairly present in all material respects the consolidated financial position of the Company and its consolidated subsidiaries as of the dates thereof and the consolidated results of their operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal year-end audit adjustments), and (iii) are in all material respects in accordance with the books of account and records of the Company and its consolidated subsidiaries.

(c) Neither the Company nor any of its subsidiaries is a party to, or has any commitment to become a party to, any joint venture, off-balance sheet partnership or any similar Contract or arrangement (including any Contract relating to any transaction or relationship between or among the Company and any of its subsidiaries, on the one hand, and any

unconsolidated affiliate of the Company or any of its subsidiaries, including any structured finance, special purpose or limited purpose entity or person, on the other hand, or any off-balance sheet arrangements (as defined in Item 303(a) of Regulation S-K of the SEC)), where the result, purpose or effect of such Contract is to avoid disclosure of any material transaction involving, or material liabilities of, the Company or any of its subsidiaries in the Company's or such subsidiary's audited financial statements or other SEC Reports.

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(d) To the Company's knowledge, there is no reason that its outside auditors and its chief executive officer and chief financial officer will not be able to give the attestations and certifications, as applicable, required pursuant to the rules and regulations adopted pursuant to Section 404 of SOX, without qualification, when next due.

(e) Except as set forth in SEC Reports and the transactions contemplated by the Designated Stockholder Investment, none of the executive officers, directors or related persons (as defined in Regulation S-K Item 404) of the Company is presently a party to any transaction with the Company or any of its subsidiaries that would be required to be reported on Form 10-K by Item 13 thereof pursuant to Regulation S-K Item 404.

**3.7 Private Placement.** Assuming that the representations of the Investor set forth in Section 4.3 are true and correct, the offer, sale, and issuance of the Purchased Shares and the issuance of the Underlying Shares upon conversion of the Purchased Preferred Shares, in each case in conformity with the terms of this Agreement, are exempt from the registration requirements of Section 5 of the Securities Act.

**3.8 Brokers.** Except for fees payable to BDT & Company, LLC, the Company and its subsidiaries have incurred no obligation or liability, contingent or otherwise, in connection with this Agreement or the Transaction that would result in the obligation of the Investor to pay any finder's fees, brokerage or agent's commissions or other like payments in connection with the negotiations leading to this Agreement or the consummation of the Transaction.

**3.9 Registration Rights.** Other than the Registration Rights Agreement, and the registration rights agreements to be entered into with the Designated Stockholders and Markel Corporation in connection with the Designated Stockholder Investment, true, correct, and complete forms of which have been provided to the Investor, the Company has not granted or agreed to grant, and is not under any obligation to provide, any rights (including piggy-back registration rights) to register under the Securities Act any of its presently outstanding securities or any of its securities that may be issued subsequently.

**3.10 No Restriction on the Ability to Pay Cash Dividends.** Except as set forth in the Amended and Restated Charter, the Certificate of Designations and the Credit Agreement and any existing credit facilities of the Company or its subsidiaries that are being replaced by the Credit Agreement, neither the Company nor any of its subsidiaries is, or will be, immediately following the Closing, a party to any Contract, and is not, and will not be, immediately following the Closing, subject to any provisions in its Charter or Bylaws or other governing documents or resolutions of the Board of Directors or other governing body, that restricts, limits, prohibits or prevents the payment of cash dividends with respect to any of its equity securities.

**3.11 Credit Agreement.** True, correct and complete copies of the Credit Agreement and all ancillary agreements thereto that have been executed as of the date hereof have been provided to the Investor, and the Credit Agreement and each such ancillary agreement is in full force and effect.

## ARTICLE 4

### Representations and Warranties of the Investor

The Investor hereby represents and warrants to the Company, as of the date hereof and as of the Closing Date, as follows:

**4.1 Entity Status.** The Investor is duly incorporated or otherwise organized, validly existing and in good standing under the applicable laws of its governing jurisdiction and has all requisite corporate or other power and authority to carry on its business as it is now being conducted, and no proceeding has been instituted in any such jurisdiction revoking, limiting or curtailing, or seeking to revoke, limit or curtail, such power, authority or qualification.

**4.2 Authorization; Noncontravention.**

(a) Authorization. The Investor has all necessary entity power and authority to execute and deliver this Agreement and the Ancillary Agreements to which it is a party, to perform its obligations hereunder and thereunder and to consummate the Transaction. The execution, delivery and performance of this Agreement and the Ancillary Agreements to which it is a party and the consummation by the

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Investor of the Transaction have been duly and validly authorized by all necessary entity action, and no other entity proceedings on the part of the Investor or vote of holders of any class or series of capital stock or equity interests of the Investor is necessary to authorize this Agreement and the Ancillary Agreements to which the Investor is a party or to consummate the Transaction. This Agreement and the Registration Rights Agreement to which the Investor is a party have been duly executed and delivered by the Investor and (assuming due authorization, execution and delivery by each other party thereto) each constitutes a valid and binding obligation of the Investor, enforceable against the Investor in accordance with its respective terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally or by general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(b) **No Conflict.** The Investor is not in violation or default of any provision of its organizational documents. The execution, delivery and performance by the Investor of this Agreement and the Ancillary Agreements to which it is a party do not, and the consummation of the Transaction and compliance with the provisions of this Agreement and the Ancillary Agreements to which it is a party will not, conflict with, or result in any default under, any provision of (i) the organizational documents of the Investor, (ii) any material Contract to which the Investor is a party or by which any of the Investor's assets are bound, or (iii) any applicable law, Governmental Authorization or Judgment, in each case applicable to the Investor, other than, in the case of clauses (ii) and (iii), any such conflicts or defaults that would not reasonably be expected to materially impair or delay the ability of the Investor to perform its obligations under this Agreement or the Ancillary Agreements to which it is a party or carry out the Transaction in accordance with the terms hereof or thereof. Except as contemplated by Section 5.7, no Governmental Authorization, order or authorization of, or registration, qualification, declaration or filing with, or notice to, any Governmental Entity is required to be obtained or made by or with respect to the Investor in connection with the execution, delivery and performance of this Agreement or any of the Ancillary Agreements to which the Investor is a party or the other Transaction, except for such Governmental Authorizations, orders, authorizations, registrations, declarations, filings and notices, the failure of which to be obtained or made would not materially impair the Investor's ability to perform its obligations under this Agreement or the Ancillary Agreements or consummate the Transaction.

**4.3 Securities Act; Purchase for Investment Purposes.** The Investor (i) is acquiring the Purchased Shares solely for investment with no present intention to distribute them in violation of the Securities Act and the rules and regulations thereunder or any applicable U.S. state securities laws, (ii) has such knowledge and experience in financial and business matters and in investments of this type that it is capable of evaluating the merits and risks of making an informed investment decision to purchase the Purchased Shares, (iii) is an accredited investor (as that term is defined by Rule 501 promulgated under the Securities Act), and (iv) acknowledges and understands that the Purchased Shares have not been registered under the Securities Act, or any state securities laws, and agrees that it will not offer, sell, assign, transfer, pledge, encumber or otherwise dispose of such Purchased Shares (including the Underlying Shares) absent registration under the Securities Act or unless such transaction is exempt from, or not subject to, registration under the Securities Act, and in each case, in accordance with all applicable state securities laws. The Investor did not learn of the opportunity to purchase the Purchased Shares by means of any form of general or public solicitation or general advertising, or publicly disseminated advertisements or sales literature, including (a) any advertisement, article, notice or other communication published in any newspaper, magazine, or similar media, or broadcast over television or radio, or (b) any seminar or meeting to which the Investor was invited by any of the foregoing means of communications. The Investor understands that the Purchased Shares will be subject to substantial contractual and legal restrictions on transferability. The Investor understands that the Purchased Shares will be characterized as restricted securities under the United States federal securities laws inasmuch as they are being acquired from the Company in a transaction not involving a public offering and that under such laws and applicable regulations such securities may be resold without registration under the Securities Act only in certain limited circumstances. The Investor understands that no United States federal or state agency or any other government or governmental agency has passed on or made any recommendation or endorsement of the Purchased Shares or the fairness or suitability of



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understands that until such time as the resale thereof has been registered under the Securities Act, certificates evidencing the Purchased Shares shall bear the following legend:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE SECURITIES ACT ), OR ANY STATE SECURITIES LAWS.

NEITHER THE SECURITIES REPRESENTED BY THIS CERTIFICATE NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED, OR OTHERWISE DISPOSED OF IN ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, REGISTRATION UNDER THE SECURITIES ACT, AND, IN EACH CASE, IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES OR UPON DELIVERY TO THE COMPANY OF AN OPINION OF COUNSEL THAT AN EXEMPTION FROM SUCH REGISTRATION OR QUALIFICATION IS APPLICABLE.

The Investor will obtain representations from the Co-Investors similar to those in Section 4.3 with respect to their direct or indirect investments in the Investor, and the Investor shall make copies of such representations available to the Company.

**4.4 Brokers.** The Investor has incurred no obligation or liability, contingent or otherwise, in connection with this Agreement that would result in the obligation of the Company or any of its Affiliates to pay any finder's fees, brokerage or agent's commissions or other like payments in connection with the negotiations leading to this Agreement or the consummation of the Transaction.

**4.5 Commitment Letters.** True, correct and complete copies of the Commitment Letters have been provided to the Company.

**4.6 Code Matters.** Neither the Investor nor any Person that would be deemed to be acting in concert with the Company as a result of its connection with the Investor has acquired any interest in the securities of Target in the twelve (12) months preceding the date of this Agreement, nor will the Investor nor any such person acquire any such interest in securities of the Target or take any other action which would affect the terms on which any offer must be made to the Target prior to the earlier of (i) the closure of the Acquisition, and (ii) the termination of this Agreement.

For purposes of this Section 4.6, acting in concert has the meaning given in the City Code.

## **ARTICLE 5**

### **Covenants**

**5.1 Stockholder Approvals.** The Company shall present and recommend to the stockholders of the Company at a special meeting of the stockholders of the Company (to be held in accordance with the corporate laws of Delaware, the Charter and the Bylaws), a proposal to approve the Transaction and the Designated Stockholder Investment and to approve and adopt the Amended and Restated Charter. The Company will provide the Investor and its counsel, in writing, copies of any draft proxy statement to be distributed to the Company's shareholders in connection with such meeting, prior to the distribution thereof, as well as any comments or other communications, whether written or oral, that the Company or its counsel may receive from time to time from the SEC or its staff with respect to such proxy statement promptly after the receipt of such comments or other communications, and will provide the Investor and its counsel with the opportunity to review and comment on such proxy statement and the Company's responses to any

such comments or communications received from the SEC or its staff.

**5.2 Publicity.** The Company and the Investor shall communicate with each other and cooperate with each other prior to any public disclosure of the Transaction. The Company, on the one hand, and the Investor, on the other hand, agree that no public release or announcement concerning the Transaction shall be issued by or as a result of the actions of any of them without the prior consent of the other, which consent shall not be unreasonably withheld or delayed, except in accordance with Section 5.6 or as such release or announcement may be required by applicable law or the rules and regulations of the New York Stock Exchange, the Financial Services Authority, the Takeover Panel or the City Code, in which case the party required to make

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the release or announcement shall use its reasonable best efforts to consult with the other parties hereto about, and allow the other parties hereto to reasonably comment on, such release or announcement in advance of such issuance.

**5.3 Certain Tax Matters.**

(a) The Company and the Investor acknowledge and agree that the Purchased Shares are being issued solely in consideration of the Investment Amount and neither the Company nor the Investor shall take any position for financial accounting, Tax or other purposes inconsistent with such agreement. Without limiting the foregoing, the Company shall not record an expense or apply any withholding (other than any withholding that may be required by law pursuant to Section 1441, 1442, 1445 or other applicable provision of the Code and comparable state or local laws) in connection with the issuance or any exercise or redemption of, any adjustment to, or any payments made in respect of any of the Purchased Shares.

(b) The Company and the Investor acknowledge and agree that the exercise of the Company's right to optionally redeem the Purchased Preferred Shares pursuant to the Certificate of Designations is not more likely than not to occur within the meaning of Treasury Regulation Section 1.305-5(b)(3).

**5.4 Standstill Agreement.**

(a) The Investor agree that, without the prior approval of the Company, the Investor will not, directly or indirectly, or in concert with any person, or as participants in a group (as defined in Section 13 of the Exchange Act):

(i) Make any public announcement with respect to, or submit to the Company or any of its directors, officers, representatives, trustees, employees, attorneys, advisors, agents or Affiliates, any proposal from the Investor or its Affiliates for, the acquisition of any Voting Stock of the Company or with respect to any merger, consolidation, business combination or purchase of any substantial portion of the assets of the Company, whether or not such proposal might require the making of a public announcement by the Company unless the Company shall have made a prior written request to the Investor to submit such a proposal;

(ii) Except for (A) actions taken by directors of the Company who are affiliated with the Investor in their capacities as directors and (B) actions taken for the purpose of electing to the Company's Board of Directors the nominees of the Investor in accordance with the Amended and Restated Charter, the Investor will not (1) call or seek to call a special meeting of the stockholders of the Company or of any of the subsidiaries of the Company for action by stockholders of the Company or of any of the Company subsidiaries, (2) make, or in any way participate in, any solicitation of proxies (as such terms are defined or used in Regulation 14A under the Exchange Act) to vote any Voting Stock of the Company, or (3) become a participant in any election contest as such terms are defined or used in Rule 14a-11 under the Exchange Act with respect to any voting securities of the Company; or

(iii) Effect or seek any recapitalization, reclassification, liquidation or dissolution or other extraordinary transaction that would have the effect of any of the matters described in Sections 5.4(a)(i) or 5.4(a)(ii).

(b) The Investor's obligations under this Section 5.4 shall terminate and be of no further force and effect on the first date that the Investor either (1) has beneficial ownership (as defined in Rule 13d-1 promulgated under the Exchange Act) of less than 5% of the outstanding Common Stock (including securities convertible into Common Stock), or (2) no longer has the right to nominate for election as least one member of the Board of Directors as set forth in the Amended and Restated Charter.

**5.5 Credit Agreement.** Prior to the Closing Date, the Company shall not, and shall cause its subsidiaries not to, amend or waive any material term or condition of the Credit Agreement, the effect of which amendment or waiver would be to alter the principal amount, covenants, interest, or fees payable under the Credit Agreement in a manner materially adverse to the Company or the Investor, without the prior written consent of the Investor; it being understood that this shall not restrict the Company from (i) exercising any of

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the Incremental Facilities provisions contained in Section 2.14 of the Credit Agreement in accordance with the terms of such provisions existing on the date hereof, or (ii) making any amendments necessary to reflect the exercise of any flex rights that have been agreed with the arrangers under the Credit Agreement or any amendments to the Credit Facility as a result of a change in the amount of debt funding as contemplated by the second sentence of Section 5.13. The Company shall use its best efforts to cause all conditions precedent to the effectiveness of the Credit Agreement and to the extensions of credit for the purposes of Certain Funds Credit Extension (as defined in the Credit Agreement) only to be satisfied on or before the Closing Date.

**5.6 Acquisition Covenants.** The Company shall, and shall cause its subsidiaries to perform and comply with each of the following covenants in connection with the Acquisition:

- (a) The Company and its subsidiaries will not amend or waive any material term or condition of the Offer Document or, as the case may be, Scheme Circular without the prior written consent of the Investor, except for any such amendment or waiver as (i) does not materially prejudice the Investor, (ii) is required by the Takeover Panel, the High Court of Jersey or any other applicable law, regulation or regulatory body, or (iii) extends the period in which holders of Target Shares may accept the terms of the Offer or the Scheme, as the case may be.
- (b) Subject to Section 5.13, if the Acquisition is implemented by way of an Offer, the Company and its subsidiaries will not reduce the acceptance condition to below the level required to allow the Company to give notice under Section 117 of the Companies Act in respect of the Target Shares.
- (c) The Company and its subsidiaries shall comply in all respects with the City Code (subject to any waiver granted by the Takeover Panel) and all other applicable laws (including the Financial Services and Markets Act 2000 (as amended)) and/or regulations relating to any Scheme of Arrangement or, as the case may be, Offer, except to the extent that such non-compliance would not be materially prejudicial to the Investor.
- (d) The Company and its subsidiaries shall not, without the prior written consent of the Investor, increase the price to be paid for any Target Shares pursuant to a Scheme of Arrangement or, as the case may be, an Offer.
- (e) The Company and its subsidiaries shall not take any action that would require the Company or any of its subsidiaries to make a mandatory offer for the Target Shares in accordance with Rule 9 of the City Code.
- (f) In the event the Acquisition is made pursuant to an Offer, where becoming permitted to do so, the Company shall promptly give notices under Article 117 of the Companies Act in respect of the Target Shares.
- (g) The Company and its subsidiaries shall, upon reasonable request and in each case to the extent that they are able to do so in compliance with applicable law and confidentiality or other obligations to which they are subject as of the date of this Agreement, keep the Investor informed as to the status and progress of (or otherwise relating to) an Offer (and, in the case of an Offer, the current level of acceptances in respect of that Offer) or, as the case may be, a Scheme of Arrangement;
- (h) The Company and its subsidiaries shall, to the extent that they are able to do so in compliance with applicable law and confidentiality or other obligations to which they are subject as of the date of this Agreement, promptly supply to the Investor (i) copies of all documents, certificates, notices or announcements received or issued by the Company or any of its subsidiaries (or on their behalf) in relation to an Offer or a Scheme of Arrangement (as the case may be) and (ii) any other information regarding the progress of an Offer or a Scheme of Arrangement (as the case may be) in each case as the Investor may reasonably request.

- (i) Other than as required by the Takeover Panel, the City Code, the London Stock Exchange (including any stock exchange of which it is the operator), the Financial Services Authority, the Exchange Act (and the rules and regulations thereunder) or any other applicable law, regulation or regulatory body, the Company and its subsidiaries shall not make any press release or other public statement in respect of

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the Acquisition (other than in the Rule 2.5 Announcement, any Offer Document or any Scheme Circular), without first obtaining the prior approval of the Investor, such approval not to be unreasonably withheld or delayed.

- (j) The Company and its subsidiaries shall procure that as soon as reasonably practicable, and in any event within twenty (20) Business Days, after the earlier of: (i) an office copy of the Scheme Court Order and the original and an office copy of the Reduction Court Order, attaching a minute (within the meaning of Article 64(1) of the Companies Act) of such reduction, having been delivered to the Registrar of Companies for registration, and, in relation to the reduction of ordinary share capital, the Reduction Court Order having been registered, and (ii) Parent having become, directly or indirectly, the legal and beneficial owner of at least 75% of the voting shares in the Target, the Target is delisted and re-registered as a private company.
- (k) The Company and its subsidiaries shall not issue any Offer Document or, as the case may be, approve the issuance of any Scheme Circular, that makes reference to Investor or a Co-Investor or any of their respective Affiliates, in each case, without the final proof of the same being approved in writing by the Investor, such approval not to be unreasonably withheld or delayed, *provided*, that if such approval is unreasonably withheld or delayed by the Investor, the Company or its subsidiary, as the case may be, shall be entitled to proceed forthwith in issuing any Offer Document or Scheme Circular as required by the Takeover Panel, the City Code or any other applicable regulatory body or law or regulation.
- (l) The Company and its subsidiaries shall not, without the prior written consent of the Investor, enter into any material agreement or understanding of any nature (whether formal or informal) with the trustees of any pension scheme of the Target that would result in an incremental annual cash expense of greater than \$5,000,000 or a settlement payment at Closing of greater than \$50,000,000, such consent not to be unreasonably withheld or delayed.
- (m) The Company and its subsidiaries shall not, without the prior written consent of the Investor, enter into any material agreement or understanding of any nature (whether formal or informal) with any anti-trust or other regulatory authority relating to the Acquisition to the extent that any such agreement or understanding relates to a disposition, partial disposition, restructuring, reorganization, hold separate or similar transaction involving a line of business of the Company or its subsidiaries accounting for \$100,000,000 or more of gross revenues during any of the last five calendar years, such consent not to be unreasonably withheld or delayed.
- (n) Save in relation to any condition as to acceptances if the method of effecting the Acquisition changes from a Scheme of Arrangement to an Offer, the Company and its subsidiaries shall (subject to obtaining the consent of the Takeover Panel in accordance with the City Code) invoke any condition to the Acquisition which becomes capable of being invoked unless the Investor consents in writing to such condition not being invoked.
- (o) The Company and its subsidiaries shall not, for the purposes of Note 1 to Rule 21.1 of the Takeover Code, consent to the taking of any action by the Target (or any member of its group) which would otherwise amount to frustrating action without the prior written consent of the Investor.
- (p) The Company and its subsidiaries shall use the proceeds of the sale of the Purchased Shares solely for the purpose of the Acquisition and for no other purpose. The Company and its subsidiaries shall use the proceeds of all borrowings under the Credit Agreement solely for purposes of the Acquisition and the other purposes permitted under the Credit Agreement.

**5.7 HSR Act Filings; Competition Filings.**

(a) Filings and Cooperation. Each of the Company and the Investor will take all reasonable steps to: (i) as soon as reasonably practicable following the date of this Agreement, make or cause to be made the filings required of such party or any of its Affiliates or subsidiaries under the HSR Act with respect to the Transaction; (ii) except as otherwise provided in the following sentence, as soon as reasonably practicable following the date of this Agreement, make or cause to be made any other filings with all foreign Governmental Entities in any jurisdiction in which the parties believe it is necessary or advisable;

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(iii) comply in a timely manner with any request under any antitrust or competition laws of any jurisdiction ( Antitrust Laws ) for additional information, documents, or other material received by such party or any of its affiliates or subsidiaries from the Federal Trade Commission or the Department of Justice or other Governmental Entity in respect of such filings or the Transaction; and (iv) cooperate with the other party in connection with any such filings and in connection with resolving any investigation or other inquiry of any such agency or other Governmental Entity under any Antitrust Laws with respect to any such filing or the Transaction. With regard to any communication with any Governmental Entity regarding such filings, each party will inform the other party: (1) before delivering any material communication to a Governmental Entity, (2) promptly after receiving any material communication from a Governmental Entity, and (3) before entering into any proposed understanding, undertaking, or agreement with any Governmental Entity regarding any such filings or the Transaction. Neither party will participate in any meeting with any Governmental Entity in respect of any such filings, investigation, or other inquiry without giving the other party prior notice of the meeting and, to the extent permitted by such Governmental Entity, the opportunity to attend and participate to the extent permitted by applicable law and to the extent reasonably practicable under the circumstances. Each of the Company and the Investor will take such reasonable action as may be required to cause the expiration of the notice periods under the HSR Act or similar laws or requirements of any Governmental Entity with respect to the Transaction as promptly as possible after the execution of this Agreement.

(b) Filing Fees. The Company shall pay one hundred percent (100%) of the filing fees applicable under the HSR Act with respect to the Transaction.

**5.8 Transfer Restrictions.**

(a) The Investor shall not sell or otherwise transfer (a) any of the Purchased Common Shares to any person during the first 180 days following the Closing Date, or (b) greater than fifty percent (50%) of the Purchased Common Shares to any person between the 180<sup>th</sup> day following the Closing Date and the first anniversary of the Closing Date. The period from the Closing Date through and including the second anniversary of the Closing Date is referred to in this Agreement as the Common Share Lock Up Period . Upon the conversion of any Purchased Preferred Shares into shares of Common Stock, the Investor shall not sell or otherwise transfer any such shares of Common Stock to any person during the first 180 days following the date of such conversion or (y) greater than fifty percent (50%) of such shares to any person between the 180<sup>th</sup> day following the date of such conversion and the first anniversary of the date of such conversion.

(b) The Investor shall not sell or otherwise transfer any shares of Common Stock, Purchased Preferred Shares or Underlying Shares to any Third Party that, to the knowledge of the Investor, (a) is a Competitor of the Company, or (b) is, or would as a result of such sale or transfer become, the beneficial owner (as defined in Section 13 of the Exchange Act) of five percent (5%) or more of the outstanding capital stock of the Company.

(c) The provisions of Section 5.8(b) (and in the case of sub-clauses (i), (ii), (v) and (vi) below, the provisions of Section 5.8(a)) shall not apply to any sale or other transfer that is (i) pursuant to a tender or exchange offer for a majority of the outstanding shares of the Company; (ii) pursuant to a merger or consolidation of the Company; (iii) pursuant to a widely distributed underwritten public offering, including pursuant to the Registration Rights Agreement; (iv) pursuant to Rule 144 under the Securities Act; (v) a transfer or distribution to any Permitted Transferee (provided that such Permitted Transferee agrees pursuant to a written instrument that is reasonably acceptable to the Company to comply with all of the restrictions on transfer that are applicable to the Investor); or (vi) in connection with a Tag-Along Transaction (as defined in Section 5.12).

**5.9 Information Rights.** Until the earlier of (a) the end of the Common Share Lock Up Period, or (b) the date that the Investor owns less than twenty percent (20%) of aggregate shares of Common Stock on an as-converted, fully

diluted basis (treating the Purchased Preferred Shares as fully converted into shares of Common Stock but excluding from this calculation any shares of Common Stock issuable upon the exercise of other Common Share Equivalents or upon the exercise of options or restricted stock units issued to employees, consultants or directors of the Company pursuant to any equity incentive plan), the Company shall

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provide the Investor with (i) monthly unaudited financial information, including monthly balance sheets and income statements, no later than thirty (30) days following the end of each month, and (ii) such other financial and operational information as the Investor may reasonably request. The Investor shall maintain the confidentiality all information provided pursuant to this Section 5.9 in accordance with Regulation FD promulgated under the Exchange Act. The

Investor shall be permitted to share all information provided pursuant to this Section 5.9 with the Co-Investors, *provided*, that the Co-Investors shall be bound to maintain the confidentiality of such information in accordance with Regulation FD on terms reasonably satisfactory to the Company.

**5.10 Drawdown of Equity Commitments.** Subject to satisfaction of the conditions set forth in Sections 6.1 and 6.3 (other than those that by their nature are to satisfied by the taking of actions at the Closing), the Investor shall provide written notice to the Co-Investors no later than the date on which the Offer becomes unconditional in all respects, or if the Acquisition is implemented by way of a Scheme of Arrangement, the date on which the Scheme of Arrangement becomes effective in accordance with its terms that their respective capital contributions to the Investor are due and payable in accordance with the terms and provisions of the Commitment Letters, and, when such capital contributions are received by the Investor, the Investor shall use the proceeds thereof to pay the Investment Amount due and payable to the Company at the Closing pursuant to Section 2.2.

**5.11 BDT Fund Capital Commitment.** Subject to satisfaction of the conditions set forth in Sections 6.1 and 6.3 (other than those that by their nature are to be satisfied by the taking of actions at the Closing) and to a partial assignment pursuant to Section 8.2, the BDT Fund shall make a capital contribution to the Investor on or before the Closing Date in the amount of \$390,000,000 (such \$390,000,000, the Fund Commitment Amount ) (\$30,000,000 of which will be deemed to be satisfied by the capital contribution made by BDT Main to the Investor pursuant to the terms of the BDT Main Equity Commitment Letter), which the Investor shall use to pay the Investment Amount due and payable to the Company at the Closing pursuant to Section 2.2.

### **5.12 Tag-Along Rights.**

(a) If either or both of the Designated Stockholders shall propose to sell or otherwise transfer any shares of Common Stock or Common Stock Equivalents (a Tag-Along Transaction ) to any person (other than to an immediate family member or a trust that such immediate family member or a Designated Stockholder controls, or as to which a Designated Stockholder or such immediate family member is the primary beneficiary; *provided*, that such immediate family member or such trust shall have agreed to be bound by the provisions of this Section 5.12 on terms reasonably satisfactory to the Investor) (a Proposed Transferee ), such proposed Tag-Along Transaction shall be conditioned upon satisfaction of the requirements set forth in this Section 5.12.

(b) Not more than sixty (60) days and not less than thirty (30) days prior to the effective date of the proposed Tag-Along Transaction (the Transfer Date ), each Designated Stockholder participating in a Tag-Along Transaction shall deliver to the Investor a binding written offer (a Tag-Along Offer ) (conditioned solely upon the consummation of such proposed sale) from such Designated Stockholder or the Proposed Transferee(s) to purchase, at the same price and upon terms and conditions identical in all respects to the terms and conditions on which such Designated Stockholder proposes to sell or transfer shares of Common Stock or Common Stock Equivalents to the Proposed Transferee, a percentage of the Investor's shares of Common Stock and/or Common Stock Equivalents (including any Underlying Shares) equal to the percentage of such Designated Stockholder's (or Designated Stockholders') shares of Common Stock and Common Stock Equivalents proposed to be included in the Tag-Along Transaction.

(c) The Tag-Along Offer shall specify, in reasonable detail, the number of shares of Common Stock and/or Common Stock Equivalents proposed to be included in the Tag-Along Transaction, the proposed purchase price, the Transfer Date, the identity of the Proposed Transferee(s), and the other terms and conditions of the proposed Tag-Along Sale.

Upon receipt of a Tag-Along Offer, the Investor may elect to either (i) accept the Tag-Along Offer in whole or in part by delivering written notice of such acceptance not less than ten (10) Business Days prior to the Transfer Date specified in such Tag-Along Offer, to the participating Designated Stockholder or to the Proposed Transferee(s), as applicable, which

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notice shall specify the number of shares of Common Stock and/or Common Stock Equivalents that the Investor intends to sell in the Tag-Along Transaction, or (ii) sell or otherwise transfer to a Third Party, on such terms as the Investor shall determine, at any time following delivery of a Tag-Along Offer, a percentage of the Investor's shares of Common Stock and Common Stock Equivalents equal to the percentage of shares of Common Stock and Common Stock Equivalents proposed to be sold or otherwise transferred by the Designated Stockholder in such Tag-Along Offer; *provided*, that any sale pursuant to clause (ii) shall comply with Section 5.8(b).

(d) If the offer of the Proposed Transferee(s) or Designated Stockholders states that the Proposed Transferee(s) or the Designated Stockholders is or are unwilling to purchase, in the aggregate, more than a specified amount of Common Stock or Common Stock Equivalents, and the Investor elects to accept the Tag-Along Offer, the Common Stock and Common Stock Equivalents proposed to be sold by the Investor and the Designated Stockholder in the Tag-Along Sale shall be allocated *pro rata* in accordance with their relative holdings of shares of Common Stock and Common Stock Equivalents.

**5.13 Acceptance Condition.** Notwithstanding Section 5.6(b), if the Acquisition is implemented by way of an Offer, at the written request of the Company, the acceptance condition of the Offer may be reduced below the level required to allow the Company to give notice under Section 117 of the Companies Act in respect of the Target Shares, *provided, however*, that in no event shall the acceptance condition be reduced below seventy-five percent (75%) in nominal value of the shares to which the Offer relates. In the event of a reduction of the acceptance condition pursuant to this Section 5.13, the parties shall negotiate in good faith in order to amend this Agreement to the extent reasonably necessary to appropriately reflect the revised structure of the Acquisition, including by adjusting the amount of equity and debt funding for the Company.

### **5.14 Code Matters.**

(a) Following the earlier of (i) the closure of the Acquisition, and (ii) the termination of this Agreement, the Investor will not directly or indirectly take any action that would result in a mandatory offer for securities of the Target pursuant to Rule 9 of the City Code being required, unless the Takeover Panel has expressly confirmed that such action has no concert party consequences under the City Code for the Company.

(b) Nothing in this agreement shall prohibit or otherwise restrict dealings in securities of the Target by: (i) Persons which are not presumed to be Persons acting in concert with the Investor under Rule 7.2(c) of the City Code; or (ii) entities in respect of which the Takeover Panel has expressly confirmed that dealings in the securities of the Target have no concert party consequences under the City Code for either of the Investor or the Company.

(c) For purposes of this Section 5.14, acting in concert has the meaning given in the City Code.

## **ARTICLE 6**

### **Conditions**

**6.1 Conditions to all Parties Obligations.** The respective obligations of the Company, on the one hand, and the Investor, on the other hand, to effect the Closing are subject to the satisfaction of the following conditions:

- (a) HSR Act. Any applicable waiting periods, together with any extensions thereof, under the HSR Act shall have expired or been terminated.
- (b) No Order. No Governmental Entity of competent jurisdiction will have enacted, issued, promulgated, enforced, or entered any statute, rule, regulation, executive order, decree, injunction, or other order (whether temporary, preliminary, or permanent) that (a) is in effect, and (b) has the effect of making the Transaction illegal or otherwise prohibiting consummation of the Transaction.
- (c) Stockholder Approvals; Filing of Amended and Restated Charter and Certificate of Designations. All approvals of the Company's stockholders required in connection with the Transaction,

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including any such approvals required under applicable law and the applicable listing rules of the New York Stock Exchange, shall have been obtained on or before the Closing Date, and the Amended and Restated Charter and the Certificate of Designations, substantially in the forms attached hereto as **Exhibit A** and **Exhibit B**, respectively, shall have been properly filed with the office of the Secretary of State of the State of Delaware.

(d) Offer/Scheme of Arrangement. In the case of an Offer, the Offer shall have become or been declared unconditional in all respects. In the case of a Scheme of Arrangement, the High Court of Jersey shall have filed an order (and the Investor shall have received a copy thereof) sanctioning the Scheme of Arrangement on behalf of the Target with the Registrar of Companies in accordance with Part 18A of the Companies Act.

**6.2 Conditions to the Company's Obligations.** The obligations of the Company to effect the Closing are subject to the satisfaction, or written waiver by the Company (given in accordance with Section 8.1), of each of the following conditions:

(a) Representations and Warranties. Each of the representations and warranties of the Investor contained in this Agreement and the Ancillary Documents that are not qualified as to materiality or material adverse effect (or any correlative term) shall be true and correct in all material respects on and as of the date of this Agreement and as of the Closing with the same force and effect as if made as of the Closing (except that representations and warranties which address matters only as of a particular date need only be true and correct as of such date), and each of the representations and warranties of the Investor contained in this Agreement and the Ancillary Documents that are qualified as to materiality or material adverse effect (or any correlative term) shall be true and correct in all respects on and as of the date of this Agreement and as of the Closing with the same force and effect as if made as of the Closing (except that representations and warranties which address matters only as of a particular date need only be true and correct as of such date).

(b) Covenants. The covenants and agreements set forth in this Agreement and in the Ancillary Agreements to be performed or complied with by the Investor at or prior to the Closing shall have been performed or complied with in all material respects.

**6.3 Conditions to the Investor's Obligations.** The obligations of the Investor to effect the Closing are subject to the satisfaction, or written waiver by the Investor (given in accordance with Section 8.1), of each of the following conditions:

(a) Representations and Warranties. Each of the Major Representations of the Company contained in this Agreement shall be true and correct in all material respects on and as of the date of this Agreement and as of the Closing with the same force and effect as if made as of the Closing (except that representations and warranties which address matters only as of a particular date need only be true and correct as of such date).

(b) Covenants. The Major Undertakings set forth in this Agreement to be performed or complied with by the Company at or prior to the Closing shall have been performed or complied with in all material respects.

(c) Debt Financing. As of the Closing Date, (i) the Credit Agreement shall be in full force and effect, and (ii) all conditions precedent to the effectiveness of the Credit Agreement and to the extensions of credit thereunder (other than receipt of the proceeds of the Equity Financing (as defined in the Credit Agreement) shall have been satisfied or waived.



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## ARTICLE 7

### Termination

**7.1 Termination.** This Agreement may be terminated prior to the Closing as follows:

- (a) At any time, by the mutual written consent of the Investor and the Company;
- (b) By the Investor if the Company does not publish the Rule 2.5 Announcement by September 15, 2011 or, if the Rule 2.5 Announcement is published by such date, on such later date, if any, upon which the Scheme of Arrangement or Offer, as applicable, lapses, terminates or is withdrawn;
- (c) By written notice by either the Company or the Investor to the other party or parties, at any time after the date that is two hundred (200) calendar days after the Announcement Date (the Termination Date ) if the Closing shall not have occurred on or prior to the Termination Date; provided, that the right to terminate this Agreement under this Section 7.1(c) shall not be available to such party if the action or inaction of such party has been a principal cause of or resulted in the failure of the Closing to occur on or before the Termination Date and such action or failure to act constitutes a breach of this Agreement;
- (d) By either the Company or the Investor if a Governmental Entity shall have issued a non-appealable final order, decree or ruling or taken any other action having the effect of permanently restraining, enjoining or otherwise prohibiting the consummation of the Transaction;
- (e) By the Investor at any time prior to the Closing, if (i) the Company is in breach of a Major Representation or a Major Undertaking (ii) such breach is not cured or capable of being cured by the earlier of the Termination Date and twenty (20) days following written notice of such breach from the Investor (to the extent such breach is curable) and (iii) such breach, if not cured, would render the conditions set forth in Section 6.3 incapable of being satisfied; or
- (f) By the Company at any time prior to the Closing, if (i) the Investor in breach of their representations, warranties or covenants in this Agreement, (ii) such breach is not cured or capable of being cured by the earlier of the Termination Date and twenty (20) days following written notice of such breach from the Company (to the extent such breach is curable) and (iii) such breach, if not cured, would render the conditions set forth in Section 6.2 incapable of being satisfied.

**7.2 Effect of Termination.** In the event of the termination of this Agreement as provided in Section 7.1, all obligations and agreements of the parties set forth in this Agreement shall become void and of no further force and effect whatsoever and there shall be no liability or obligation on the part of the parties hereto except (i) for any liability of the Company as a result of a breach of this Agreement prior to such termination, and (ii) that the provisions of this Section 7.2, Section 5.2, and ARTICLE 8 (and all related definitions in ARTICLE 1) shall survive any such termination and shall be enforceable hereunder.

## ARTICLE 8

## General Provisions

**8.1 Amendments and Waivers.** This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties hereto. Except as otherwise provided in this Agreement, any failure of any party to comply with any obligation, covenant, agreement or condition herein may be waived by the party entitled to the benefits thereof only by a written instrument signed by the party granting such waiver, but such waiver shall not operate as a waiver of, or estoppel with respect to, any subsequent or other failure. The failure of any party to this Agreement to assert any of its rights under this Agreement or otherwise shall not constitute a waiver of such rights.

**8.2 Assignment.** This Agreement and the rights and obligations hereunder shall not be assignable or transferable by any party without the prior written consent of the other parties hereto; *provided*, that, prior to the Closing, the BDT Fund shall be permitted to assign a portion of its obligation to contribute the Fund Commitment Amount (the Assigned Amount ) pursuant to Section 5.11 to one or more limited partners of the BDT Fund (a Permitted Assignee ), subject to the satisfaction of the following conditions: (a) such

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limited partner shall not be a Competitor of the Company, and (b) in connection with such assignment, the BDT Fund and such limited partner(s) shall execute and deliver instruments of transfer and assignment, under the terms of which the Permitted Assignee will undertake to pay to the Investor an amount equal to the Assigned Amount, and shall provide certain funds supporting documentation to the Company and Cash Confirmation Advisor and its counsel, in each case, in form and substance satisfactory to the Company and Cash Confirmation Advisor and its counsel but no more onerous than that provided by the BDT Fund; *provided, further*, that, following the Closing Date, the Investor may designate one or more Permitted Transferees to acquire a portion or all of the Purchased Shares, and to become a party to the Registration Rights Agreement and to have the rights of the Investor with respect to the Purchased Shares contained herein, upon such Permitted Transferee making the same representations and warranties to the Company as are set forth in Section 4.3 hereof, and agreeing to be bound (pursuant to an instrument that is reasonably satisfactory to the Company) by the post-closing covenants of the Investor set forth herein that would apply to such Purchased Shares. Any attempted assignment in violation of this Section 8.2 shall be void. Notwithstanding any assignment pursuant to this Section 8.2, prior to the Closing no Permitted Transferee shall be permitted to exercise any rights of the Investor under this Agreement (including any right to terminate the Agreement or to invoke any conditions precedent set forth in Section 6).

**8.3 No Third-Party Beneficiaries.** This Agreement is for the sole benefit of the parties hereto and their permitted assigns and nothing herein expressed or implied shall give or be construed to give to any person, other than the parties hereto and such permitted assigns, any legal or equitable rights hereunder.

**8.4 Notices.** All notices or other communications required or permitted to be given hereunder shall be in writing and shall be delivered by hand or sent by a nationally recognized overnight courier service (with tracking capability), and shall be deemed given when received, as follows:

if to the Investor, to:

401 North Michigan, Suite 3100  
Chicago, Illinois 60611  
Attention: William Bush  
Fax: (312) 832-1700

with a copy (which shall not constitute notice) to:

Munger, Tolles & Olson LLP  
355 South Grand Avenue, 35<sup>th</sup> Floor  
Los Angeles, California 90071  
Attention: Mary Ann Todd & Brett Rodda  
Fax: (213) 687-3702

if to the Company, to:

Colfax Corporation  
8170 Maple Lawn Blvd., Suite 180  
Fulton, Maryland 20759  
Attention: Lynne Puckett  
Fax: (301) 323-9001

with a copy (which shall not constitute notice) to:

Edgar Filing: Colfax CORP - Form PRER14A

Skadden, Arps, Slate, Meagher & Flom LLP  
40 Bank Street  
London E14 5DS  
United Kingdom  
Attention: Scott V. Simpson & James A. McDonald  
Fax: (44) 20 70 72 7000

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**8.5 Counterparts.** This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement, and shall become effective when one or more such counterparts have been signed by each of the parties hereto and delivered to the other parties hereto.

**8.6 Entire Agreement.** This Agreement and the Ancillary Agreements, along with the Schedules and the Exhibits hereto and thereto, contain the entire agreement and understanding among the parties hereto with respect to the subject matter hereof and thereof and supersede all prior agreements and understandings relating to such subject matter. None of the parties shall be liable or bound to any other party in any manner by any representations, warranties or covenants relating to such subject matter except as specifically set forth herein or in the Ancillary Agreements.

**8.7 Interpretation; Exhibits and Schedules.** The headings contained in this Agreement, in any Exhibit or Schedule hereto and in the table of contents to this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. All Exhibits and Schedules annexed hereto or referred to herein are hereby incorporated in and made a part of this Agreement as if set forth in full herein. Any capitalized terms used in any Schedule or Exhibit but not otherwise defined therein shall have the meaning assigned to such term in this Agreement. When a reference is made in this Agreement to a Section, Exhibit or Schedule, such reference shall be to a Section of, or an Exhibit or Schedule to, this Agreement unless otherwise indicated.

**8.8 Severability.** If any provision of this Agreement (or any portion thereof) or the application of any such provision (or any portion thereof) to any person or circumstance shall be held invalid, illegal or unenforceable in any respect by a court of competent jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision hereof (or the remaining portion thereof) or the application of such provision to any other persons or circumstances, so long as the economic and legal substance of the Transaction is not affected in a manner materially adverse to any party hereto.

**8.9 Consent to Jurisdiction.** Each of the parties hereby consents to the exclusive jurisdiction of the state and federal courts sitting in the City of New York in any action on a claim arising out of, under or in connection with this Agreement or the Transaction.

**8.10 Governing Law.** This Agreement shall be governed and construed in accordance with the laws of the State of New York.

**8.11 Specific Performance.** The parties agree that irreparable damage would occur if any provision of this Agreement were not performed in accordance with its terms and that each party shall be entitled to an injunction or injunctions to prevent breaches of this Agreement or to enforce specifically the performance of the terms and provisions hereof. Subject to the right to recover attorneys' fees pursuant to Section 8.13, unless and until the Closing occurs, such injunctive relief shall be the sole and exclusive remedy of the Company for any breach of this Agreement by the Investor or the BDT Fund.

**8.12 Waiver of Jury Trial.** Each party hereby waives, to the fullest extent permitted by Applicable Law, any right it may have to a trial by jury in respect to any litigation directly or indirectly arising out of, under or in connection with this Agreement, any Ancillary Agreement or the Transaction. Each party (a) certifies that no representative, agent or attorney of any other party has represented, expressly or otherwise, that such other party would not, in the event of litigation, seek to enforce the foregoing waiver and (b) acknowledges that it and the other parties hereto have been induced to enter into this Agreement and the Ancillary Agreements, as applicable, by, among other things, the mutual waivers and certifications in this Section 8.12.

**8.13 Attorneys Fees.** In the event any Action is brought in respect of this Agreement or the Transaction by the parties to this Agreement or their Affiliates, the prevailing party in such Action shall be entitled to recover reasonable attorneys fees and other costs incurred in such Action, in addition to any relief to which such party may be entitled.

**8.14 No Personal Liability of Partners, Directors, Officers, Owners, Etc.** No director, officer, employee, incorporator, stockholder, managing member, member, general partner, limited partner, principal or other agent of the Investor or the Main Fund shall have any liability for any obligations of the Investor or the

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Main Fund under this Agreement or for any claim based on, in respect of, or by reason of, the obligations of the Investor or the Main Fund hereunder. The Company waives and releases all such liability. This waiver and release is a material inducement to the Investor s and the Main Fund s (solely in the case of Section 5.11) entry into this Agreement. No director, officer, employee, incorporator, stockholder, managing member, member, general partner, limited partner, principal or other agent of the Company shall have any liability for any obligations of the Company under this Agreement or for any claim based on, in respect of, or by reason of, the obligations of the Company hereunder. The Investor waives and releases all such liability. This waiver and release is a material inducement to the Company s entry into this Agreement.

**8.15 Rights of Holders.** Each party to this Agreement shall have the absolute right to exercise or refrain from exercising any right or rights that such party may have by reason of this Agreement, including the right to consent to the waiver or modification of any obligation under this Agreement, and such party shall not incur any liability to any other party or other holder of any securities of the Company as a result of exercising or refraining from exercising any such right or rights.

**8.16 Adjustment in Share Numbers and Prices.** In the event of any (i) stock split, (ii) subdivision, (iii) dividend or distribution payable in shares of Common Stock (or other securities or rights convertible into or entitling the holder thereof to receive directly or indirectly shares of Common Stock), (iv) combination or (v) other similar recapitalization or event, in each case, occurring after the date hereof and prior to the Closing Date, each reference in this Agreement and the Ancillary Agreements to a number of shares or a price per share shall be amended to appropriately account for such event.

**8.17 Construction.** The parties acknowledge that each party and its counsel have participated in the negotiation and preparation of this Agreement. This Agreement shall be construed without regard to any presumption or other rule requiring construction against the party causing the Agreement to be drafted. Each covenant, term and provision of this Agreement shall be construed simply according to its fair meaning and not strictly for or against any party hereto.

[ *Signature page follows.* ]

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In Witness Whereof, the Company, the Investor, the BDT Fund and the Designated Stockholders have executed this Agreement as of the date first above written.

COMPANY  
COLFAX CORPORATION  
By:

/s/ A. Lynne Puckett  
Name: A. Lynne Puckett  
Title: Senior Vice President,  
General Counsel and Secretary

DESIGNATED STOCKHOLDERS  
(Joining solely for purposes of Section 5.12)  
Mitchell P. Rales  
/s/ Mitchell P. Rales  
Steven M. Rales  
/s/ Steven M. Rales

INVESTOR  
BDT CF ACQUISITION VEHICLE, LLC  
By:

/s/ William R. Bush  
Name: William R. Bush  
Title: Vice President,  
General Counsel and Secretary

BDT FUND  
(Joining solely for purposes of Section 5.11)  
BDT CAPITAL PARTNERS FUND I, L.P.  
By: BDT CP GP I, LLC, its general partner  
By: BDT Capital Partners, LLC, its managing Member  
By:

/s/ William R. Bush  
Name: William R. Bush  
Title: Vice President,  
General Counsel and Secretary

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BDT CAPITAL PARTNERS FUND I-A, L.P.

By: BDT CP GP I, LLC, its general partner

By: BDT Capital Partners, LLC, its managing member

By:

/s/ William R. Bush

Name: William R. Bush

Title: Vice President,

General Counsel and Secretary

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**Schedule 3.3(c)**

**Capital Structure**

Equity awards and grants made pursuant to the terms of the Company's 2008 Omnibus Incentive Plan and Director compensation program, including the Director Deferred Compensation Plan, as outstanding in the SEC Report for the three months ended June 30, 2011 and any awards under the plan granted in the ordinary course of business since such SEC Report.

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**Schedule 3.3 (d)**

**Capital Structure**

Equity awards and grants made pursuant to the terms of the Company's 2008 Omnibus Incentive Plan and Director compensation program, including the Director Deferred Compensation Plan, as outstanding in the SEC Report for the three months ended June 30, 2011 and any awards under the plan granted in the ordinary course of business since such SEC Report.

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**Schedule 3.6(a)**

**SEC Reports and Company Financial Statements**

The Company's Report on Form 10-Q for the Quarter ended October 1, 2010, which was non-timely filed on December 13, 2010.

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**Exhibit A**

**AMENDED AND RESTATED CERTIFICATE OF  
INCORPORATION**

**OF**

**COLFAX CORPORATION**

Colfax Corporation (the **Corporation** ), a corporation organized and existing under the General Corporation Law of the State of Delaware (the **Delaware General Corporation Law** ), does hereby certify as follows:

1. The present name of the Corporation is Colfax Corporation. The Corporation was incorporated under the name Constellation Pumps Corporation by filing its original Certificate of Incorporation with the Secretary of State of the State of Delaware on February 25, 1998. An Amended and Restated Certificate of Incorporation was filed with and accepted by the Secretary of State of the State of Delaware on May 22, 2003 and amended by Certificates of Amendment on May 30, 2003, May 3, 2004, and April 21, 2008. An Amended and Restated Certificate of Incorporation was filed with and accepted by the Secretary of State of the State of Delaware on May 13, 2008.
2. This Amended and Restated Certificate of Incorporation was duly adopted by the Board of Directors of the Corporation (the **Board** ) and by the stockholders of the Corporation in accordance with Sections 228, 242, and 245 of the Delaware General Corporation Law.
3. Pursuant to Sections 242 and 245 of the Delaware General Corporation Law, this Amended and Restated Certificate of Incorporation restates and integrates and also further amends the provisions of the Certificate of Incorporation of the Corporation as heretofore amended or supplemented. The Certificate of Incorporation of the Corporation, as heretofore amended or supplemented, is superseded by this Amended and Restated Certificate of Incorporation.
4. This Amended and Restated Certificate of Incorporation shall become effective upon the time of filing of this Amended and Restated Certificate of Incorporation with the Secretary of State of the State of Delaware pursuant to Section 103 of the Delaware General Corporation Law.
5. The Certificate of Incorporation of the Corporation as heretofore amended or supplemented is hereby restated and further amended to read in its entirety as follows:

**Article 1. NAME**

The name of this corporation is Colfax Corporation.

## **Article 2. REGISTERED OFFICE AND AGENT**

The address of this Corporation's registered office in the State of Delaware is 2711 Centerville Road, Suite 400, in the City of Wilmington, Delaware 19808, in the County of New Castle. The name of this Corporation's registered agent at such address is Corporation Service Company.

## **Article 3. PURPOSE AND POWERS**

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the Delaware General Corporation Law. The Corporation shall have all power necessary or convenient to the conduct, promotion or attainment of such acts and activities.

## **Article 4. CAPITAL STOCK AND ISSUANCE OF SECURITIES**

### **4.1. Authorized Shares**

The total number of shares of all classes of stock that the Corporation shall have the authority to issue is 420,000,000 of which 400,000,000 of such shares shall be Common Stock having a par value of \$.001 per share (the **Common Stock**), and 20,000,000 of such shares shall be Preferred Stock, having a par value of \$.001 per share (the **Preferred Stock**).

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## **4.2. Common Stock**

### **4.2.1. Relative Rights**

The Common Stock shall be subject to all of the rights, privileges, preferences, priorities, and restrictions set forth in this Amended and Restated Certificate of Incorporation (including any certificate of designations relating to any series of the Preferred Stock). Each share of the Common Stock shall have the same relative rights as, and be identical in all respects to, all the other shares of the Common Stock.

### **4.2.2. Dividends**

Whenever there shall have been paid, or declared and set aside for payment, to the holders of shares of any class of stock having preference over the Common Stock as to the payment of dividends, the full amount of dividends and of sinking fund or retirement payments, if any, to which such holders are respectively entitled in preference to the Common Stock, then dividends may be paid on the Common Stock and on any class or series of stock entitled to participate therewith as to dividends, out of any assets legally available for the payment of dividends thereon, but only when and as declared by the Board and subject to the restrictions set forth in any certificate of designations relating to any series of Preferred Stock. Any dividends on the Common Stock will not be cumulative.

### **4.2.3. Dissolution, Liquidation, Winding Up**

In the event of any dissolution, liquidation, or winding up of the Corporation, whether voluntary or involuntary, the holders of the Common Stock, and holders of any class or series of stock entitled to participate therewith, in whole or in part, as to the distribution of assets in such event, shall be entitled to participate in the distribution of any assets of the Corporation remaining after the Corporation shall have paid, or provided for payment of, all debts and liabilities of the Corporation and after the Corporation shall have paid, or set aside for payment, to the holders of any class of stock having preference over the Common Stock in the event of dissolution, liquidation or winding up the full preferential amounts (if any) to which they are entitled.

### **4.2.4. Voting Rights**

Each holder of shares of the Common Stock shall be entitled to attend all special and annual meetings of the stockholders of the Company at which any action is to be taken as to which holders of Common Stock are entitled to vote pursuant to this Amended and Restated Certificate of Incorporation or applicable law. Except as may otherwise be required by law, and subject to the provisions of such resolution or resolutions as may be adopted by the Board pursuant to Section 4.3 of this Article 4 granting the holders of one or more series of the Preferred Stock exclusive or special voting powers with respect to any matter, each holder of the Common Stock shall have one vote with respect to each share of the Common Stock held on all matters voted upon by the stockholders, provided, however, that except as otherwise required by law, holders of the Common Stock, as such, shall not be entitled to vote on any amendment to this Amended and Restated Certificate of Incorporation (including a certificate of designations relating to any series of the Preferred Stock) that relates solely to the terms of one or more outstanding series of the Preferred Stock if the holders of such affected series are entitled, either voting separately or together with the holders of one or more other such series, to vote thereon pursuant to this Amended and Restated Certificate of Incorporation (including any certificate of designations relating to any series of the Preferred Stock) or pursuant to the Delaware General Corporation Law. Each holder of shares of the Common Stock may exercise its vote either in person or by proxy.

## **4.2.5 Stockholder Action**

Subject to the rights of any holders of the Preferred Stock, (i) only the chairman of the Board or a majority of the Board shall be permitted to call a special meeting of stockholders; (ii) the business permitted to be conducted at a special meeting of stockholders shall be limited to matters properly brought before the meeting by or at the direction of the 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.

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### 4.3. Preferred Stock

The Board is authorized, subject to limitations prescribed by the Delaware General Corporation Law and the provisions of this Amended and Restated Certificate of Incorporation, to provide, by resolution or resolutions from time to time and by filing certificates of designations pursuant to the Delaware General Corporation Law, for the issuance of shares of the Preferred Stock in one or more series, to establish from time to time the number of shares to be included in each such series, to fix the voting powers, designations, preferences and relative, participating, optional or other special rights of the shares of each such series of the Preferred Stock and to fix the qualifications, limitations or restrictions thereof.

The authority of the Board with respect to each series shall include, but not be limited to, determination of the following: (1) the number of shares constituting that series and the distinctive designation of that series; (2) the dividend rate on the shares of that series, whether dividends shall be cumulative, and, if so, from which date or dates, and the relative rights of priority, if any, of payment of dividends on shares of that series; (3) whether that series shall have voting rights, in addition to the voting rights provided by law, and, if so, the terms of such voting rights; (4) whether that series shall have conversion privileges, and, if so, the terms and conditions of such conversion, including provision for adjustment of the conversion rate in such events as the Board shall determine; (5) whether or not the shares of that series shall be redeemable, and, if so, the terms and conditions of such redemption, including the dates upon or after which they shall be redeemable, and the amount per share payable in case of redemption, which amount may vary under different conditions and at different redemption dates; (6) whether that series shall have a sinking fund for the redemption or purchase of shares of that series, and, if so, the terms and amount of such sinking fund; (7) the rights of the shares of that series in the event of voluntary or involuntary liquidation, dissolution or winding up of the Corporation, and the relative rights of priority, if any, of payment of shares of that series; and (8) any other relative powers, preferences, and rights of that series, and qualifications, limitations or restrictions on that series as the Board shall determine.

### 4.4 Rights of Certain Holders

So long as the Investor and its Permitted Transferees collectively Beneficially Own, in the aggregate, at least fifty percent (50%) of the Purchased Preferred Shares, the written consent of the Investor will be required in order for the Corporation to take any of the following actions:

1. The incurrence of Senior Net Indebtedness, excluding
  - (i) Permitted Indebtedness, and
  - (ii) the issuance of Preferred Stock,

if, after giving effect to such incurrence, the ratio of Senior Net Indebtedness to Adjusted EBITDA would exceed 3.75 : 1 measured by reference to the last twelve-month period for which financial information of the Corporation is reported by the Corporation (the **LTM Period**), pro forma for any acquisition in the LTM Period; *provided, however*, that the consent of the Investor will not be required pursuant to this Section 4.4(1) as to the incurrence of Indebtedness, the net proceeds of which are used for Refinancing of Indebtedness that existed on the Closing Date (including any Indebtedness incurred on the Closing Date);

2. The incurrence of Total Net Indebtedness, excluding:

(i) Permitted Indebtedness,

(ii) the issuance of Preferred Stock,

if, after giving effect to such incurrence, the ratio of Total Net Indebtedness to Adjusted EBITDA would exceed 4.25 : 1 measured by reference to the LTM Period, pro forma for any acquisition in the LTM Period; *provided, however*, that the consent of the Investor will not be required pursuant to this Section 4.4(2) as to the incurrence of Indebtedness, the net proceeds of which are used for the Refinancing of Indebtedness that existed on the Closing Date (including any Indebtedness incurred on the Closing Date);

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3. The issuance by the Corporation of any shares of Preferred Stock;

4. Any change to the Corporation's dividend policy, or the declaration or payment of any dividend or distribution on any Junior Stock, unless the ratio of the Corporation's Total Net Indebtedness, excluding Permitted Indebtedness and any Preferred Stock, to Adjusted EBITDA is less than 2:1 measured by reference to the LTM Period, pro forma for any acquisition in the LTM period;

5. Any voluntary liquidation, dissolution or winding up of the Corporation;

6. Any change in the Corporation's independent auditor;

7. The election of anyone other than Mr. Mitchell P. Rales as the Corporation's Chairman of the Board;

8. Any acquisition by the Corporation or any of its subsidiaries, in any transaction or series of related transactions, of another entity or assets for a purchase price exceeding thirty percent (30%) of the Corporation's equity market capitalization at the time the applicable acquisition agreement is signed;

9. Any merger, consolidation, reclassification, joint venture or strategic partnership, or any similar transaction, any sale, lease, transfer or other disposition of any assets of the Corporation or any subsidiary of the Corporation (excluding sale/leaseback transactions and other financing transactions, in each case, entered into in the ordinary course of the Corporation's or such subsidiary's business or any sales among the Company and its subsidiaries), or any voluntary liquidation, dissolution or winding up of any subsidiary of the Corporation if (i) the value of the entity resulting from any such merger, consolidation, reclassification or similar transaction, (ii) the level of investment in any such joint venture, strategic partnership or similar transaction by the Corporation or such subsidiary, (iii) the value of the assets being sold, leased, transferred or disposed of, or (iv) the value of the subsidiary being liquidated, dissolved, or wound up (including the value of any subsidiary or subsidiaries thereof), as applicable, exceeds thirty percent (30%) of the Corporation's equity market capitalization at the time the applicable transaction agreement or other transaction documentation is signed;

10. Any amendments to the Corporation's Certificate of Incorporation or bylaws or other organizational or governing documents, as applicable; or

11. Any change to the size of the Board.

## **Article 5. BOARD OF DIRECTORS**

### **5.1. Number; Election; Nomination Right of Certain Holders**

- So long as the Investor and its Permitted Transferees collectively Beneficially Own, in the aggregate, more than twenty percent (20%) of the outstanding Common Stock, calculated on a fully-diluted basis, assuming conversion of all outstanding convertible securities (including the Series A Preferred Stock) and exercise of all existing warrants at the then-existing conversion or exercise price, but excluding any Unexercised Options and RSUs: (A) (1) the authorized number of directors of the Corporation shall be eleven (11); (B) the Investor shall be entitled to exclusively nominate two (2) members of the Board; and (C) the Investor shall be entitled to select one of its nominees, once elected to the Board, to serve on the audit committee of the Board, and one of its nominees, once elected to the Board, to serve on the compensation committee of the Board, subject to applicable law and New York Stock Exchange listing requirements.
- (2) So long as the Investor and its Permitted Transferees collectively Beneficially Own, in the aggregate, equal to or less than twenty percent (20%) but more than ten percent (10%) of the outstanding Common Stock, calculated on a fully-diluted basis, assuming conversion of all outstanding convertible securities (including the Series A Preferred Stock) and exercise of all existing warrants at the then-existing conversion or exercise price, but excluding any Unexercised Options and RSUs: (A) the authorized number of directors of the Corporation shall be ten (10); (B) the Investor shall be entitled to exclusively nominate one (1) member of the Board; and (C) the Investor shall be entitled to select its nominee, once elected to the Board, to serve on the audit committee and compensation

committee of the Board, subject to applicable law and New York Stock Exchange listing requirements.  
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From the time the Investor and its Permitted Transferees collectively cease to Beneficially Own, in the aggregate, at least ten percent (10%) of the outstanding Common Stock, calculated on a fully-diluted basis, assuming conversion of all outstanding convertible securities (including the Series A Preferred Stock) and exercise of all (3) existing warrants at the then-existing conversion or exercise price, but excluding any Unexercised Options and RSUs, the Investor shall have no right under this Section 5.1 to nominate any members of the Board, and the authorized number of directors of the Corporation shall be such number as from time to time shall be fixed by, or in the manner provided in, the bylaws of the Corporation.

Unless and except to the extent that the bylaws of the Corporation shall otherwise require, the election of directors (4) of the Corporation need not be by written ballot. Each director of the Corporation shall be entitled to one vote per director on all matters voted or acted upon by the Board.

For purposes of calculating Beneficial Ownership percentages in this Section 5.1, the Investor and any Permitted Transferees shall not be deemed to Beneficially Own any shares of preferred stock other than the Purchased (5) Preferred Shares and any shares of Common Stock other than shares of Common Stock acquired (i) on the Closing Date, (ii) upon conversion of Preferred Stock or (iii) pursuant to anti-dilution provisions or pre-emption rights set forth in the Certificate of Designations.

### **5.2. Management of Business and Affairs of the Corporation**

The business and affairs of the Corporation shall be managed by, or under the direction of, the Board.

### **5.3. Limitation of Liability**

No director of the Corporation shall be liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, provided that this provision shall not eliminate or limit the liability of a director (a) for any breach of the director's duty of loyalty to the Corporation 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 Delaware General Corporation Law; or (d) for any transaction from which the director derived an improper personal benefit.

Any repeal or modification of this Article 5.3 shall be prospective only and shall not adversely affect any right or protection of, or any limitation of the liability of, a director of the Corporation existing at, or arising out of facts or incidents occurring prior to, the effective date of such repeal or modification.

## **Article 6. AMENDMENT OF BYLAWS**

In furtherance and not in limitation of the powers conferred by the Delaware General Corporation Law, the Board is expressly authorized and empowered to adopt, amend and repeal the bylaws of the Corporation.

## **Article 7. RESERVATION OF RIGHT TO AMEND CERTIFICATE OF INCORPORATION**

The Corporation reserves the right at any time, and from time to time, to amend, alter, change, or repeal any provision contained in this Amended and Restated Certificate of Incorporation, and other provisions authorized by the laws of the State of Delaware at the time in force may be added or inserted, in the manner now or hereafter prescribed by law; and all rights, preferences, and privileges of any nature conferred upon stockholders, directors, or any other persons by and pursuant to this Amended and Restated Certificate of Incorporation in its present form or as hereafter amended are granted subject to the rights reserved in this Article 7. Notwithstanding the foregoing, or any provision of law which might otherwise permit a lesser vote or no vote, but in addition to any affirmative vote of the holders of any particular

class or series of stock required by law or this Amended and Restated Certificate of Incorporation, until such time as the Investor and its Permitted Transferees collectively cease to Beneficially Own, in the aggregate, at least ten percent (10%) of the outstanding Common Stock, calculated on a fully-diluted basis, assuming conversion of all outstanding convertible securities (including the Series A Preferred Stock) and exercise of all existing warrants at the then-existing conversion or exercise price, but excluding any Unexercised Options and RSUs, the written consent of the Investor shall be required to alter, amend or repeal any provision of Section 5.1 of Article 5, this Article 7 or Article 8, including by merger, consolidation or otherwise.

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**Article 8. DEFINITIONS**

Capitalized terms not otherwise defined in this Amended and Restated Certificate of Incorporation shall have the following meanings:

**Adjusted EBITDA** means EBITDA, as such term is defined in that certain credit agreement, dated as of September 12, 2011, between and among the Company, Deutsche Bank A.G. New York Branch, a syndicate of other financial institutions as lenders and Deutsche Bank Securities Inc., as in effect as of September 12, 2011.

**Beneficial Ownership** and **Beneficially Own** and similar terms have the meaning set forth in Rule 13d-3 under the Securities and Exchange Act of 1934. For the avoidance of doubt, the Investor and its Permitted Transferees will be deemed to Beneficially Own all of the Common Stock issuable upon conversion of the Series A Preferred Stock held by the Investor and its Permitted Transferees at the time of determination.

**Closing Date** has the meaning set forth in the Securities Purchase Agreement.

**Indebtedness** means the principal of, accrued but unpaid interest on, and premium (if any, to the extent such premium is determinable) in respect of, indebtedness of such person for borrowed money, but excluding any indebtedness among the Corporation and its subsidiaries.

**Investor** means BDT CF Acquisition Vehicle, LLC.

**Junior Stock** means the Common Stock and any other class or series of stock of the Corporation, other than Parity Stock and Senior Stock, not expressly ranking senior to the Series A Preferred Stock with respect to the payment of dividends and distributions.

**Parity Stock** means any class or series of stock of the Corporation that may be authorized that expressly ranks equal to the Series A Preferred Stock with respect to the payment of dividends and distributions.

**Permitted Transferee** shall have the meaning assigned to such term in the Securities Purchase Agreement.

**Permitted Indebtedness** means Indebtedness under the Corporation's revolving line of credit as in existence on the Closing Date, leases and letters of credit, performance guarantees, bid bonds, surety bonds and similar instruments.

**Purchased Preferred Shares** shall have the meaning assigned to such term in the Securities Purchase Agreement.

**Refinance** or **Refinancing** means to refund, refinance, replace, renew, repay, or extend (including pursuant to any defeasance or discharge mechanism).

**Securities Purchase Agreement** means that certain Securities Purchase Agreement, dated as of September 12, 2011, by and between the Corporation and the Investor.

**Senior Net Indebtedness** means, as of any date, all Senior Indebtedness of the Corporation outstanding on such date minus all cash and cash equivalents of the Corporation as of such date.

**Senior Indebtedness** means Indebtedness that is not Subordinated Indebtedness.

**Senior Stock** means any class or series of stock of the Corporation that may be authorized that expressly ranks senior to the Series A Preferred Stock with respect to the payment of dividends and distributions.

**Subordinated Indebtedness** means Indebtedness which is subordinate or junior in right of payment to any other Indebtedness pursuant to a written agreement.

**Total Net Indebtedness** means, as of any date, all Indebtedness of the Corporation and its subsidiaries minus all cash and cash equivalents of the Corporation and its subsidiaries as of such date.

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**Unexercised Options and RSUs** means (i) any convertible securities outstanding as of the Closing Date (as such term is defined in the Securities Purchase Agreement), or (ii) any options, restricted stock units or similar awards issued to officers, employees, consultants or directors of the Corporation or its subsidiaries, in each case, in the form of Common Stock or entitling the holder thereof to receive shares of Common Stock upon the exercise or conversion thereof.

**IN WITNESS WHEREOF**, this Amended and Restated Certificate of Incorporation has been executed by the President and Chief Executive Officer of the Corporation on this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_.

**COLFAX CORPORATION**

By:  
Name:  
Title:

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**Exhibit B**

**CERTIFICATE OF DESIGNATIONS OF  
SERIES A PERPETUAL CONVERTIBLE PREFERRED  
STOCK**

**(PAR VALUE \$0.001)**

**OF**

**COLFAX CORPORATION**

Pursuant to Section 151 of the

General Corporation Law of the State of Delaware

Colfax Corporation, a corporation organized and existing under the General Corporation Law of the State of Delaware (the Corporation ), in accordance with the provisions of Section 151 thereof, DOES HEREBY CERTIFY:

That pursuant to the authority conferred upon the Board of Directors of the Corporation (the Board ) in accordance with the Second Amended and Restated Certificate of Incorporation of the Corporation (the Certificate of Incorporation ) and the Amended and Restated Bylaws of the Corporation (the Bylaws ), the Board on September 10, 2011 adopted the following resolution, creating a series of 13,877,552 shares of Preferred Stock, par value \$0.001 per share, of the Corporation designated as Series A Perpetual Convertible Preferred Stock, which is subject to shareholder approval of certain amendments to the Certificate of Incorporation including amendments that will increase the authorized number of shares of preferred stock:

RESOLVED, that pursuant to the authority vested in the Board by Article IV of the Certificate of Incorporation and out of the Preferred Stock, par value \$0.001 per share, authorized therein, the Board hereby authorizes, designates and creates a series of Preferred Stock, and states that the designation and amount thereof and the voting powers, preferences and relative, participating, optional and other special rights of the shares of such series, and the qualifications, limitations or restrictions thereof be, and hereby are, as follows:

**Section 1. Number of Shares and Designation.**

The designation of the series of Preferred Stock created by this resolution shall be Series A Perpetual Convertible Preferred Stock (the Series ), and the number of shares constituting the Series shall be Thirteen Million Eight Hundred



Seventy-Seven Thousand Five Hundred Fifty-Two (13,877,552) (the Series A Preferred Stock ). Each share of Series A Preferred Stock shall have a liquidation preference of \$24.50 (the Liquidation Preference ).

**Section 2. Dividends.**

(1) Holders of Series A Preferred Stock shall be entitled to receive, on each share of Series A Preferred Stock, out of funds legally available for the payment of dividends under Delaware law, cumulative cash dividends with respect to each Dividend Period (as defined below) at a per annum rate of 6% (as such may be adjusted pursuant to this Section 2(1), the Dividend Rate ) on (i) the Liquidation Preference per share and (ii) to the extent unpaid on the Dividend Payment Date (as defined below), the amount of any accrued and unpaid dividends, if any, on such share of Series A Preferred Stock; *provided* that if, on any Dividend Payment Date, the Corporation shall not have paid in cash the full amount of any dividend required to be paid on such share (such amount being Unpaid Dividends ) on such Dividend Payment Date pursuant to this Section 2(1), then from such Dividend Payment Date, the Dividend Rate shall automatically be at a per annum rate of 8% for such share until the date on which all Unpaid Dividends have been declared and paid in full in cash. Dividends shall begin to accrue and be cumulative from the Issue Date (whether or not declared), shall compound on each Dividend Payment Date, and shall be payable in arrears (as provided below in this Section 2(1)), but only when, as and if declared by the Board (or a duly authorized committee of the Board) on each March 1, June 1, September 1 and December 1, and each Mandatory Conversion Date, Redemption Date and Liquidation Date (each, a Dividend Payment Date ); *provided* that if any such Dividend Payment Date would otherwise occur on a day that is not a Business Day, such Dividend Payment Date shall instead

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be (and any dividend payable on Series A Preferred Stock on such Dividend Payment Date shall instead be payable on) the immediately succeeding Business Day with no additional dividends payable as a result of such payment being made on such succeeding Business Day. Dividends that are payable on Series A Preferred Stock on any Dividend Payment Date will be payable to holders of record of Series A Preferred Stock as they appear on the stock register of the Corporation on the applicable record date, which shall be the fifteenth (15<sup>th</sup>) calendar day before such Dividend Payment Date (as originally scheduled) or such other record date fixed by the Board (or a duly authorized committee of the Board) that is not more than 60 nor less than 10 days prior to such Dividend Payment Date (each, a Dividend Record Date ). Any such day that is a Dividend Record Date shall be a Dividend Record Date whether or not such day is a Business Day. Each dividend period (a Dividend Period ) shall commence on and include the calendar day immediately following a Dividend Payment Date (other than the initial Dividend Period, which shall commence on and include the Issue Date) and shall end on and include the next Dividend Payment Date. Dividends payable in respect of a Dividend Period shall be payable in arrears on the first Dividend Payment Date after such Dividend Period.

(2) The Corporation (including its subsidiaries) shall not declare, pay or set apart funds for any dividends or other distributions with respect to any Junior Stock of the Corporation or repurchase, redeem or otherwise acquire, or set apart funds for repurchase, redemption or other acquisition of, any Junior Stock, or make any guarantee payment with respect thereto, unless all accrued but unpaid dividends on the Series A Preferred Stock for all Dividend Periods through and including the date of such declaration, payment, repurchase, redemption or acquisition (including, if applicable as provided in Section 2(1) above, dividends on such amount) have been declared and paid in full in cash (or declared and a sum sufficient for the payment thereof set apart for such payment). Without limitation of the foregoing, any such dividend or other distributions on the Junior Stock shall be subject to Section 2(3).

(3) In the event that any dividend is declared and paid on, or any distribution is made with respect to, any Junior Stock (including, without limitation, in connection with a recapitalization of the Corporation), the Series A Preferred Stock shall share proportionately with such Junior Stock in any such dividend or distribution, (a) if such Junior Stock is Common Stock or is convertible into Common Stock, in accordance with the number of shares of Common Stock issuable upon conversion of the Series A Preferred Stock calculated as of the record date for such dividend or distribution, or (b) if such Junior Stock is not Common Stock or convertible into Common Stock, in such manner and at such time as the Board may determine in good faith to be equitable in the circumstances.

(4) Any reference to dividends or distributions in this Section 2 shall not be deemed to include any distribution made in connection with any voluntary or involuntary dissolution, liquidation or winding up of the Corporation.

**Section 3. Mandatory Conversion; Optional Conversion; Redemption.**

(1) Mandatory Conversion at the Option of the Corporation.

(a) Mandatory Conversion. On or after the third anniversary of the Issue Date, the Corporation shall have the right, at its option, at any time or from time to time, to cause some or all of the outstanding shares of Series A Preferred Stock to be mandatorily converted (a Mandatory Conversion ) into fully paid and nonassessable shares of Common Stock at the Conversion Rate in effect as of the applicable Mandatory Conversion Date (as defined below) in accordance with the provisions of this Section 3(1), subject to satisfaction of the following conditions:

(i) the closing price of the Common Stock on the New York Stock Exchange (or, if the shares of Common Stock are not listed or admitted for trading on the New York Stock Exchange, as reported on the principal consolidated transaction reporting system on the principal national securities exchange on which the shares of Common Stock are listed or admitted for trading) shall exceed one-hundred and thirty-three percent (133%) of the Conversion Price for a

period of thirty (30) consecutive trading days ending on the trading day immediately preceding the date that the Corporation delivers a Mandatory Conversion Notice (as defined below); and

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(ii) the Corporation shall have declared and paid in full in cash, or shall have declared and set apart for payment in cash, all accrued but unpaid dividends (including, if applicable as provided in Section 2(1) above, dividends on such amount) on the Series A Preferred Stock for all Dividend Periods through and including the effective date of such Mandatory Conversion (the Mandatory Conversion Date ).

(b) Mechanics of Mandatory Conversion. In order to effect a Mandatory Conversion, the Corporation shall provide written notice (a Mandatory Conversion Notice ) to each holder of outstanding shares of Series A Preferred Stock by first class mail, postage prepaid, to such holder at such holder's address as it shall appear in the records of the Corporation or such other address as such holder shall specify to the Corporation in writing from time to time. The Mandatory Conversion Notice shall specify (i) the applicable Mandatory Conversion Date, and (ii) the number of shares of Common Stock that each holder shall be entitled to receive in connection with such Mandatory Conversion. Upon receipt of the Mandatory Conversion Notice, each holder of shares of Series A Preferred Stock shall surrender his, her, or its certificate of certificates for all such shares (or, if applicable, a pro rata portion thereof determined in accordance with the penultimate sentence of this Section 3(1)(b)) (or, if such certificate or certificates have been lost, stolen, or destroyed, a lost certificate affidavit and indemnity in form and substance reasonably acceptable to the Corporation) to the Corporation at its principal office or at the office of the agency which may be maintained for the purpose of administering conversions and redemptions of the shares of Common Stock (the Conversion Agent ), in each case, as specified in the applicable Mandatory Conversion Notice. All rights with respect to the shares of Series A Preferred Stock that are converted pursuant to a Mandatory Conversion shall terminate on the Mandatory Conversion Date, subject to the rights of the holders thereof to receive the items provided for in the following sentence. As soon as practicable after the Mandatory Conversion Date, but in no event later than ten (10) days after the Mandatory Conversion Date, the Corporation shall issue and deliver to each holder that has surrendered shares of Series A Preferred Stock in connection therewith, (i) a certificate or certificates (or if the holder shall so elect, and if permitted by applicable law, including without limitation the Securities Act of 1933, uncertificated book-entry shares) representing the number of fully paid and nonassessable shares of Common Stock issuable upon such conversion, with no personal liability attaching to the ownership thereof, free of all taxes with respect to the issuance thereof, liens, charges and security interests and not subject to any preemptive rights, into which such shares of Series A Preferred Stock have been converted in connection with such Mandatory Conversion, and (ii) any cash payable in respect of fractional shares as provided in Section 3(4). The converted shares of Series A Preferred Stock shall be retired and cancelled and may not be reissued. In the case of Mandatory Conversion of fewer than all of the shares of Series A Preferred Stock at the time outstanding, the shares of Series A Preferred Stock to be redeemed shall be selected, and allocated among the holders of outstanding shares of Series A Preferred Stock on a *pro rata* basis in accordance with the number of shares of Series A Preferred Stock then held by each such holder. In the event that fewer than all of the shares of Series A Preferred Stock represented by a certificate are converted in connection with a Mandatory Conversion, then a new certificate representing the unconverted shares of Series A Preferred Stock shall be issued to the holder of such certificate.

(2) Redemption at the Option of the Corporation.

(a) Redemption. On or after the fifth anniversary of the Issue Date, the Corporation shall have the right, at its option, at any time to redeem (a Redemption ) all (but not less than all) of the outstanding shares of Series A Preferred Stock in return for a payment in cash (the Call Payment ) equal, on a per share basis, to the greater of (i) the Conversion Price, and (ii) the Liquidation Preference, in each case, as of the applicable Redemption Date (as defined below) in accordance with the provisions of this Section 3(2), subject to satisfaction of the following conditions:

(i) on the trading date preceding the date of the Redemption Notice (as defined below) the closing price of the Common Stock on the New York Stock Exchange (or, if the shares of Common Stock are not listed or admitted for trading on the New York Stock Exchange, as reported on the



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principal consolidated transaction reporting system on the principal national securities exchange on which the shares of Common Stock are listed or admitted for trading) shall be less than the Conversion Price; and

(ii) the Corporation shall have declared and paid in full in cash, or shall have declared and set apart for payment in cash, all accrued but unpaid dividends (including, if applicable as provided in Section 2(1) above, dividends on such amount) on the Series A Preferred Stock for all Dividend Periods through and including the Redemption Date (as defined below).

(b) Mechanics of Redemption. In order to effect a Redemption, the Corporation shall provide written notice (a Redemption Notice ) of such Redemption to each holder of outstanding shares of Series A Preferred Stock by first class mail, postage prepaid, to such holder at such holder's address as it shall appear in the records of the Corporation or such other address as such holder shall specify to the Corporation in writing from time to time. Subject to the satisfaction of the conditions set forth in Section 3(2)(a)(i) and Section 3(2)(a)(ii), the Redemption shall become effective on the ninetieth (90<sup>th</sup>) day after delivery of the Redemption Notice, or if such date is not a Business Day, then on the next Business Day (such date, the Redemption Date ). The Redemption Notice shall specify (i) the applicable Redemption Date (determined in accordance with the preceding sentence), and (ii) the Call Payment to which each holder of outstanding shares of Series A Preferred Stock shall be entitled in connection with such Redemption. On or before the applicable Redemption Date, each holder of outstanding shares of Series A Preferred Stock to be redeemed shall surrender the certificate or certificates representing such shares (or, if such certificate or certificates have been lost, stolen, or destroyed, a lost certificate affidavit and indemnity in form and substance reasonably acceptable to the Corporation) to the Corporation at its principal office or to the Conversion Agent, in each case, as may be specified in the Redemption Notice, and upon receipt thereof by the Corporation or the Conversion Agent, as the case may be, the Call Payment for such redeemed shares shall be immediately due and payable in cash to the order of the record holder of the shares of Series A Preferred Stock being redeemed. From and after the Redemption Date, all dividends on shares of Series A Preferred Stock that are redeemed on such Redemption Date shall cease to accumulate and all rights of the holders thereof as holders of Series A Preferred Stock shall cease and terminate, so long as the Call Payment is received on the Redemption Date and the conditions to the effectiveness of such redemption set forth in Section 3(2)(a) are satisfied.

(3) Right of Holders to Optionally Convert.

(a) Each share of Series A Preferred Stock shall be convertible, in whole or in part, at the option of the holder thereof (an Optional Conversion ), at any time after the Issue Date, and from time to time, and without payment of any additional consideration by the holder of such share, into fully paid and nonassessable shares of Common Stock at the Conversion Rate in effect as of the applicable Optional Conversion Date (as defined below) in accordance with the procedures set forth in this Section 3(3).

(b) In order to effect an Optional Conversion, the holder of shares of Series A Preferred Stock to be converted shall (i) deliver a properly completed and duly executed written notice of election to convert (an Optional Conversion Notice ) to the Corporation at its principal office or to the Conversion Agent, and (ii) surrender the certificate or certificates for the shares of Series A Preferred Stock that are to be converted, accompanied, if so required by the Corporation or the Conversion Agent, by a written instrument or instruments of transfer in form reasonably satisfactory to the Corporation or the Conversion Agent, duly executed by the holder or its attorney duly authorized in writing. The Optional Conversion Notice shall specify: (i) the number (in whole shares) of shares of Series A Preferred Stock to be converted, and (ii) the name or names in which the converting holder wishes the certificate or certificates for shares of Common Stock in connection with such conversion to be issued.

(c) The Optional Conversion shall become effective at the close of business on the date (such date, the Optional Conversion Date ) of receipt by the Corporation or the Conversion Agent of the Optional Conversion Notice and the other items referred to in Section 3(3)(b). Promptly following the Optional Conversion Date (and in no event more than ten (10) days after the Optional Conversion Date), the Corporation shall deliver or cause to be delivered at the office or agency of the Conversion Agent, to or

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upon the written order of the holders of the surrendered shares of Series A Preferred Stock, (i) a certificate or certificates (or if the converting holder shall so elect, and if permitted by applicable law, including without limitation the Securities Act of 1933, uncertificated book-entry shares) representing the number of fully paid and nonassessable shares of Common Stock issuable upon such conversion, with no personal liability attaching to the ownership thereof, free of all taxes with respect to the issuance thereof, liens, charges and security interests and not subject to any preemptive rights, into which such shares of Series A Preferred Stock have been converted in connection with such Optional Conversion, (ii) a cash payment equal to the amount of all accrued but unpaid dividends (including, if applicable as provided in Section 2(1) above, dividends on such amount) for all Dividend Periods through and including the most recent Dividend Payment Date (the Cash Payment), provided, that, if on such Optional Conversion Date, the Corporation has not declared all or any portion of the accrued but unpaid dividends (including, if applicable as provided in Section 2(1) above, dividends on such amount) for all Dividend Periods through and including the most recent Dividend Payment Date, the converting holder shall receive (instead of and in full satisfaction of the Corporation's obligation to make the Cash Payment) such number of shares of Common Stock equal to the amount of accrued but unpaid dividends (including, if applicable as provided in Section 2(1) above, dividends on such amount), divided by the current market price per share of Common Stock, and (iii) any cash payable in respect of fractional shares as provided in Section 3(4). Except as described above, upon any Optional Conversion, the Corporation shall make no payment or allowance for unpaid dividends on the shares of Series A Preferred Stock that are converted in connection with such Optional Conversion. In the case of an Optional Conversion Date that occurs after a Dividend Record Date and before a Dividend Payment Date, the Cash Payment shall be reduced in an amount equal to any dividends declared with respect to such Dividend Record Date on any shares of Series A Preferred Stock that are converted on such Optional Conversion Date, provided that such dividends are actually received by the record holder of such shares on such Dividend Payment Date; or, to the extent that such reduction in the Cash Payment is less than the amount of such dividends to be received with respect to such Dividend Record Date, the excess amount thereof will be repaid to the Corporation.

(d) Upon the surrender of a certificate representing shares of Series A Preferred Stock that is converted in part, the Corporation shall issue or cause to be issued to the surrendering holder a new certificate representing shares of Series A Preferred Stock equal in number to the unconverted portion of the shares of Series A Preferred Stock represented by the certificate so surrendered.

(e) On the Optional Conversion Date, upon the delivery to the converting holder of the shares Common Stock issuable in connection with such conversion and the payments referred to in Section 3(3)(c)(ii) and (iii), the rights of the holders of the shares of converted Series A Preferred Stock and the person entitled to receive the shares of Common Stock upon the conversion of such shares of Series A Preferred Stock shall be treated for all purposes as having become the Beneficial Owner of such shares of Common Stock.

(4) Fractional Shares.

(a) No fractional shares or scrip representing fractional shares of Common Stock shall be issued upon the conversion of any shares of Series A Preferred Stock in connection with a Mandatory Conversion or Optional Conversion. Instead of any fractional interest in a share of Common Stock which would otherwise be deliverable upon the conversion of a share of Series A Preferred Stock in connection with a Mandatory Conversion or Optional Conversion, the Corporation shall pay to the holder of such share of Series A Preferred Stock an amount in cash (computed to the nearest cent) equal to the product of (A) such fraction and (B) the current market price (as defined below) of a share of Common Stock on the Business Day next preceding the day of conversion. If more than one share of Series A Preferred Stock shall be surrendered for conversion at one time by the same holder, the number of full shares of Common Stock issuable upon conversion thereof shall be computed on the basis of the aggregate Liquidation Preference of the shares of Series A Preferred Stock so surrendered.



(b) For the purposes of this Section 3, the current market price per share of Common Stock at any date shall be deemed to be the average of the daily closing prices on the New York Stock Exchange

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(or if the shares of Common Stock are not listed or admitted for trading on the New York Stock Exchange as reported on the principal consolidated transaction reporting system on the principal national securities exchange on which the shares of Common Stock are listed or admitted for trading) for the ten consecutive trading days immediately prior to the date in question or in the event that no trading price is available for the shares of Common Stock, the fair market value thereof, as determined in good faith by the Board.

(5) Reservation of Shares. The Corporation shall at all times when the Series A Preferred Stock shall be outstanding, reserve and keep available out of its authorized but unissued Common Stock, for the purpose of effecting the conversion of the Series A Preferred Stock pursuant to Section 3(1) and Section 3(3), such number of its duly authorized shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding Series A Preferred Stock.

**Section 4. Voting Rights.**

(1) Each share of Series A Preferred Stock shall entitle the holder thereof to vote on all matters voted on by holders of the Common Stock, voting together as a single class with the shares of Common Stock entitled to vote, at all meetings of the stockholders of the Corporation and in connection with any actions of the stockholders of the Corporation taken by written consent. With respect to any such vote, the holder of each share of Series A Preferred Stock shall be entitled to cast the number of votes equal to the number of votes which could be cast in such vote by a holder of the shares of Common Stock of the Corporation into which such holder's shares of Series A Preferred Stock are convertible as of the record date for such vote.

(2) The affirmative vote or consent of more than fifty percent (50%) of the shares of Series A Preferred Stock, voting separately as a class, shall be necessary for authorizing, approving, effecting or validating:

(a) the amendment, alteration or repeal of any of the provisions of the Certificate of Incorporation or Bylaws or any document amendatory or supplemental thereto (including this Certificate of Designations), whether by merger, consolidation or otherwise, that would adversely affect or cause to be terminated the powers, designations, preferences and other rights of the Series; or

(b) any other action for which a vote of the Series A Preferred Stock, voting separately as a class, is required by law.

Other than as specifically set forth in this Section 4 or to the extent of applicable law, the Series A Preferred Stock shall not be entitled to a separate vote on any matter.

**Section 5. Liquidation Rights.**

(1) Upon any voluntary or involuntary liquidation, dissolution or winding-up of the Corporation, each holder of shares of the Preferred Stock shall be entitled to payment out of the assets of the Corporation legally available for distribution of an amount per share of Series A Preferred Stock (the Liquidation Amount ) held by such holder equal to the greater of (i) the Liquidation Preference per share of Series A Preferred Stock held by such holder, plus any accrued but unpaid dividends (including, if applicable as provided in Section 2(1) above, dividends on such amount) in respect of such shares, whether or not declared paid in cash, calculated to the date fixed for liquidation, dissolution or winding-up (the Liquidation Date ), and (ii) the amount that the holders of Series A Preferred Stock would have received in connection with such liquidation, dissolution or winding up had each share of Series A Preferred Stock been converted into shares of Common Stock pursuant to Section 3(3) immediately prior to such liquidation, dissolution or winding up of the Corporation, before any distribution is made on any Junior Stock of the Corporation. After payment in full of the Liquidation Amount to which holders of Series A Preferred Stock are entitled, such

holders shall not be entitled to any further participation in any distribution of assets of the Corporation in respect of their shares of Series A Preferred Stock. If, upon any voluntary or involuntary liquidation, dissolution or winding-up of the Corporation, the amounts payable with respect to the Series A Preferred Stock are not paid in full, the holders of the Series A Preferred Stock will share in any distribution of assets of the Corporation on a *pro rata* basis in proportion to the number of shares of Series A Preferred Stock held by each such holder.

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(2) Neither the voluntary sale, conveyance, exchange or transfer (for cash, shares of stock, securities or other consideration) of all or substantially all of the property or assets of the Corporation nor the consolidation or merger of the Corporation with or into one or more Persons will be deemed to be a voluntary or involuntary liquidation, dissolution or winding-up of the Corporation for purposes of this Section 5.

**Section 6. Pre-emptive Rights**

(1) Except for (i) (A) the issuance of any shares of Common Stock or options or rights to purchase those shares pursuant to any present or future employee, director or consultant benefit plan, program or practice of or assumed by the Corporation or any of its subsidiaries or (B) the issuance of any shares of Common Stock pursuant to any option, warrant, right or exercisable, exchangeable or convertible security outstanding as of the Issue Date, (ii) a subdivision (including by way of a stock dividend) of the outstanding shares of Common Stock into a larger number of shares of Common Stock, and (iii) the issuance of capital stock as full or partial consideration for a merger, acquisition, joint venture, strategic alliance, or other similar non-financing transaction, if, from the Issue Date until the date that is twenty-four (24) months after the Issue Date, the Corporation wishes to issue any shares of capital stock or any other securities convertible into or exchangeable for capital stock of the Corporation (collectively, New Securities ) at a price per share less than the Liquidation Preference (a Dilutive Issuance ) to any person (the Proposed Purchaser ), then the Corporation shall send written notice (the New Issuance Notice ) to the holders of the Series A Preferred Stock, which New Issuance Notice shall state (x) the number of New Securities proposed to be issued and (y) the proposed purchase price per share of the New Securities (the Proposed Price ).

(2) For a period of fifteen (15) Business Days after the giving of the New Issuance Notice, each holder of the Series A Preferred Stock shall have the right to purchase (a) if the Dilutive Issuance occurs during the period from the Issue Date until the date that is two hundred seventy (270) days after the Issue Date, up to its Proportionate Share (as defined below) of the New Securities, or (b) if the Dilutive Issuance occurs after such two-hundred-seventy-(270)-day period, up to its Double Proportionate Share (as defined below) of the New Securities, in each case at a purchase price per share equal to the Proposed Price and upon the terms and conditions set forth in the New Issuance Notice. As used herein, the term Proportionate Share means, as to each holder of Series A Preferred Stock as of a given date, the fraction, expressed as a percentage, determined by dividing (i) a number of shares of Common Stock Beneficially Owned by such holder and (without duplication) its Permitted Transferees (other than any other holder of shares of Series A Preferred Stock) plus the number of shares of Common Stock into which the shares of Series A Preferred Stock then Beneficially Owned by such holder are convertible as of such date, by (ii) the number of shares of Common Stock of the Corporation issued and outstanding as of such date, calculated on a fully-diluted basis, assuming conversion of all outstanding convertible securities (including the Series A Preferred Stock) and the exercise in full of all existing warrants at the then-existing conversion or exercise price, but excluding any Unexercised Options and RSUs. As used herein, the term Double Proportionate Share means, as to each holder of Series A Preferred Stock as of a given date, such holder's Proportionate Share as of such date multiplied by two (2).

(3) The right of each holder of Series A Preferred Stock to purchase the New Securities shall be exercisable by delivering written notice of its exercise, prior to the expiration of the fifteen (15) Business Day period referred to in Section 6(2) above, to the Corporation, which notice shall state the amount of New Securities that the holder elects to purchase. The failure of such holder to respond within the fifteen (15) Business Day period or to pay for such New Securities when such payment is due shall be deemed to be a waiver of such holder's rights under this Section 6 only with respect to the Dilutive Issuance described in the applicable New Issuance Notice.

(4) Except for the foregoing and to the extent arising under applicable law, there are no pre-emptive rights associated with the Series A Preferred Stock.

**Section 7. Ranking and Issuance of Parity Stock or Senior Stock Prior to Conversion**

The Series A Preferred Stock shall rank senior to any series of Junior Stock with respect to the payment of dividends and distributions and rights upon liquidation, dissolution or winding up of the Corporation. Prior to the conversion or redemption or retirement and cancellation of all shares of the Series A Preferred Stock in

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accordance with this Certificate of Designations, the Corporation shall not issue an Parity Stock or Senior Stock, or authorize any additional shares of Series A Preferred Stock.

**Section 8. Retirement.**

If any share of the Series A Preferred Stock is purchased or otherwise acquired by the Corporation in any manner whatsoever, then such share shall be retired and promptly cancelled. Upon the retirement or cancellation of a share of Series A Preferred Stock, such share shall not for any reason be reissued as shares of the Series.

**Section 9. Definitions.**

Capitalized terms not otherwise defined in this Certificate of Designations shall have the following meanings:

Beneficial Ownership and Beneficially Own and similar terms shall have the meaning set forth in Rule 13d-3 under the Securities Exchange Act of 1934.

Board shall have the meaning set forth in the Preamble.

Business Day means a day other than Saturday, Sunday or a day on which banking institutions in any of London, UK, St. Helier, Jersey and New York, New York, USA are authorized or obligated to close.

Bylaws shall have the meaning set forth in the Preamble.

Call Date shall have the meaning set forth in Section 3(2).

Call Payment shall have the meaning set forth in Section 3(2).

Certificate of Incorporation shall have the meaning set forth in the Preamble.

Common Stock means the Corporation's common stock, par value \$0.001 per share.

Conversion Agent shall have the meaning set forth in Section 3(1)(b).

Conversion Price means, for each share of Series A Preferred Stock, the U.S. dollar amount equal to the Liquidation Preference divided by the then-applicable Conversion Rate.

Conversion Rate means the Liquidation Preference divided by 114% of the Liquidation Preference, subject to the following adjustments:

- (i) If the Corporation shall (1) declare or pay a dividend on its outstanding Common Stock in shares of Common Stock or make a distribution to holders of its Common Stock in shares of Common Stock, (2) subdivide its outstanding shares of Common Stock into a greater number of shares of Common Stock, (3) combine its outstanding shares of Common Stock into a smaller number of shares of Common Stock or (4) issue by reclassification of its shares of Common Stock other securities of the Corporation, then the Conversion Rate in effect immediately prior thereto shall be adjusted so that a holder of any shares of Series A Preferred Stock thereafter converted shall be entitled to receive the number and kind of shares of Common Stock or other securities that such holder of Series A Preferred Stock would have owned or been entitled to receive after the happening of any of the events described above had such shares of Series A Preferred Stock been converted immediately prior to the happening of such event or any

record date with respect thereto. An adjustment so made shall become effective on the date of the dividend payment, subdivision, combination or issuance retroactive to the record date with respect thereto, if any, for such event. Such adjustment shall be made successively.

(ii) If the Corporation shall be a party to any transaction, including without limitation a merger, consolidation, sale of all or substantially all of the Corporation's assets, reorganization, liquidation or recapitalization of the Common Stock (each of the foregoing being referred to as a Transaction ), in each case as a result of which shares of Common Stock shall be converted into the right to receive stock, securities or other property (including cash or any combination thereof),

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each share of Series A Preferred Stock shall, upon consummation of the Transaction, be convertible into the kind and amount of shares of stock and other securities and property receivable (including cash) upon the consummation of such Transaction by a holder of that number of shares of Common Stock into which one share of Series A Preferred Stock was convertible immediately prior to such Transaction.

Corporation shall have the meaning set forth in the Preamble.

Dilutive Issuance shall have the meaning set forth in Section 6.

Dividend Payment Date shall have the meaning set forth in Section 2(1).

Dividend Period shall have the meaning set forth in Section 2(1).

Dividend Rate shall have the meaning set forth in Section 2(1).

Dividend Records Date shall have the meaning set forth in Section 2(1).

Double Proportionate Percentage shall have the meaning set forth in Section 6.

Issue Date means the date on which any shares of Series A Preferred Stock are first issued by the Corporation.

Junior Stock means the Common Stock and any other class or series of stock of the Corporation, other than Series A Preferred Stock and Senior Stock not expressly ranking senior to the Series A Preferred Stock with respect to the payment of dividends and distributions.

Liquidation Date shall have the meaning set forth in Section 5.

Liquidation Amount shall have the meaning set forth in Section 5.

Liquidation Preference shall have the meaning set forth Section 1, subject to the adjustments set forth in the definition of Conversion Rate .

Mandatory Conversion shall have the meaning set forth in Section 3(1).

Mandatory Conversion Date means the effective date of a mandatory conversion of the shares of Series A Preferred Stock pursuant to Section 3(1).

Mandatory Conversion Notice shall have the meaning set forth in Section 3(1).

New Issuance Notice shall have the meaning set forth in Section 6.

New Securities shall have the meaning set forth in Section 6.

Optional Conversion shall have the meaning set forth in Section 3(3).

Optional Conversion Date means the effective date of an optional conversion of the shares of Series A Preferred Stock pursuant to Section 3(3).



Optional Conversion Notice shall have the meaning set forth in Section 3(3).

Parity Stock means any class or series of stock of the Corporation that would expressly rank equal to the Series A Preferred Stock with respect to the payment of dividends and distributions.

Permitted Transferee shall have the meaning set forth in the Certificate of Incorporation.

Person means an individual, a partnership, a joint venture, a corporation, a limited liability company, a trust, an unincorporated organization and a government or any department or agency thereof.

Preferred Stock means the Corporation's preferred stock, par value \$0.001 per share.

Proportionate Percentage shall have the meaning set forth in Section 6.

Proposed Purchase shall have the meaning set forth in Section 6.

Redemption shall have the meaning set forth in Section 3(2).

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Redemption Date means the effective date of a redemption of the shares of Series A Preferred Stock pursuant to Section 3(2).

Redemption Notice shall have the meaning set forth in Section 3(2).

Senior Stock means any class or series of stock of the Corporation that would expressly rank senior to the Series A Preferred Stock with respect to the payment of dividends and distributions and/or rights upon liquidation or winding up of the Corporation.

Series shall have the meaning set forth in Section 1.

Series A Preferred Stock shall have the meaning set forth in Section 1.

Unexercised Options and RSUs means (i) any convertible securities outstanding as of the Issue Date, or (ii) any options, restricted stock units or similar awards issued to officers, employees, consultants or directors of the Corporation or its subsidiaries, in each case, in the form of Common Stock or entitling the holder thereof to receive shares of Common Stock upon the exercise or conversion thereof.

Unpaid Dividends shall have the meaning set forth in Section 2(1).

**Section 10. Descriptive Headings and Governing Law.**

The descriptive headings of the several Sections and paragraphs of this Certificate of Designations are inserted for convenience only and do not constitute a part of this Certificate of Designations. The General Corporation Law of the State of Delaware shall govern all issues concerning this Certificate of Designations.

**IN WITNESS WHEREOF**, Colfax Corporation has caused this Certificate to be duly executed in its corporate name this day of , 20.

**COLFAX CORPORATION**

By:  
Name:  
Title:

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**Exhibit C**

NOT FOR RELEASE, PUBLICATION OR DISTRIBUTION, IN WHOLE OR IN PART, DIRECTLY OR INDIRECTLY, IN, INTO OR FROM ANY JURISDICTION WHERE TO DO SO WOULD CONSTITUTE A VIOLATION OF THE RELEVANT SECURITIES LAWS OF SUCH JURISDICTION

**12 September 2011**

**RECOMMENDED CASH AND SHARE OFFER**

**for**

**CHARTER INTERNATIONAL PLC**

**by**

**COLFAX UK HOLDINGS LTD  
a wholly-owned subsidiary of**

**COLFAX CORPORATION**

The Board of Charter and the Board of Colfax are pleased to announce that they have reached agreement on the terms of a recommended cash and share offer to be made by Bidco, a wholly-owned subsidiary of Colfax, for the entire issued and to be issued share capital of Charter.

**Highlights**

Under the terms of the Acquisition, Charter Shareholders will be entitled to receive:

**for each Charter Share:  
730 pence in cash; and  
0.1241 New Colfax 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 US\$23.04 per Colfax Share on 9 September

for each Charter Share: 730 pence in cash; and 0.1241 New Colfax Shares

2011, being the last Business Day before this announcement).

The Offer Consideration, with Charter Shareholders having already received the interim dividend of 8 pence per Charter Share, represents a premium of:

Ø approximately 48.0 per cent. to the Closing Price of 615 pence per Charter Share on 28 June 2011 (being the last Business Day before Charter announced it had received a preliminary approach from Melrose regarding a possible offer);

Ø approximately 16.7 per cent. to Melrose's initial offer of 780 pence per Charter Share made by Melrose on 28 June 2011; and

Ø a premium of approximately 13.2 per cent. to the Closing Price of 804 pence per Charter Share on 9 September 2011 (being the last Business Day before this announcement).

A Mix and Match Facility will be provided, which will allow Charter Shareholders to elect to vary the proportions in which they receive New Colfax Shares and cash.

A Loan Note Alternative will also be available to Charter Shareholders.

The Acquisition will be funded from a combination of proceeds of an equity issue by Colfax, new debt facilities and Colfax's existing cash resources.

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, or if Bidco elects, a takeover offer (as that term is defined under Article 116(1) of the Companies (Jersey) Law 1991) to Charter Shareholders. 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 set out in this announcement, will require the sanction of the Court.

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On 29 July 2011, concurrently with the release of its interim results for the second quarter of 2011, Colfax provided earnings guidance to the market which the Panel has determined amounted to profit forecasts for the purpose of Rule 28 of the City Code. Colfax will therefore prepare a report on such forecasts pursuant to Rule 28.3 of the City Code as soon as practicable. When the report has been completed, a public announcement will be released and the report will be made available on Colfax's website at [www.colfaxcorp.com](http://www.colfaxcorp.com).

The Board of Charter, which has been so advised by Goldman Sachs International, J.P. Morgan Cazenove and RBS, considers the terms of the Acquisition to be fair and reasonable. In providing financial advice to the Board of Charter, Goldman Sachs International, J.P. Morgan Cazenove and RBS have taken into account the Board's commercial assessments. Goldman Sachs International is providing the independent financial advice for the purposes of Rule 3 of the City Code and J.P. Morgan Cazenove and RBS are also acting as financial advisers to the Board of Charter.

Accordingly, the Board of Charter intends unanimously to recommend that Charter Shareholders 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 an Offer, to accept or procure acceptance of such Offer).

Colfax has received irrevocable undertakings from those members of the Board of Charter who hold beneficial interests in the Charter Shares to vote in favour of the Scheme (or, in the event that the Acquisition is implemented by way of a takeover offer, to accept the Offer) in respect of their entire beneficial holdings which total 176,977 Charter Shares in aggregate representing approximately 0.1 per cent. of Charter's issued share capital as at the date of this announcement. Further details of these irrevocable undertakings are set out in Appendix 3 to this announcement.

Further details of the Acquisition and the Scheme will be contained in the Scheme Document that will be posted to Charter Shareholders and, for information purposes only, to participants in the Charter Executive Share Schemes and the Phantom Restricted Scheme Plans as soon as practicable.

Commenting on the Acquisition, Mitchell P. Rales, the Chairman of Colfax and Clay H. Kiefaber, Colfax President and Chief Executive Officer of Colfax said:

*This is a transformational acquisition for Colfax that accelerates our growth strategy, enhances our business profile and continues our journey to becoming a premier global enterprise. We are very pleased that Charter's Board has recommended our offer, which we believe will bring significant benefits for both companies' shareholders. Charter shareholders will receive an immediate premium and share in the upside of the combined company through the stock component of our offer, while Colfax shareholders will benefit from the significant earnings accretion and value creation opportunities that this combination will create.*

*Charter International, with its global brands, is an excellent strategic fit that will significantly enhance our position in emerging markets, create an even balance of short- and long-cycle businesses and grow our aftermarket revenues, said Clay H. Kiefaber, Colfax President and Chief Executive Officer. Howden will be a great complement to our existing specialty fluid handling business and ESAB will be the nucleus of a new growth platform. In addition, we believe the application of the Colfax Business System will drive meaningful operational improvements.*

Commenting on the decision by the Board of Charter to recommend the Acquisition, Lars Emilson, the Chairman of Charter said:

*The Board believes this is an attractive offer for Charter shareholders, reflecting the strengths of both ESAB and Howden's market leading positions, and their growth prospects. The proposed acquisition represents a premium of approximately 48.0 per cent. to Charter's share price before we entered into an offer period and before the recent decline in global financial markets. Colfax is a global engineering company which is complementary to Charter, with a strong reputation for its quality brands, leading positions, and a long term vision for growth and returns. Colfax has committed to providing continued stability for our employees and continued development of the ESAB and Howden offering for our customers. The Board of Charter intends to recommend the proposed acquisition to shareholders.*



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**This summary should be read in conjunction with the following full announcement and the Appendices.**

The Acquisition will be subject to the Conditions and other terms set out in Appendix 1 to the announcement and to the full terms and conditions which will be set out in the Scheme Document. Appendix 2 contains bases and sources of certain information contained in this announcement. Details of irrevocable undertakings received by Colfax are set out in Appendix 3 to the announcement. Certain terms used in this summary and the full announcement are defined in Appendix 4 to the announcement.

A copy of this announcement will be available, subject to certain restrictions in relation to persons resident in Restricted Jurisdictions, at Charter's website at [www.charter.ie](http://www.charter.ie) and at Colfax's website at [www.colfaxcorp.com](http://www.colfaxcorp.com). Neither the contents of Charter's website, the contents of Colfax's website, nor the content of any other website accessible from hyperlinks on either Charter's or Colfax's website, is incorporated into or forms part of this announcement.

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**RBS Corporate Finance Limited**

*(Financial adviser and corporate broker to Charter)*

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David Smith

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*This announcement is not intended to and does not constitute or form part of any offer to sell or subscribe for or any invitation to purchase or subscribe for any securities or the solicitation of any vote or approval in any jurisdiction pursuant to the Acquisition or otherwise. The Acquisition will be made solely pursuant to the terms of the Scheme Document (or, if applicable, the Offer Document), which will contain the full terms and conditions of the Acquisition, including details of how to vote in respect of the Acquisition or to elect to sell shares in connection with the acquisition, as the case may be. Any decision in respect of, or other response to, the Acquisition should be made only on the basis of the information contained in the Scheme Document.*

*The release, publication or distribution of this announcement in jurisdictions other than the United Kingdom, Jersey and the United States may be restricted by law and therefore any persons who are subject to the laws of any jurisdiction other than the United Kingdom, Jersey and the United States should inform themselves about, and observe any applicable requirements. In particular, the ability of persons who are not resident in the United Kingdom, Jersey or the United States to vote their Charter Shares with respect to the Scheme at the Meetings, or to execute and deliver forms of proxy appointing another to vote at the Meetings on their behalf, may be affected by the laws of the relevant jurisdictions in which they are located. This announcement has been prepared for the purpose of complying with Jersey law and the City Code and the information disclosed may not be the same as that which would have been disclosed if this announcement had been prepared in accordance with the laws of jurisdictions outside the United Kingdom or Jersey.*

*Copies of this announcement and any formal documentation relating to the Acquisition are not being, and must not be, directly or indirectly, mailed or otherwise forwarded, distributed or sent in or into or from any Restricted Jurisdiction and persons receiving such documents (including custodians, nominees and trustees) must not mail or otherwise forward, distribute or send it in or into or from any Restricted Jurisdiction. If the Acquisition is implemented by way of an Offer (unless otherwise permitted by applicable law and regulation), the Offer may not be made directly or indirectly, in or into, or by the use of mails or any means or instrumentality (including, but not limited to, facsimile, e-mail or other electronic transmission, telex or telephone) of interstate or foreign commerce of, or of any facility of a national, state or other securities exchange of any Restricted Jurisdiction and the Offer may not be capable of acceptance by any such use, means, instrumentality or facilities.*

*Notice to US investors in Charter: The Acquisition relates to the shares of a Jersey company that is a foreign private issuer (as defined under Rule 3b-4 under the US Exchange Act) and is being made by means of a scheme of arrangement provided for under Jersey company law. A transaction effected by means of a scheme of arrangement is not subject to the tender offer rules or the proxy solicitation rules under the US Exchange Act. Accordingly, the Acquisition is subject to the disclosure requirements and practices applicable in Jersey to schemes of arrangement which differ from the disclosure requirements of United States tender offer and proxy solicitation rules. Financial information included in this announcement and the Scheme Document has been or will have been prepared in accordance with accounting standards applicable in the United Kingdom that may not be comparable to financial information of US companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the United States. If, in the future, Bidco exercises the 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 securities of Colfax referred to in this announcement have not been registered under the Securities Act, and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act.*

*The issuance of New Colfax Shares pursuant to the Scheme will not be registered under the Securities Act, and will be issued pursuant to the exemption provided by Section 3(a)(10) under the Securities Act. In the event that Colfax*

*determines to conduct the Acquisition pursuant to a takeover offer or otherwise in a manner that is not exempt from the registration requirements of the Act, it will file a registration statement with the Securities and Exchange Commission ( SEC ) that will contain a prospectus. In this event, Charter Shareholders are urged to read these documents and any other relevant documents filed with the SEC, as well as any amendments or supplements to those documents, because they will contain important information, and such documents will be available free of charge at the SEC s website at [www.sec.gov](http://www.sec.gov).*

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*Neither the US Securities and Exchange Commission, nor any US state securities commission, has approved or disapproved of the Loan Notes or the New Colfax Shares to be issued in connection with the Acquisition, or determined if this announcement is accurate or complete. Any representation to the contrary is a criminal offence in the US.*

*Deutsche Bank AG is authorised under German Banking Law (competent authority: BaFin – Federal Financial Supervisory Authority) and authorised and subject to limited regulation by the Financial Services Authority. Details about the extent of Deutsche Bank AG's authorisation and regulation by the Financial Services Authority 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 announcement 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 any matters referred to in this announcement.*

*Goldman Sachs International, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting exclusively for Charter and for no-one else in connection with the matters set out in this announcement and will not be responsible to any person other than Charter for providing the protections afforded to clients of Goldman Sachs International, nor for providing advice in relation to the matters set out in this announcement.*

*J.P. Morgan Limited, which conducts its UK investment banking business as J.P. Morgan Cazenove and is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting exclusively as financial adviser and corporate broker to Charter and for no one else in connection with the matters set out in this announcement and will not be responsible to anyone other than Charter for providing the protections afforded to its clients nor for providing advice in relation to the matters set out in this announcement.*

*RBS Corporate Finance Limited, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting as financial adviser and corporate broker to Charter and no one else in connection with the matters set out in this announcement and will not be responsible to anyone other than Charter for providing the protections afforded to its clients nor for providing advice in relation to the matters set out in this announcement.*

## **Cautionary Note Regarding Forward-Looking Statements**

*This document contains certain statements about Colfax and Charter that are or may be forward-looking statements – that is, statements related to future, not past, events, including forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. These statements are based on the current expectations of the management of Colfax and Charter (as the case may be) and are subject to uncertainty and changes in circumstances, and involve risks and uncertainties that could cause actual results to differ materially from those expressed or implied in such forward-looking statements.*

*The forward-looking statements contained in this press release may include statements about the expected effects on Charter and Colfax of the Acquisition, the expected timing and scope of the Acquisition, strategic options and all other statements in this document other than historical facts. Without limitation, any statements preceded or followed by or that include the words targets, plans, believes, expects, aims, intends, will, may, anticipates, estimates, projects, seeks, sees, should, would, expect, positioned, strategy, or words or terms of similar substance or the negative thereof, are forward-looking statements. Forward-looking statements include statements relating to the following: (i) future capital expenditures, expenses, revenues, earnings, synergies, economic performance, indebtedness, financial condition, losses and future prospects; (ii) business and*

*management strategies and the expansion and growth of Colfax's or Charter's operations and potential synergies resulting from the Acquisition; (iii) the effects of government regulation on Colfax's or Charter's business, and (iv) Colfax's plans, objectives, expectations and intentions generally.*

*There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements, including the satisfaction of the conditions to the Acquisition and other risks related to the Acquisition and actions related thereto. Additional particular uncertainties that could cause Colfax's actual results to be materially different than those expressed in its forward-looking statements include: risks associated with Colfax's international operations; significant*

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*movements in foreign currency exchange rates; changes in the general economy, as well as the cyclical nature of Colfax's markets; Colfax's ability to accurately estimate the cost of or realize savings from Colfax's restructuring programs; availability and cost of raw materials, parts and components used in Colfax products; the competitive environment in Colfax's industry; Colfax's ability to identify, finance, acquire and successfully integrate attractive acquisition targets, including Charter should the Acquisition be successful; Colfax's ability to complete the Acquisition as planned and achieve expected synergies in connection with the Acquisition, and risks relating to any unforeseen liabilities of Charter; Colfax's ability to achieve or maintain credit ratings (in light of the Acquisition and financing of the Acquisition or otherwise) and the impact on its funding costs and competitive position if Colfax does not do so; and others risks and factors as disclosed in Colfax's Annual Report on Form 10-K under the caption Risk Factors. Other unknown or unpredictable factors could also cause actual results to differ materially from those in any forward-looking statement.*

*Due to such uncertainties and risks, readers are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date hereof. None of Colfax or Charter undertakes any obligation to update publicly or revise forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent legally required.*

## **Dealing and Opening Position Disclosure Requirements**

*Under Rule 8.3(a) of the City Code, any person who is interested in one per cent. or more of any class of relevant securities of an offeree company or of any paper offeror (being any offeror other than an offeror in respect of which it has been announced that its offer is, or is likely to be, solely in cash) must make an Opening Position Disclosure following the commencement of the offer period and, if later, following the announcement in which any paper offeror is first identified.*

*An Opening Position Disclosure must contain details of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any paper offeror(s). An Opening Position Disclosure by a person to whom Rule 8.3(a) applies must be made by no later than 3.30 pm (London time) on the 10<sup>th</sup> business day following the commencement of the offer period and, if appropriate, by no later than 3.30 pm (London time) on the 10<sup>th</sup> business day following the announcement in which any paper offeror is first identified. Relevant persons who deal in the relevant securities of the offeree company or of a paper offeror prior to the deadline for making an Opening Position Disclosure must instead make a Dealing Disclosure. Under Rule 8.3(b) of the City Code, any person who is, or becomes, interested in 1 per cent. or more of any class of relevant securities of the offeree company or of any paper offeror must make a Dealing Disclosure if the person deals in any relevant securities of the offeree company or of any paper offeror. A Dealing Disclosure must contain details of the dealing concerned and of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any paper offeror, save to the extent that these details have previously been disclosed under Rule 8. A Dealing Disclosure by a person to whom Rule 8.3(b) applies must be made by no later than 3.30 pm (London time) on the business day following the date of the relevant dealing. If two or more persons act together pursuant to an agreement or understanding, whether formal or informal, to acquire or control an interest in relevant securities of an offeree company or a paper offeror, they will be deemed to be a single person for the purpose of Rule 8.3.*

*Opening Position Disclosures must also be made by the offeree company and by any offeror and Dealing Disclosures must also be made by the offeree company, by any offeror and by any persons acting in concert with any of them (see Rules 8.1, 8.2 and 8.4). Details of the offeree and offeror companies in respect of whose relevant securities Opening Position Disclosures and Dealing Disclosures must be made can be found in the Disclosure Table on the Takeover*

*Panel's website at [www.thetakeoverpanel.org.uk](http://www.thetakeoverpanel.org.uk), including details of the number of relevant securities in issue, when the offer period commenced and when any offeror was first identified. If you are in any doubt as to whether you are required to make an Opening Position Disclosure or a Dealing Disclosure, you should contact the Panel's Market Surveillance Unit on +44 (0)20 7638 0129.*

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requirements of the City Code and other practicalities.

The Offer Consideration, with Charter Shareholders having already received the interim dividend of 8 pence per Charter Share, represents a premium of:

- Ø approximately 48.0 per cent. to the Closing Price of 615 pence per Charter Share on 28 June 2011 (being the last Business Day before Charter announced it had received a preliminary approach from Melrose regarding a possible offer);
- Ø approximately 16.7 per cent. to Melrose's initial offer of 780 pence per Charter Share made by Melrose on 28 June 2011; and
- Ø a premium of approximately 13.2 per cent. to the Closing Price of 804 pence per Charter Share on 9 September 2011 (being the last Business Day before this announcement).

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 or, if Bidco elects, a takeover offer (as that term is defined under Article 116(1) of the Companies (Jersey) Law 1991). 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 set out in this announcement, will require the sanction of the Court.



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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.

On 29 July 2011, concurrently with the release of its interim results for the second quarter of 2011, Colfax provided earnings guidance to the market which the Panel has determined amounted to profit forecasts for the purpose of Rule 28 of the City Code. Colfax will therefore prepare a report on such forecasts pursuant to Rule 28.3 of the City Code as soon as practicable. When the report has been completed, a public announcement will be released and the report will be made available on Colfax's website at [www.colfaxcorp.com](http://www.colfaxcorp.com).

### Recommendation

The Board of Charter, which has been so advised by Goldman Sachs International, J.P. Morgan Cazenove and RBS, considers the terms of the Acquisition to be fair and reasonable. In providing financial advice to the Board of Charter, Goldman Sachs International, J.P. Morgan Cazenove and RBS have taken into account the Board's commercial assessments. Goldman Sachs International is providing the independent financial advice for the purposes of Rule 3 of the City Code and J.P. Morgan Cazenove and RBS are also acting as financial advisers to the Board of Charter.

Accordingly, the Board of Charter intends unanimously to recommend that Charter Shareholders 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 an Offer, to accept or procure acceptance of such Offer) as those members of the Board of Charter who hold beneficial interests in Charter Shares have irrevocably undertaken to do in respect of their entire beneficial holdings which totals 176,977 Charter Shares in aggregate representing approximately 0.1 per cent. of Charter's issued share capital.

Further details of these irrevocable undertakings are set out in Appendix 3.

### Information relating to Colfax and Bidco

## **Colfax**

Colfax, headquartered in Fulton, Maryland, U.S.A., 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.

Over the last few years, Colfax has successfully grown its systems business, providing its customers with complete fluid handling systems and solutions. In the 2010 financial year, approximately 15 per cent. of total revenues (approximately US\$79 million) were derived from systems (up from approximately 4 per cent. in the 2006 financial year). Pumps, including aftermarket parts and services, contributed 82 per cent. of total revenues (approximately US\$445 million) in the 2010 financial year (more than 90 per cent. in the 2006 financial year). Valves and other products accounted for approximately 3 per cent. of total revenues (approximately US\$18 million in the 2010 financial year).

Colfax products are marketed principally under the Allweiler, Baric, Fairmount, Houttuin, Imo, LSC, Portland Valve, Tushaco, Warren and Zenith industrial brand names.

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**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 this announcement (except for entering into transactions relating to the Acquisition).

Further details of Bidco will be contained in the Scheme Document.

Information relating to Charter

Charter International plc is the holding company of a global group of engineering companies. Charter's businesses are focussed on welding, cutting and automation ( **ESAB** ) and on air and gas handling ( **Howden** ).

**Summarised financial information**

In its most recent financial year, ended 31 December 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 30 June 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 (2009: 32.8 pence). An interim dividend of 8.0 pence per share (2010: 7.5 pence) was declared and was paid to Charter Shareholders on 2 September 2011.

**Additional information on ESAB**

ESAB is a leading international welding and cutting company. With a heritage dating back to the evolution of the welding process, ESAB formulates, develops, manufactures and supplies consumable products and equipment for use in the cutting and joining of steels and other metals.

ESAB's comprehensive range of welding consumables includes electrodes, cored and solid wires, and fluxes. ESAB's welding and cutting equipment ranges from standard equipment to large bespoke plants used in industrial applications.

The principal end-user segments that it supplies are energy, transport, infrastructure and general industrial.

From its origins in Sweden at the start of the twentieth century, ESAB has developed into a highly international business; at present, its sales are split broadly evenly between the developed economies of Europe and North America, and emerging markets. ESAB is a leading participant in the welding industry in Europe, North America, South America and India and is developing its operations in Africa, the Middle East, China and elsewhere in Asia.

In July 2011, ESAB announced its strategic objectives for the further development of its business. By building on its established strengths and pursuing identified opportunities, ESAB aims to achieve 10 per cent. organic revenue CAGR, a through cycle operating margin of 10 per cent., and (by the end of 2013) to reduce working capital to 19 per cent. of revenue.

## **Additional information on Howden**

Howden is a leading international applications engineer. Headquartered in Renfrew, Scotland, Howden designs, manufactures, installs and maintains various types of air and gas handling equipment for use in the power, oil and gas, petrochemical and other industries.

Howden's principal products are fans, heat exchangers and compressors. The fans and heat exchangers are used mainly in the generation of electricity by coal-fired power stations, both in combustion and the control of emissions, and other large scale industrial plant. Howden's compressors are mainly used in the oil, gas and petrochemical industries.

New equipment sales generally account for around two-thirds of Howden's revenues. Howden has successfully grown its aftermarket business which accounts for around one-third of Howden's revenue.

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The coal-fired power industry currently accounts for around one-third of Howden's sales of new equipment as the share of revenue from other industries, especially oil and gas, has increased. Overall, the energy sector is estimated to account for some two-thirds of Howden's revenues in new equipment. These figures are based on the pro forma figures for new product sales in 2010 (inclusive of Thomassen Compression Systems which was not acquired until March 2011).

Howden has significant market positions in Europe, North America, China, South Africa and Australia. Howden has recently increased its presence in India, through a joint venture agreement with Larsen & Toubro, a major engineering and construction company, and in Brazil, where it has opened a much enhanced factory. Overall, around one-half of Howden's sales are made in emerging markets and this proportion is expected to increase progressively over time.

In July 2011, Howden announced its strategic objectives of achieving revenue CAGR of over 10 per cent. and, over the medium to long-term, of achieving an adjusted operating margin of 14 per cent.

### 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.

Earlier this year Colfax identified Charter as a business that would complement its Fluid Handling platform as well as add a new welding and cutting platform. In July 2011, following the unsolicited offer 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 & gas handling business (Howden) would extend Colfax's existing Fluid Handling platform, and Charter's welding, cutting and automation (ESAB) business would establish a new growth platform.

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 company to benefit from strong secular growth drivers and provide a balance of short and long cycle businesses.

Following the Acquisition, Colfax believes there are significant upside opportunities from applying its established management techniques to improve both margin and return on invested capital.

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

The Acquisition is expected to be significantly accretive to earnings<sup>1</sup> and to provide double digit returns on invested capital within three to five years.

Colfax takes a disciplined approach to acquisitions with clearly defined strategic and financial criteria, and is committed to maintaining a prudent capital structure. Colfax believes the resulting capital structure will allow it to meet its goal of achieving and maintaining a credit rating of BB-/Ba3 or better and ensure that it retains sufficient flexibility to continue existing and new initiatives without undue balance sheet risk.

Colfax's management are established industrialists who buy businesses with the objective of developing them so that they may achieve their full potential.

1 This should not be taken as a statement regarding Colfax's expectation for earnings per share during the remainder of 2011, for 2012 or for subsequent periods.

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Background to and reasons for the recommendation

On 20 June 2011, Charter issued a trading update that warned of the expected outcome for 2011 as a whole being below expectations at the time of the interim management statement in April 2011. This announcement was followed by the resignation of the then Charter Chief Executive, Michael Foster, on 27 June 2011.

On 29 June 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 Charter's Board on 30 June 2011.

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

On 1 September 2011, the Board of Charter 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. Melrose's revised proposal represented an 850 pence per Charter Share offer for the Company, 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 26 July 2011 and paid to Charter Shareholders on 2 September 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.

Melrose continues to conduct due diligence on Charter. There can be no certainty that a formal offer will ultimately be forthcoming from Melrose.

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

The Offer Consideration, with Charter Shareholders having already received the interim dividend of 8 pence per Charter Share, represents a premium of:

- Ø approximately 48.0 per cent. to the Closing Price of 615 pence per Charter Share on 28 June 2011 (being the last Business Day before Charter announced it had received a preliminary approach from Melrose regarding a possible offer);
- Ø approximately 16.7 per cent. to Melrose's initial offer of 780 pence per Charter Share made by Melrose on 28 June 2011; and
- Ø a premium of approximately 13.2 per cent. to the Closing Price of 804 pence per Charter Share on 9 September 2011 (being the last Business Day before this announcement).

The Directors of Charter have also noted the general downward movement in global financial markets which has taken place in recent weeks, in particular since the start of August, and which has impacted shares in many industrial and engineering companies in particular. Since Melrose's initial offer on 28 June 2011 to 9 September 2011 (being the

last Business Day before this announcement), the FTSE 350 Industrial Engineering Index has declined by approximately 8.8 per cent. and FTSE 250 Share Index has declined by approximately 12.5 per cent.

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 intend to recommend the Acquisition to Charter Shareholders. The terms of the Acquisition allow Charter Shareholders to realise a significant proportion of their investment

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in Charter for cash whilst also providing the opportunity to retain an on-going interest in Charter's businesses through a shareholding in the enlarged Colfax group.

### Implementation Agreement

**Charter, Bidco and Colfax have entered into the Implementation Agreement in relation to the implementation of the Acquisition and related matters in accordance with an agreed indicative timetable which will be set out in the Scheme Document. The Implementation Agreement contains certain assurances and confirmations between the parties, including provisions reflecting the rules of the Panel which are due to come into force on 19 September 2011, to implement the Scheme on a timely basis.**

### Inducement Fee Arrangements

Charter has agreed to pay an inducement fee of £15,275,000 to Bidco, subject to the terms and conditions set out in the Implementation Agreement, in circumstances where a competing offer (or similar proposal) is announced before the Acquisition lapses or is withdrawn and such competing offer (or similar proposal) or another third party offer (or similar proposal) becomes wholly unconditional or effective or is otherwise consummated.

In addition, Charter has agreed to pay an inducement fee of £7,638,000 to Bidco in certain other circumstances, subject to the terms and conditions set out in the Implementation Agreement. These circumstances include where: (a) the Board of Charter recommends a competing offer (or similar proposal); (b) the Board of Charter withdraws, qualifies or adversely modifies its recommendation of the Acquisition or such recommendation ceases to be unanimous; and (c) where Charter takes any steps to implement a competing offer (or similar proposal) or if Charter makes certain changes to the timetable for the Acquisition or postpones or adjourns the Meetings and as a result the Scheme is reasonably expected not to become effective before the Long Stop Date.

The payments referred to above are not, however, payable by Charter where, following the announcement of a competing offer (or similar proposal) the Acquisition lapses or is withdrawn (save in circumstances where the Panel has agreed that Bidco may invoke a condition to the Acquisition or may lapse or withdraw the Acquisition other than in reliance on a regulatory condition or any condition reflecting material adverse change not occasioned by any action of Charter). The amount payable as an inducement fee cannot exceed (in aggregate) £15,275,000.

Further details of the above arrangements are set out in the Implementation Agreement and will be summarised in the Scheme Document.

### 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 loan facilities has been arranged by Deutsche Bank AG, New York Branch and HSBC Bank USA, N.A. and further details of the debt financing of the Acquisition will be included in the Scheme Document.

## Equity Capital Raising

BDT CF Acquisition Vehicle, LLC, an entity controlled by BDT Capital Partners Fund I, L.P. has agreed to purchase, six Business Days following the Effective Date, up to 13,877,551 shares of preferred stock and up to 14,756,944 shares of common stock of Colfax for US\$680 million in the aggregate. In addition, Mitchell P. Rales, Steven M. Rales and Markel Corporation (an entity in which one of the Colfax directors is an officer) have agreed to subscribe, six business days following the Effective Date, for common stock in the capital of Colfax for US\$125 million in the aggregate. The net proceeds of these issuances of preferred stock and common stock will be used by Colfax to fund a portion of the Offer Consideration. All these subscriptions for shares of common stock are being made at US\$23.04 which is the closing price of a Colfax Share on 9 September 2011, being the last Business Day before this announcement. The Exchange Ratio has also been

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determined on this basis and so the 0.1241 New Colfax Shares which Charter Shareholders will receive for each Charter Share held are valued at 180 pence accordingly.

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 per cent. of the outstanding common stock. Colfax has undertaken to Charter that it 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 and in any case by this date. The Board of Colfax intends to recommend Colfax shareholders vote in favour of the resolutions to be proposed at the shareholder meeting.

Mitchell P. Rales and Steven M. Rales who together hold or control 18,291,220 Colfax Shares, representing approximately 42 per cent. of Colfax's issued share capital, have agreed with Charter that (save in certain limited specified circumstance) 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 360,296 Colfax Shares in aggregate, representing approximately 0.8265 per cent. of Colfax's issued share capital.

Deutsche Bank has confirmed that they are satisfied that sufficient financial resources are available to Bidco to satisfy, in full, the cash consideration payable to the Charter Shareholders pursuant to the Acquisition.

Further information on the financing of the Acquisition will be set out in the Scheme Document.

Management, employees and intentions regarding the Charter Group

Colfax has given assurances to the Board of Charter that, upon and following completion of the Acquisition, the Charter Group employers will continue to comply with the contractual and other entitlements in relation to pension and employment rights of existing employees.

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

Terms of 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 Shares and cash in respect of their holdings of Charter Shares. However, the total number of New Colfax 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 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 will be included in the Scheme Document.

Loan Note Alternative

Charter Shareholders (other than certain Overseas Shareholders) 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.

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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 privileged relations 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.

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 0.50 per cent. below LIBOR. Interest will be payable semi-annually on 30 June and 31 December each year, or if that day is not a Business Day, on the immediately following Business Day, with the first interest payment date being 30 June 2012 or, if later, at least six months from the date of issue. 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 on 30 June 2012 and subsequently semi-annually on 30 June and 31 December 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 (5) years after the Effective Date.

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 30 June 2012 (or, if later, 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 will be contained in the Scheme Document or, as the case may be, the Offer Document and the Loan Note Form of Election. The Loan Notes are not being offered to Overseas Shareholders.

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.

Charter Executive Share Schemes and Phantom Restricted Scheme Plan

In due course, Charter and Bidco will write to participants in the Charter Executive Share Schemes to inform them of the effect of the Scheme on their rights under the Charter Executive Share Schemes and the actions they may take to enable them to participate in the Scheme.

Charter and Bidco will also write in due course to participants in the Charter Executive Share Schemes and the Phantom Restricted Scheme Plan to inform them of the effect of the Scheme on their rights under that plan.

It is proposed to amend the articles of association of Charter at the Charter General Meeting to provide that, if the Scheme becomes effective, any Charter Shares issued (other than to Bidco or 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 in exchange for

cash and New Colfax Shares as described in paragraph 0 above on the same basis as under the Scheme. Consequently, participants in the Charter Executive Share Schemes whose rights to receive Charter Shares under awards vest after the Scheme Record Time will receive cash and New Colfax Shares as described in paragraph 2 above.

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Expected timetable

**It is expected that the Scheme Document containing further details of the Scheme (including an expected timetable) will be dispatched to Charter Shareholders as soon as practicable (and, in any event, not later than 28 days after the date of this announcement).**

Disclosure of interests in Charter Shares

**As at the close of business on 9 September 2011 (the last Business Day prior to this announcement) and save as discussed above and for the irrevocable undertakings referred to in Appendix 3, neither Bidco, nor any Bidco Directors nor, so far as Bidco is aware, any person acting in concert (within the meaning of the City Code) with**

**Bidco has any interest in, owns or has owned or controls or has controlled any Charter Shares (including pursuant to any short or long exposure, whether conditional or absolute, to changes in the prices of securities) or any rights to subscribe for or purchase the same, or holds or has held options (including traded options) in respect of, or has or has had any option to acquire, any Charter Shares or has entered into any derivatives referenced to Charter Shares ( Relevant Shares ) which remain outstanding, nor does any person have or has any such person had any arrangement in relation to Relevant Shares. An arrangement for these purposes also includes any indemnity or option arrangement, or any arrangement or understanding, formal or informal, of whatever nature, relating to Relevant Shares which may be an inducement to deal or refrain from dealing in such securities, or any borrowing or lending of Relevant Shares that have not been on-lent or sold.**

On 4 September 2011, Colfax made an announcement falling under Rule 2.4 of the City Code that it was in preliminary discussions regarding a possible all-cash offer to acquire Charter ( **Possible Offer Announcement** ) that would generally require it to make an Opening Position Disclosure by no later than 12 noon on the day falling 10 Business Days after the Possible Offer Announcement. Bidco will not be releasing an Opening Position Disclosure today disclosing interests in the relevant securities of each of Colfax and Melrose as this Opening Position Disclosure would not disclose any interests. With the Panel's consent, Bidco will make an Opening Position Disclosure as soon as possible, and in any event before 12 noon on the day 10 Business Days after the date of this announcement disclosing interests in the relevant securities of Colfax.

Scheme of Arrangement

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 consideration on the basis set out in paragraph 2 of this announcement (including, the issue of New Colfax Shares to Scheme Shareholders);
- 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 that will result in Charter becoming an indirect, wholly-owned subsidiary of Colfax.

The Acquisition will be subject to the Conditions and further terms and conditions referred to in Appendix 1 to this announcement and to be set out in the Scheme 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

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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. The bases and sources of certain information contained in this announcement are set out in Appendix 2. Certain terms used in this announcement are defined in Appendix 4.

### 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 which total 176,977 Charter Shares representing in aggregate approximately 0.1 per cent. of Charter's issued share capital at the date of this announcement. 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.

Further details of these irrevocable undertakings are set out in Appendix 3.

### 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.

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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.

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Overseas Charter Shareholders

The distribution of this announcement 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 will be contained in the Scheme Document.

**Scheme Shareholders in the US**

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 Jersey and under the Code to schemes of arrangement, which differ from the disclosure requirements of the US tender offer rules. Financial information included in this announcement has been prepared, unless specifically stated otherwise, in accordance with accounting standards applicable in Jersey and thus may not be comparable to the financial information of US companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the US. 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 securities of Colfax referred to in this announcement have not been registered under the Securities Act, and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act.

The issuance of New Colfax shares pursuant to the Scheme will not be registered under the Securities Act, and will be issued pursuant to the exemption provided by Section 3(a)(10) under the Securities Act. In the event that Colfax determines to conduct the Acquisition pursuant to a takeover offer or otherwise in a manner that is not exempt from the registration requirements of the Act, it will file a registration statement with the SEC that will contain a prospectus. In this event, Charter Shareholders are urged to read these documents and any other relevant documents filed with the SEC, as well as any amendments or supplements to those documents, because they will contain important information, and such documents will be available free of charge at the SEC's website at [www.sec.gov](http://www.sec.gov).

Neither the US Securities and Exchange Commission, nor any US state securities commission, has approved or disapproved of the Loan Notes or the New Colfax Shares to be issued in connection with the Acquisition, or determined if this announcement is accurate or complete. Any representation to the contrary is a criminal offence in the US.

Rule 2.10 disclosure

In accordance with Rule 2.10 of the City Code, Colfax confirms that as at the close of business on 9 September 2011, being the last Business Day before this announcement, it had 43,590,915 shares of Colfax's common stock in issue and admitted to trading on the New York Stock Exchange under the ISIN US1940141062.

General

Colfax reserves the right to elect to implement the Acquisition by way of an Offer for the entire issued and to be issued share capital of Charter not already held by Bidco or any subsidiary or nominees of Colfax as an alternative to

the Scheme. In such an event, an Offer will be implemented on the same terms (subject to appropriate amendments), so far as applicable, as those which would apply to the Scheme but with an acceptance condition which will be set at 75 per cent. (or such lower percentage as Colfax may decide or the Panel may require) as referred to in Part A of Appendix 1 to this announcement. Colfax has agreed that any such Offer would remain open for acceptance for at least 60 days after the Offer Document is published.

If the Acquisition is effected by way of an Offer and such Offer becomes or is declared unconditional in all respects and acceptances of more than 75 per cent. of the voting rights attaching to Charter Shares are received Bidco intends to: (i) request the London Stock Exchange and the UK Listing Authority to cancel trading in Charter Shares on the London Stock Exchange's main market for listed securities and the listing of

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the Charter Shares from the Official List; and (ii) exercise its rights, to the extent applicable, to apply the provisions of Articles 116 to 118 and Article 121 of the Companies (Jersey) Law 1991 to acquire compulsorily the remaining Charter Shares in respect of which the Offer has not been accepted.

The Acquisition will be subject to the Conditions and other terms set out in this announcement and to the full terms and conditions which will be set out in the Scheme Document. Appendix 2 contains bases and sources of certain information contained in this announcement. Details of irrevocable undertakings received by Bidco are set out in Appendix 3. Certain terms used in this announcement are defined in Appendix 4.

A copy of this announcement will be available, subject to certain restrictions relating to persons resident in Restricted Jurisdictions at Charter's website at [www.charter.ie](http://www.charter.ie) and at Colfax's website at [www.colfaxcorp.com/](http://www.colfaxcorp.com/). Neither the contents of Charter's website, the contents of Colfax's website, nor the content of any other website accessible from hyperlinks on either Charter's or Colfax's website, is incorporated into or forms part of this announcement.

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*This announcement is not intended to and does not constitute or form part of any offer to sell or subscribe for or any invitation to purchase or subscribe for any securities or the solicitation of any vote or approval in any jurisdiction pursuant to the Acquisition or otherwise. The Acquisition will be made solely pursuant to the terms of the Scheme Document (or, if applicable, the Offer Document), which will contain the full terms and conditions of the Acquisition or to elect to sell shares in connection with the acquisition, as the case may be), including details of how to vote in respect of the Acquisition. Any decision in respect of, or other response to, the Acquisition should be made only on the basis of the information contained in the Scheme Document.*

*The release, publication or distribution of this announcement in jurisdictions other than the United Kingdom, Jersey and the United States may be restricted by law and therefore any persons who are subject to the laws of any jurisdiction other than the United Kingdom, Jersey or the United States should inform themselves about, and observe any applicable requirements. In particular, the ability of persons who are not resident in the United Kingdom, Jersey or the United States to vote their Charter Shares with respect to the Scheme at the Meetings, or to execute and deliver forms of proxy appointing another to vote at the Meetings on their behalf, may be affected by the laws of the relevant jurisdictions in which they are located. This announcement has been prepared for the purpose of complying with Jersey law and the City Code and the information disclosed may not be the same as that which would have been disclosed if this announcement had been prepared in accordance with the laws of jurisdictions outside the United Kingdom or Jersey.*

*Copies of this announcement and any formal documentation relating to the Acquisition are not being, and must not be, directly or indirectly, mailed or otherwise forwarded, distributed or sent in or into or from any Restricted Jurisdiction and persons receiving such documents (including custodians, nominees and trustees) must not mail or otherwise forward, distribute or send it in or into or from any Restricted Jurisdiction. If the Acquisition is implemented by way of an Offer (unless otherwise permitted by applicable law and regulation), the Offer may not be made directly or indirectly, in or into, or by the use of mails or any means or instrumentality (including, but not limited to, facsimile, e-mail or other electronic transmission, telex or telephone) of interstate or foreign commerce of, or of any facility of a national, state or other securities exchange of any Restricted Jurisdiction and the Offer may not be capable of acceptance by any such use, means, instrumentality or facilities.*

*Notice to US investors in Charter: The Acquisition relates to the shares of a Jersey company that is a foreign private issuer (as defined under Rule 3b-4 under the US Exchange Act) and is being made by means of a scheme of arrangement provided for under Jersey company law. A transaction effected by means of a scheme of arrangement is not subject to the tender offer rules or the proxy solicitation rules under the US Exchange Act. Accordingly, the Acquisition is subject to the disclosure requirements and practices applicable in Jersey to schemes of arrangement which differ from the disclosure requirements of United States tender offer and proxy solicitation rules. Financial information included in this announcement and the Scheme Document has been or will have been prepared in accordance with accounting standards applicable in the United Kingdom that may not be comparable to financial information of US companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the United States. If, in the future, Bidco exercises the right to implement the Acquisition by way of a takeover offer and determines to extend the offer into the United States, the Acquisition will be made in compliance with applicable United States laws and regulations.*

*The securities of Colfax referred to in this announcement have not been registered under the Securities Act, and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act.*

*The issuance of New Colfax Shares pursuant to the Scheme will not be registered under the Securities Act, and will be issued pursuant to the exemption provided by Section 3(a)(10) under the Act. In the event that Colfax determines to*

*conduct the Acquisition pursuant to a takeover offer or otherwise in a manner that is not exempt from the registration requirements of the Securities Act, it will file a registration statement with the SEC that will contain a prospectus. In this event, Charter Shareholders are urged to read these documents and any other relevant documents filed with the SEC, as well as any amendments or supplements to those documents, because they will contain important information, and such documents will be available free of charge at the SEC's website at [www.sec.gov](http://www.sec.gov).*

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*Neither the US Securities and Exchange Commission, nor any US state securities commission, has approved or disapproved of the Loan Notes or the New Colfax Shares to be issued in connection with the Acquisition, or determined if this announcement is accurate or complete. Any representation to the contrary is a criminal offence in the US.*

*It may be difficult for US holders of Charter Shares to enforce their rights and any claim arising out of the US federal laws, since Bidco and Charter are located in a non-US jurisdiction, and some or all of their officers and directors may be residents of a non-US jurisdiction. US holders of Charter Shares may not be able to sue a non-US company or its officers or directors or enforce a judgment rendered by a US court in a non-US court for violations of the US securities laws. Further, it may be difficult to compel a non-US company and its affiliates to subject themselves to a US court's judgment.*

*Deutsche Bank AG is authorised under German Banking Law (competent authority: BaFin – Federal Financial Supervisory Authority) and authorised and subject to limited regulation by the Financial Services Authority. Details about the extent of Deutsche Bank AG's authorisation and regulation by the Financial Services Authority 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 announcement 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 any matters referred to in this announcement.*

*Goldman Sachs International, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting exclusively for Charter and for no-one else in connection with the matters set out in this announcement and will not be responsible to any person other than Charter for providing the protections afforded to clients of Goldman Sachs International, nor for providing advice in relation to the matters set out in this announcement.*

*J.P. Morgan Limited, which conducts its UK investment banking business as J.P. Morgan Cazenove and is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting exclusively as financial adviser and corporate broker to Charter and for no one else in connection with the matters set out in this announcement and will not be responsible to anyone other than Charter for providing the protections afforded to its clients nor for providing advice in relation to the matters set out in this announcement.*

*RBS Corporate Finance Limited, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting as financial adviser and corporate broker to Charter and no one else in connection with the matters set out in this announcement and will not be responsible to anyone other than Charter for providing the protections afforded to its clients nor for providing advice in relation to the matters set out in this announcement.*

## **Cautionary Note Regarding Forward-Looking Statements**

*This document contains certain statements about Colfax and Charter that are or may be forward-looking statements – that is, statements related to future, not past, events, including forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. These statements are based on the current expectations of the management of Colfax and Charter (as the case may be) and are subject to uncertainty and changes in circumstances, and involve risks and uncertainties that could cause actual results to differ materially from those expressed or implied in such forward-looking statements.*

*The forward-looking statements contained in this press release may include statements about the expected effects on*

*Charter and Colfax of the Acquisition, the expected timing and scope of the Acquisition, strategic options and all other statements in this document other than historical facts. Without limitation, any statements preceded or followed by or that include the words targets , plans , believes , expects , aims , intends , will , may , anticipates , estimates , projects , seeks , sees , should, would, expect, positioned, strategy, or words or terms of similar substance or the negative thereof, are forward-looking statements. Forward-looking statements include statements relating to the following: (i) future capital expenditures, expenses, revenues, earnings, synergies, economic performance, indebtedness, financial condition, losses and future prospects; (ii) business and management strategies and the expansion*

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and growth of Colfax's or Charter's operations and potential synergies resulting from the Acquisition; (iii) the effects of government regulation on Colfax's or Charter's business, and (iv) Colfax's plans, objectives, expectations and intentions generally.

There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements, including the satisfaction of the conditions to the Acquisition and other risks related to the Acquisition and actions related thereto. Additional particular uncertainties that could cause Colfax's actual results to be materially different than those expressed in its forward-looking statements include: risks associated with Colfax's international operations; significant movements in foreign currency exchange rates; changes in the general economy, as well as the cyclical nature of Colfax's markets; Colfax's ability to accurately estimate the cost of or realize savings from Colfax's restructuring programs; availability and cost of raw materials, parts and components used in Colfax products; the competitive environment in Colfax's industry; Colfax's ability to identify, finance, acquire and successfully integrate attractive acquisition targets, including Charter should the Acquisition be successful; Colfax's ability to complete the Acquisition as planned and achieve expected synergies in connection with the Acquisition, and risks relating to any unforeseen liabilities of Charter; Colfax's ability to achieve or maintain credit ratings (in light of the Acquisition and financing of the Acquisition or otherwise) and the impact on its funding costs and competitive position if Colfax does not do so; and others risks and factors as disclosed in Colfax's Annual Report on Form 10-K under the caption Risk Factors . Other unknown or unpredictable factors could also cause actual results to differ materially from those in any forward-looking statement.

Due to such uncertainties and risks, readers are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date hereof. None of Colfax or Charter undertakes any obligation to update publicly or revise forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent legally required.

## **Dealing and Opening Position Disclosure Requirements**

Under Rule 8.3(a) of the City Code, any person who is interested in one per cent. or more of any class of relevant securities of an offeree company or of any paper offeror (being any offeror other than an offeror in respect of which it has been announced that its offer is, or is likely to be, solely in cash) must make an Opening Position Disclosure following the commencement of the offer period and, if later, following the announcement in which any paper offeror is first identified.

An Opening Position Disclosure must contain details of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any paper offeror(s). An Opening Position Disclosure by a person to whom Rule 8.3(a) applies must be made by no later than 3.30 pm (London time) on the 10<sup>th</sup> business day following the commencement of the offer period and, if appropriate, by no later than 3.30 pm (London time) on the 10<sup>th</sup> business day following the announcement in which any paper offeror is first identified. Relevant persons who deal in the relevant securities of the offeree company or of a paper offeror prior to the deadline for making an Opening Position Disclosure must instead make a Dealing Disclosure. Under Rule 8.3(b) of the City Code, any person who is, or becomes, interested in 1 per cent. or more of any class of relevant securities of the offeree company or of any paper offeror must make a Dealing Disclosure if the person deals in any relevant securities of the offeree company or of any paper offeror. A Dealing Disclosure must contain details of the dealing concerned and of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any paper offeror, save to the extent that these details have previously been disclosed under Rule 8. A Dealing Disclosure by a person to whom Rule 8.3(b) applies must be made by no later than 3.30 pm

*(London time) on the business day following the date of the relevant dealing. If two or more persons act together pursuant to an agreement or understanding, whether formal or informal, to acquire or control an interest in relevant securities of an offeree company or a paper offeror, they will be deemed to be a single person for the purpose of Rule 8.3.*

*Opening Position Disclosures must also be made by the offeree company and by any offeror and Dealing Disclosures must also be made by the offeree company, by any offeror and by any persons acting in concert with any of them (see Rules 8.1, 8.2 and 8.4). Details of the offeree and offeror companies in respect of whose relevant securities Opening Position Disclosures and Dealing Disclosures must be made can be found in the*

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*Disclosure Table on the Takeover Panel's website at [www.thetakeoverpanel.org.uk](http://www.thetakeoverpanel.org.uk), including details of the number of relevant securities in issue, when the offer period commenced and when any offeror was first identified. If you are in any doubt as to whether you are required to make an Opening Position Disclosure or a Dealing Disclosure, you should contact the Panel's Market Surveillance Unit on +44 (0)20 7638 0129.*

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# APPENDIX 1

## CONDITIONS AND CERTAIN FURTHER TERMS OF THE SCHEME AND THE ACQUISITION

### Part A: Conditions of the Scheme

The Acquisition will be conditional upon the Scheme becoming unconditional and becoming effective by no later than the Long Stop Date, or such later date (if any) as Bidco and Charter may (with the consent of the Panel) agree and, if required, the Court may allow.

- (A) the Scheme will be conditional upon:
- (i) its approval 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 and at any separate class meeting which may be required by the Court or at any adjournment of any such 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:
    - (a) the delivery of the Scheme Court Order to the Registrar of Companies; and
    - (b) the registration of the Reduction Court Order and minute of the Capital Reduction being filed with and registered by the Registrar of Companies.

In addition, Bidco and Charter have agreed that the Acquisition will be conditional upon the following conditions and, accordingly, the necessary actions to make the Scheme effective will not be taken unless the following conditions (as amended if appropriate) have been satisfied (and continue to be satisfied pending the commencement of the Court Hearing) or, where relevant, waived prior to the Scheme being sanctioned by the Court:

- (B) the approval of the shareholders of Colfax of the Equity Capital Raising by the requisite simple majority at a duly convened meeting of Colfax's shareholders;
- (C) insofar as the Acquisition constitutes, or is deemed to constitute, a concentration with an European Union dimension within the scope of Council Regulation (EC) 139/2004 (as amended) (the **Regulation**) or the European Commission otherwise accepts jurisdiction to examine the Acquisition under the Regulation: the European Commission indicating that it does not intend to initiate proceedings under Article 6(1)(c) of the Regulation 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 the Regulation); and in the event that any request or requests under Article 9(2) of the Regulation 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 the Regulation; and 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 the Regulation in relation to the proposed acquisition of Charter by Bidco or any aspect of such acquisition or its financing;
- (D) 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

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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;

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;

except as Publicly Announced or disclosed in Disclosed Information, there being no provision of any agreement, arrangement, licence, permit or other instrument to which any member of the Wider Charter Group is a party or by or to which any such member or any of its assets may be bound, entitled or subject, which in each case as a consequence of the Acquisition, the acquisition or proposed acquisition of any shares or other securities in Charter or because of a change in the control or management of Charter, would or might reasonably be expected to result in (to an extent or in a manner which is material and adverse in the context of the Acquisition or would have a material and adverse effect on the Wider Charter Group as a whole):

any such agreement, arrangement, licence, permit or instrument or the rights, liabilities, obligations or interests or business of any member of the Wider Charter Group thereunder, or interests or business of any such member in or with any other person, firm, company or body (or any arrangements to which any such member is a party relating to any such interests or business), being or becoming capable of being terminated or modified or adversely affected or any obligation or liability arising or any action being taken or arising thereunder;

any assets owned or used by any member of the Wider Charter Group, or any interest in such asset, being or falling to be disposed of or charged or ceasing to be available to any member of the Wider Charter Group or any right arising under which any such asset or interest could be required to be disposed of or charged or cease to be available to any member of the Wider Charter Group;

the creation or enforcement of any mortgage, charge or other security interest over the whole or any part of the business, property, assets or interest of any member of the Wider Charter Group or any such mortgage, charge or other security (whenever created, arising or having arisen) becoming enforceable or being capable of being enforced;

the rights, liabilities, obligations or interests of any member of the Wider Charter Group in, or the business of any such member with, any person, firm or body (or any arrangement or arrangements relating to any such interest or business) being terminated, adversely modified or adversely affected;

the value of any member of the Wider Charter Group or its financial or trading position or prospects being prejudiced or adversely affected;

any member of the Wider Charter Group ceasing to be able to carry on business under any name under which it presently does so;

(vii) the creation of any liability, actual or contingent, by any member of the Wider Charter Group; any liability of any member of the Wider Charter Group to make any severance, termination, bonus or other payment to any of its directors or senior executives; or

any moneys borrowed by or any other indebtedness (actual or contingent) of, or grant available to any member of the Wider Charter Group, being or becoming capable of being declared repayable immediately or earlier than the repayment date stated in such agreement, instrument or other



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arrangement or the ability of such member of the Wider Charter Group to borrow moneys or incur any indebtedness being withdrawn or inhibited or being capable of becoming or being withdrawn or inhibited;

and no event having occurred which, under any provision of any agreement, arrangement, licence, permit or other instrument to which any member of the Wider Charter Group is a party or by or to which any such member or any of its assets may be bound, entitled or subject, could reasonably be expected to result in any of the events or circumstances as are referred to in sub-paragraphs (i) to (ix) of this condition;

no government or governmental, quasi-governmental, supranational, statutory, regulatory, environmental or investigative body, central bank, court, trade agency, association, institution or any other body or person whatsoever in any jurisdiction (each a **Third Party**) having decided to take, institute, implement or threaten any

(G) action, proceeding, suit, investigation, enquiry or reference, or enacted, made or proposed any statute, regulation, decision or order, or having taken any other steps, and there not continuing to be outstanding any statute, regulation or order of any Third Party, in each case which would or might reasonably be expected to (to an extent or in a manner which is material and adverse in the context of the Acquisition):

require, prevent or delay the divestiture, or materially alter the terms envisaged for any proposed divestiture by any

(i) member of the Wider Colfax Group or any member of the Wider Charter Group of all or any portion of their respective businesses, assets or property or impose any limitation on the ability of any of them to conduct their respective businesses (or any of them) or to own any of their respective assets or properties or any part thereof;

(ii) require, prevent or delay the divestiture by any member of the Wider Colfax Group of any shares or other securities in Charter;

impose any limitation on, or result in a delay in, the ability of any member of the Wider Colfax Group directly or indirectly to acquire or to hold or to exercise effectively any rights of ownership in respect of shares or loans or securities convertible into shares or any other securities (or the equivalent) in any member of the Wider Charter Group or the Wider Colfax Group or to exercise management control over any such member;

(iii) otherwise materially adversely affect any or all of the business, assets, liabilities, financial or trading position, profits, operational performance or prospects of any member of the Wider Colfax Group or of any member of the Wider Charter Group;

make the Acquisition or its implementation or the acquisition or proposed acquisition by Bidco or any member of the Wider Colfax Group of any shares or other securities in, or control or management of Charter void, illegal,

(v) and/or unenforceable under the laws of any jurisdiction, or otherwise, directly or indirectly, restrain, restrict, prohibit, delay or otherwise interfere with the same, or impose additional material adverse conditions or obligations with respect thereto, or otherwise challenge or interfere therewith;

require any member of the Wider Colfax Group or the Wider Charter Group to offer to acquire any shares or other securities (or the equivalent) or interest in any member of the Wider Charter Group or the Wider Colfax Group owned by any third party;

(vi) impose any limitation on the ability of any member of the Wider Charter Group to co-ordinate its business, or any part of it, with the businesses of any other members; or

(vii) result in any member of the Wider Charter Group ceasing to be able to carry on business under any name under which it presently does so,

and all applicable waiting and other time periods during which any such Third Party could institute, implement or threaten any action, proceeding, suit, investigation, enquiry or reference or any other step under the laws of any jurisdiction in respect of the Acquisition or the acquisition or proposed acquisition of any Charter Shares having expired, lapsed or been terminated;

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- all notifications, notices, filings or applications in connection with the Acquisition or any aspect of the Acquisition or its financing, that are necessary having been made and all authorisations, orders, grants, consents, clearances, licences, confirmations, permissions and approvals which are necessary ( **Authorisations** ), in any jurisdiction, for and in respect of the Acquisition or any aspect of the Acquisition or its financing, or the acquisition or proposed acquisition by any member of the Wider Colfax Group of any shares or other securities in, or control of, Charter by any member of the Wider Colfax Group having been obtained in terms and in a form reasonably satisfactory to Bidco from all appropriate Third Parties and persons or bodies with whom any member of the Wider Charter
- (H) Group has entered into contractual arrangements, and all such Authorisations together with all authorisations, orders, grants, consents, clearances, licences, confirmations, permissions and approvals ( **Business Authorisations** ) necessary or appropriate for any member the Wider Colfax Group to carry on its business remaining in full force and effect (where the absence of such Authorisations or Business Authorisations would be material and adverse in the context of the Acquisition) and all filings necessary for such purpose have been made and there being no notice or intimation of any intention to revoke or not to renew any of the same at the time at which the Acquisition becomes otherwise unconditional and all necessary statutory or regulatory obligations in any jurisdiction having been complied with;
- since 31 December 2010 and except as Publicly Announced or fairly disclosed in Disclosed Information, no
- (I) member of the Wider Charter Group having (to an extent or in a manner which is material in the context of the Acquisition or would have a material and adverse effect on the Wider Charter Group, taken as a whole):
- save as between Charter and wholly-owned subsidiaries of Charter or for Charter Shares issued pursuant to the
- (i) award of Charter Shares under the Charter Executive Share Schemes, issued, agreed to issue, authorised or proposed the issue of additional shares of any class;
- save as between Charter and wholly-owned subsidiaries of Charter or for the award of Charter Shares under the
- (ii) Charter Executive Share Schemes, issued or agreed to issue, authorised or proposed the issue of securities convertible into shares of any class or rights, warrants or options to subscribe for, or acquire, any such shares or convertible securities;
- (iii) other than to another member of the Charter Group, recommended, declared, paid or made or proposed to recommend, declare, pay or make any bonus, dividend or other distribution whether payable in cash or otherwise; save for intra-Charter Group transactions, merged or demerged with any body corporate or acquired or disposed of or transferred, mortgaged or charged or created any security interest over any assets or any right, title or interest in
- (iv) any asset (including shares and trade investments) or authorised or proposed or announced any intention to propose any merger, demerger, acquisition or disposal, transfer, mortgage, charge or security interest, in each case, other than in the ordinary course of business;
- save for intra-Charter Group transactions, made or authorised or proposed or announced an intention to propose
- (v) any change in its loan capital;
- issued, authorised or proposed the issue of any debentures or, save for intra-Charter Group transactions and save
- (vi) in the ordinary course of business, incurred or increased any indebtedness or become subject to any contingent liability;
- purchased, redeemed or repaid or announced any proposal to purchase, redeem or repay any of its own shares or
- (vii) other securities or reduced or, save in respect to the matters mentioned in sub-paragraphs (i) or (ii) above, made any other change to any part of its share capital;
- implemented, or authorised, proposed or announced its intention to implement, any reconstruction,
- (viii) amalgamation, scheme, commitment or other transaction or arrangement otherwise than in the ordinary course of business or in respect of the Acquisition;

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- entered into or varied or authorised, proposed or announced its intention to enter into or vary any contract, transaction, arrangement or commitment (whether in respect of capital expenditure or otherwise) which is of a long term, onerous or unusual nature or magnitude or which is or could be materially restrictive on the businesses of any member of the Wider Charter Group or the Wider Colfax Group or which involves or could involve an obligation of such a nature or magnitude or which is other than in the ordinary course of business and which is material in the context of the Wider Charter Group taken as a whole;
- (ix) (other than in respect of a member which is dormant and was solvent at the relevant time) taken any corporate action or had any legal proceedings started or threatened against it or order made (in each case not discharged within 21 days or not being contested in good faith) for its winding-up, dissolution or reorganisation or for the appointment of a receiver, administrative receiver, administrator, trustee or similar officer of all or any of its assets or revenues or any analogous proceedings in any jurisdiction or had any such person appointed;
- (x) been unable to pay its debts as they fall due or having stopped or suspended (or threatened to stop or suspend) payment of its debts generally or ceased or threatened to cease carrying on all or a substantial part of its business;
- (xi) entered into any contract, transaction or arrangement which would be materially restrictive on the business of any member of the Wider Charter Group or the Wider Colfax Group other than to a nature and extent which is normal in the context of the business concerned;
- (xii) (xiii) waived or compromised any material claim otherwise than in the ordinary course of business; entered into any material contract, commitment, arrangement or agreement otherwise than in the ordinary course of business or passed any resolution or made any offer (which remains open for acceptance) with respect to or announced any intention to, or to propose to, effect any of the transactions, matters or events referred to in this condition;
- (xiv) in respect of the Charter Group, made any alteration to its memorandum or articles of association (in each case, other than an alteration in connection with the Scheme);
- (xv) proposed, agreed to provide or modified the terms of any employee share scheme, incentive scheme or other benefit relating to the employment or termination of employment of any person employed by the Wider Charter Group or entered into or changed the terms of any contract with any director or senior executive,
- (xvi) and, for the purposes of paragraphs (iii), (iv) and (v) of this condition, the term Charter Group shall mean Charter and its wholly-owned subsidiaries;

except as disclosed in the accounts for the period then ended, Publicly Announced or fairly disclosed in Disclosed (J) Information, or where not material in the context of the Wider Charter Group taken as a whole, since 31 December 2010:

- (i) 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;
- (ii) no litigation, arbitration proceedings, prosecution or other legal proceedings to which any member of the Wider Charter Group is or may become a party (whether as a plaintiff, defendant or otherwise) and no investigation by any Third Party against or in respect of any member of the Wider Charter Group having been instituted announced or threatened by or against or remaining outstanding in respect of any member of the Wider Charter Group;
- (iii) no contingent or other material liability in respect of any member of the Wider Charter Group having arisen (or increased) or become apparent to Bidco; and

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no steps having been taken which are likely to result in the withdrawal, cancellation, termination or modification (iv) of any licence held by any member of the Wider Charter Group which is necessary for the proper carrying on of its business,

in each case, to an extent or in a manner which is material in the context of the Acquisition and would have a material and adverse effect on the Wider Charter Group, taken as a whole;

- (K) except as Publicly Announced or fairly disclosed in Disclosed Information, Bidco not having discovered: that any financial, business or other information concerning the Wider Charter Group as contained in the information publicly disclosed at any time by or on behalf of any member of the Wider Charter Group, is
- (i) misleading or contains any misrepresentation of fact or omits to state a fact necessary to make that information not misleading;
  - (ii) that any member of the Wider Charter Group, partnership, company or other entity in which any member of the Wider Charter Group has a significant economic interest and which is not a subsidiary undertaking of Charter is subject to any liability (contingent or otherwise) which is not disclosed in the annual report and accounts of Charter for the year ended 31 December 2010; or
  - (iii) any information which affects the import of any information disclosed in writing at any time by or on behalf of any member of the Wider Charter Group,
- in each case, to an extent or in a manner which is material in the context of the Acquisition and would have a material and adverse effect on the Wider Charter Group, taken as a whole; and

- (L) except as Publicly Announced or fairly disclosed in Disclosed Information, Bidco not having discovered that: any past or present member of the Wider Charter Group has failed to comply with any and/or all applicable legislation or regulation, of any jurisdiction with regard to the disposal, spillage, release, discharge, leak or emission of any waste or hazardous substance or any substance likely to impair the environment or harm human health or animal health or otherwise relating to environmental matters, or that there has otherwise been any such
- (i) disposal, spillage, release, discharge, leak or emission (whether or not the same constituted a non-compliance by any person with any such legislation or regulations, and wherever the same may have taken place) any of which disposal, spillage, release, discharge, leak or emission would be likely to give rise to any liability (actual or contingent) on the part of any member of the Wider Charter Group; there is, or is likely to be, for that or any other reason whatsoever, any liability (actual or contingent) of any past or present member of the Wider Charter Group to make good, repair, reinstate or clean up any property or any
  - (ii) controlled waters now or previously owned, occupied, operated or made use of or controlled by any such past or present member of the Wider Charter Group, under any environmental legislation, regulation, notice, circular or order of any Third Party in any jurisdiction;
  - (iii) any past or present member of the Wider Charter Group has not complied with the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions and any laws implementing the same, the UK Bribery Act 2010 and the U.S. Foreign Corrupt Practices Act of 1977; or
    - (iv) there is, or is likely to be expected to be, or there has been, any:
      - (a) claim brought against any member of the Wider Charter Group by a person or class of persons in respect of;
      - (b) circumstances that exist whereby a person or class of persons would be likely to have a claim; or
      - (c) liability (actual or contingent) of any member of the Wider Charter Group as a result of or relating to,

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any material, chemical, product or process of manufacture or materials now or previously held, used, sold, manufactured, carried out or under development or research by any past or present member of the Wider Charter Group,

in each case, other than under paragraphs (i) and (ii), which is material in the context of the Wider Charter Group, taken as a whole.

For the purposes of these conditions the **Wider Charter Group** means 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 and the **Wider Colfax Group** means 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 and for these purposes **subsidiary undertaking** and **undertaking** have the meanings given by the Companies Act 2006, **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, and **significant interest** means a direct or indirect interest in ten per cent. or more of the equity share capital (as defined in the Companies Act 2006).

Bidco reserves the right to waive, in whole or in part, all or any of conditions (A) to (L) above, except for conditions (A), (B) and (D).

If Colfax or Bidco is required by the Panel to make an offer for Charter Shares under the provisions of Rule 9 of the City Code, Colfax or Bidco may make such alterations to any of the above conditions as are necessary to comply with the provisions of that Rule.

Conditions (A) to (L) (inclusive, but excluding Condition A(iii)) 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. Bidco shall be under no obligation to waive (if capable of waiver), to determine to be or remain satisfied or treat as fulfilled any of the Conditions (A) to (L) (inclusive) at any time prior to the Long Stop Date, notwithstanding that the other Conditions (or any of them) may at an earlier date have been waived (if capable of waiver), satisfied or fulfilled and that there are, at such earlier date, no circumstances indicating that any such Condition may not be capable of satisfaction or fulfilment.

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 Council 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.

Bidco reserves the right to elect (with the consent of the Panel) to implement the Acquisition by way of a takeover offer (as defined in Article 116 of the Companies (Jersey) Law 1991) as it may determine in its absolute discretion. In such event, such offer will be implemented on the same terms, so far as applicable, as those which would apply to the Scheme, subject to appropriate amendments to reflect the change in method of effecting the Acquisition, but with an acceptance condition which will be set by reference to shares carrying 75 per cent. (or such lower percentage as Colfax may decide or the Panel may require) of the voting rights in Charter. Colfax has agreed that any such Offer would remain open for acceptance for at least 60 days after the Offer Document is published.

The availability of the Acquisition to persons not resident in the United Kingdom or Jersey may be affected by the laws of the relevant jurisdictions. Persons who are not resident in the United Kingdom or Jersey should inform

themselves about and observe any applicable requirements.

The Scheme will be governed by Jersey law and be subject to the jurisdiction of the Jersey courts, to the conditions set out above and in the formal Scheme Document and related Forms of Proxy and Loan Note Form of Election. The Scheme will comply with the applicable rules and regulations of the FSA and the London Stock Exchange and the City Code.

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**Part B: Certain further terms of 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 announcement.

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## APPENDIX 2

# SOURCES OF INFORMATION AND BASES OF CALCULATION

In this announcement:

1. Unless otherwise stated:  
financial information relating to the Colfax Group has been extracted or derived (without any adjustment) from the audited consolidated financial accounts for Colfax for the year ended 31 December 2010 in Colfax's annual report on form 10-K filed with the SEC on 25 February 2011; and  
financial information relating to the Charter Group has been extracted or derived (without any adjustment) from the audited annual report and accounts for Charter for the year ended 31 December 2010 and Charter's announcement dated 26 July 2011 of its interim results (which are unaudited).
2. The value of the Acquisition is calculated:  
by reference of the price of US\$23.04 per Colfax Share, being the closing price on 9 September 2011, the last Business Day prior to this announcement; and  
on the basis of the fully diluted number of Charter Shares in issue referred to in paragraph 4 below.  
As at the close of business on 9 September 2011, being the last Business Day prior to the date of this announcement, Charter had in issue 167,087,473 Charter Shares. The International Securities Identification Number for Charter Shares is JE00B3CX4509.
3. The fully diluted share capital of Charter (being 167,868,402 Charter Shares) is calculated on the basis of:  
the number of issued Charter Shares referred to in paragraph 3 above; and  
the maximum number of Charter Shares which could be issued on or after the date of this announcement on the vesting of awards under the Charter International plc Long Term Incentive Plan, amounting in aggregate to 780,929 Charter Shares.
4. Unless otherwise stated, all prices and closing prices for Charter Shares are closing middle market quotations derived from the London Stock Exchange Daily Official List ( **SEDOL** ).
5. The premia implied by the Offer Consideration have been calculated with reference to prices of:  
615 pence per Charter Share on 28 June 2011, being the last Business Day before Charter announced it had received a preliminary approach from Melrose regarding a possible offer;  
Melrose's initial offer of 780 pence per Charter Share made by Melrose on 28 June 2011; and 804 pence per Charter Share on 9 September 2011, being the last Business Day before this announcement.  
804 pence per Charter Share on 9 September 2011, being the last Business Day before this announcement.
6. Values for the FTSE 350 Industrial Engineering Index and FTSE 250 Share Index are derived from data provided by Datastream.
7. The £ : US\$ exchange rate used in this announcement is the Bloomberg rate as at 4 p.m. New York time on 9 September 2011 (the last Business Day prior to the date of this announcement), being 1.5881.
- 8.
- 9.

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## APPENDIX 3

### DETAILS OF IRREVOCABLE UNDERTAKINGS<sup>(2)</sup>

Name of Charter Director	Number of Charter Shares	Approximate % of Charter issued share capital
John Biles	8,461	0.0051
James Deeley	12,441	0.0074
Robert Careless	56,797	0.034
Lars Emilson	10,000	0.006
John Neill	87,278	0.052
Andrew Osborne	1,000	0.0006
Grey Denham	1,000	0.0006

These irrevocable undertakings cease to be binding only in the event that (a) the Scheme Document is not published within 28 days of this announcement (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 permitted period in the City Code or as otherwise agreed with the Panel; (c) the Panel agrees or requires that 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.

The undertakings and the numbers referred to in this table refer only to those shares which the relevant director is beneficially entitled to and any share such director is otherwise able to control the exercise of in terms of the rights (2) attaching to such share, including the ability to procure the transfer of such share. These undertakings and the numbers referred to in this table exclude any award that may be outstanding under the Charter Executive Share Schemes.

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## APPENDIX 4 DEFINITIONS

Acquisition	the proposed acquisition of the entire issued and to be issued share capital of Charter by Colfax (other than the Excluded Shares), to be effected by the Scheme (or by the Offer under certain circumstances described in this announcement)
Bidco	Colfax UK Holdings Ltd (or, if Colfax elects, a nominee or wholly-owned subsidiary of Colfax notified in writing to Charter prior to posting of the Scheme Document (or, if applicable, the Offer Document))
Board	the board of directors of the relevant company
Business Day	a day, (other than a Saturday, Sunday, public or bank holiday) on which banks are generally open for business in London and Jersey
CAGR	the compound annual growth rate
Capital Reduction	the proposed reduction of share capital of Charter pursuant to the Scheme
Charter	Charter International plc, incorporated in Jersey with registered number 100249
Charter General Meeting	the general meeting of Charter Shareholders to be convened to consider and if thought fit pass, <i>inter alia</i> , a special resolution in relation to the Acquisition
Charter Group	Charter and its Subsidiary and associated undertakings
Charter Shareholders	the holders of Charter Shares
Charter Executive Share Schemes	the Charter International plc Long Term Incentive Plan first approved by the shareholders of Charter on 27 August 2008 and first adopted by Charter on 22 October 2008 (including subsequent amendments approved by shareholders on 29 April 2010 and adopted by Charter on 16 February 2011); and the Deferred Bonus Plan approved by the shareholders of Charter on 27 August 2008 and adopted by Charter on 22 October 2008
Charter Shares	the ordinary shares of 2 pence each in the capital of Charter
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
Conditions	the conditions of the Acquisition set out in Appendix 1 to this announcement
Court	the Royal Court of Jersey
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

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Scheme (with or without amendment) and any adjournment thereof 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 Regulations)

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Deutsche Bank	Deutsche Bank AG, London Branch
Disclosed Information	any information which has been (i) fairly disclosed by or on behalf of Charter or its or any of its advisers to Colfax or its advisers in connection with or in contemplation of the Acquisition prior to the date of this announcement, whether by electronic means, physical form or orally; (ii) disclosed in Charter's report and accounts for the year ended 31 December 2010 or its interim accounts for the 6 month period ended 30 June 2011; or (iii) disclosed in this announcement
ESAB	the ESAB business focused on welding, cutting and automation
Effective Date	the date on which the Scheme becomes effective in accordance with its terms
Equity Capital Raising	the capital raising described in paragraph 10 (Financing of the Acquisition)
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
Forms of Proxy	the forms of proxy for use at the Court Meeting and the Charter General Meeting which will accompany the Scheme Document
FSA	the Financial Services Authority
Howden	the Howden business focused on air and gas handling
Implementation Agreement	the agreement dated on or about the date of this announcement and entered into by Colfax, Bidco and Charter with respect to the implementation of the Acquisition
Jersey	the Bailiwick of Jersey, Channel Islands
J.P. Morgan Cazenove	J.P. Morgan Limited which conducts its UK investment banking activities as J.P Morgan Cazenove
LIBOR	London Inter Bank Offer Rate
Listing Rules	the rules and regulations made by the FSA in its capacity as the UK Listing Authority under the Financial Services and Markets Act 2000, 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) 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 Note Form of Election	the form of election in relation to the Loan Notes which will accompany the Scheme Document
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	30 March 2012, or such later date as Bidco and Charter may agree and the Court (if required) may allow
Meetings	the Court Meeting and the Charter General Meeting
Melrose	Melrose PLC



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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 Shares under the Acquisition
New Charter Shares	the new ordinary shares of 2 pence each in the capital of Charter to be issued credited as fully paid up to Bidco pursuant to the Scheme
New Colfax Shares	the new ordinary shares in the capital of Colfax to be issued credited as fully paid up to Scheme Shareholders (other than certain Overseas Shareholders) pursuant to the Scheme
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
Official List	the official list maintained by the UK Listing Authority
Opening Position Disclosure	an announcement containing details of interests or short positions in, or rights to subscribe for, any relevant securities of a party to the offer if the person concerned has such a position
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
Phantom Restricted Scheme Plan	the Phantom Restricted Scheme Plan last approved and adopted by Charter Limited (registered number: 2794949) on 17 May 2011 (including all prior versions thereof)
Publicly Announced	announced publicly and delivered by or on behalf of Charter through a Regulatory Information Service prior to the date of this announcement
RBS	RBS Corporate Finance Limited
Reduction Court Order	the act of Court confirming the Capital Reduction
Registrar of Companies	the Registrar of Companies for Jersey
Regulatory Information Service	any of the services set out in Appendix II to the Listing Rules
Restricted Jurisdiction	any jurisdiction where local laws or regulations may result in a significant risk of civil, regulatory or criminal exposure if information concerning the Acquisition is sent or made available to Charter Shareholders in that jurisdiction
Scheme	the proposed scheme of arrangement under Article 125 of the Companies (Jersey) Law 1991 between Charter and Charter Shareholders to implement the Acquisition
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



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Scheme Record Time	6.00 p.m. on the Business Day before the date of the Court hearing to confirm the Capital Reduction
Scheme Shareholder	holders of Scheme Shares
Scheme Shares	1. the Charter Shares in issue at the date of the Scheme Document; 2. any Charter Shares issued after the date of the Scheme Document and prior to the Voting Record Time; and 3. 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, other than the Excluded Shares
Securities Act	the US Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
Subsidiary	has the meaning given in section 1159 of the Companies Act 2006
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
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
Voting Record Time	6.00 p.m. on the Business Day prior to the day immediately before the Court Meeting or any adjournment thereof (as the case may be)

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**Exhibit D**

**Registration Rights Agreement**

**DATED \_\_\_\_\_, 20\_\_**

**REGISTRATION RIGHTS AGREEMENT**

**BY AND BETWEEN**

**COLFAX CORPORATION**

**AND**

**BDT CF ACQUISITION VEHICLE, LLC**

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**REGISTRATION RIGHTS AGREEMENT** dated as of \_\_\_\_\_, 20\_\_, by and between BDT CF Acquisition Vehicle, LLC, a Delaware limited liability company ( Purchaser ) and Colfax Corporation, a Delaware corporation (the Company ).

**WHEREAS**, the Company and Purchaser have entered into the Securities Purchase Agreement, dated as of September 12, 2011 (as amended, supplemented, restated or otherwise modified from time to time, the Purchase Agreement ), pursuant to and subject to the terms and conditions of which, among other things, the Company has agreed to sell to Purchaser, and Purchaser has agreed to purchase from the Company, certain shares of the Company's common stock par value \$0.001 per share (the Common Stock ) and certain shares of the Company's Series A Perpetual Convertible Preferred Stock, par value \$0.001 per share (the Preferred Securities ); and

**WHEREAS**, pursuant to the Purchase Agreement, the Company has agreed to provide to Purchaser certain rights as set forth herein.

**NOW, THEREFORE**, in consideration of the premises and of the mutual covenants and obligations hereinafter set forth, the parties hereto hereby agree as follows:

## **ARTICLE I DEFINITIONS**

Section 1.1 Certain Defined Terms. As used herein, the following terms shall have the following meanings:

<b>Action</b>	means any legal, administrative, regulatory or other suit, action, claim, audit, assessment, arbitration or other proceeding, investigation or inquiry.
<b>Agreement</b>	means this Registration Rights Agreement as it may be amended, supplemented, restated or modified from time to time
<b>Beneficial Ownership</b>	by a Person of any securities includes ownership by any Person who, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has or shares (i) voting power which includes the power to vote, or to direct the voting of, such security; and/or (ii) investment power which includes the power to dispose, or to direct the disposition, of such security; and shall otherwise be interpreted in accordance with the term beneficial ownership as defined in Rule 13d-3 adopted by the SEC under the Exchange Act; <u>provided</u> , that for purposes of determining Beneficial Ownership, in no event will any Person be deemed to Beneficially Own any securities which it has the right to acquire (pursuant to options, warrants, the conversion provisions of other securities or otherwise) unless, and then only to the extent that, such Person shall have actually exercised, or committed to exercise, such right. The term <u>Beneficially Own</u> shall have a correlative meaning.
<b>Business Day</b>	means any day, other than a Saturday, Sunday or a day on which banking institutions in New York, New York are authorized or obligated to close.
<b>Capital Stock</b>	

means, with respect to any Person at any time, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) of capital stock, partnership interests (whether general or limited) or equivalent ownership interests in or issued by such Person.

**Certificate of Designations**

shall mean the Certificate of Designations relating to the Preferred Securities.

**Closing Date**

has the meaning set forth in the Purchase Agreement.

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<b>Conversion Shares</b>	means the shares of Common Stock that are issuable from time to time upon conversion of the Preferred Securities in accordance with the Certificate of Designations.
<b>Covered Securities</b>	means any shares of Common Stock, and any Conversion Shares.
<b>Exchange Act</b>	means the Securities Exchange Act of 1934, and the rules and regulations promulgated by the SEC from time to time thereunder.
<b>Governmental Entity</b>	shall mean any court, administrative agency or commission or other governmental authority or instrumentality, whether federal, state, local or foreign and any applicable industry self-regulatory organization.
<b>Holders</b>	means Purchaser and any Transferee of Registrable Securities.
<b>Holders Representative</b>	means Purchaser or any or any other Holder designated by Purchaser as a Holders Representative.
<b>Issuer Free Writing Prospectus</b>	means an issuer free writing prospectus, as defined in Rule 433 under the Securities Act, relating to an offer of the Registrable Securities.
<b>Law</b>	means any statute, law, code, ordinance, rule or regulation of any Governmental Entity.
<b>Other Securities</b>	means Covered Securities or shares of other Capital Stock which are contractually entitled to registration rights or which the Company is registering pursuant to a registration statement covered by this Agreement.
<b>Person</b>	means any individual, corporation, limited liability company, limited or general partnership, joint venture, association, joint stock company, trust, unincorporated organization, government or any agency or political subdivisions thereof or any group (within the meaning of Section 13(d)(3) of the Exchange Act) comprised of two or more of the foregoing.
<b>Prospectus</b>	means the prospectus included in any Registration Statement (including a prospectus that discloses information previously omitted from a prospectus filed as part of an effective Registration Statement in reliance upon Rule 430A promulgated under the Securities Act), as amended or supplemented by any prospectus supplement with respect to the terms of the offering of any portion of the Registrable Securities covered by such Registration Statement, any Issuer Free Writing Prospectus related thereto, and all other amendments and supplements to such prospectus, including post-effective amendments, and all material incorporated by reference or deemed to be incorporated by reference in such prospectus.
<b>Registrable Securities</b>	means the Covered Securities, <i>provided, however</i> , that the Covered Securities shall cease to be Registrable Securities when (i) a registration statement with respect to the sale by the Holder thereof shall have been declared effective under the Securities Act and such securities shall have been disposed of in accordance with such registration statement, (ii) they shall have been

distributed to the public in accordance with Rule 144 under the Securities Act or are able to be sold pursuant to Rule 144 under the Securities Act (or any similar provision then in force, but not Rule 144A) without volume, manner of sale or notice limitations or requirements or (iii) they shall have ceased to be outstanding.

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<b>Registration Statement</b>	means any registration statement of the Company under the Securities Act which permits the public offering of any of the Registrable Securities pursuant to the provisions of this Agreement, including the Prospectus, amendments and supplements to such registration statement, including post-effective amendments, all exhibits and all material incorporated by reference or deemed to be incorporated by reference in such registration statement.
<b>Rule 144</b>	means Rule 144 under the Securities Act.
<b>SEC</b>	means the United States Securities and Exchange Commission.
<b>Securities Act</b>	means the U.S. Securities Act of 1933, and the rules and regulations promulgated by the SEC from time to time thereunder.
<b>Selling Holder</b>	means each Holder of Registrable Securities included in a registration pursuant to Article II.
<b>Shelf Registration Statement</b>	means a Registration Statement of the Company filed with the SEC on either (a) Form S-3 (or any successor form or other appropriate form under the Securities Act) or (b) if the Company is not permitted to file a Registration Statement on Form S-3, an evergreen Registration Statement on Form S-1 (or any successor form or other appropriate form under the Securities Act), in each case for an offering to be made on a continuous or delayed basis pursuant to Rule 415 under the Securities Act covering Registrable Securities. To the extent the Company is a well-known seasoned issuer (as defined in Rule 405 under the Securities Act), a Shelf Registration Statement shall be deemed to refer to an automatic shelf registration statement (as defined in Rule 405 under the Securities Act) (an automatic shelf registration statement ) on Form S-3.
<b>Stockholders</b>	means Mr. Steven M. Rales, Mr. Mitchell P. Rales and Markel Corporation and any transferee of Other Securities entitled to benefits as a transferee under the registration rights agreements entered into by Mr. Steven M. Rales, Mr. Mitchell P. Rales or Markel Corporation, respectively, and the Company on _____, 20__.
<b>Subsidiary</b>	shall mean, with respect to any Person, any other Person of which 50% or more of the shares of the voting securities or other voting interests are owned or controlled, or the ability to select or elect 50% or more of the directors or similar managers is held, directly or indirectly, by such first Person or one or more of its Subsidiaries, or by such first Person and one or more of its Subsidiaries.
<b>Transfer</b>	means, directly or indirectly, to sell, transfer, assign, pledge, encumber, hypothecate or similarly dispose of, or to enter into any contract, option or other arrangement or understanding with respect to the sale, transfer, assignment, pledge, encumbrance, hypothecation or similar disposition.





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### **Transferee**

means any of (i) the transferee of all or any portion of the Registrable Securities held by Purchaser or (ii) the subsequent transferee of all or any portion of the Registrable Securities held by any Transferee; provided, that no Transferee shall be entitled to any benefits of a Transferee hereunder unless such Transferee executes and delivers to the Company an instrument substantially in the form provided as Exhibit A attached hereto.

Section 1.2 Terms Generally. The definitions in Section 1.1 shall apply equally to both the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words include, includes and including shall be deemed to be followed by the phrase without limitation, unless the context expressly provides otherwise. All references herein to Sections, paragraphs, subparagraphs, clauses, Exhibits or Schedules shall be deemed references to Sections, paragraphs, subparagraphs or clauses of, or Exhibits or Schedules to this Agreement, unless the context requires otherwise. Unless otherwise expressly defined, terms defined in this Agreement have the same meanings when used in any Exhibit or Schedule hereto. Unless otherwise specified, the words this Agreement, herein, hereof, hereto and hereunder and other words of similar import refer to this Agreement as a whole (including the Schedules and Exhibits) and not to any particular provision of this Agreement. The term or is not exclusive. The word extent in the phrase to the extent shall mean the degree to which a subject or other thing extends, and such phrase shall not mean simply if. Unless expressly stated otherwise, any Law defined or referred to herein means such Law as from time to time amended, modified or supplemented, including by succession of comparable successor Laws and references to all attachments thereto and instruments incorporated therein. References to a Person are also to its permitted successors and assigns. The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

## **ARTICLE II REGISTRATION RIGHTS**

### Section 2.1 Shelf Registration.

(a) Subject to the terms and conditions of this Agreement, the Company agrees that no later than the date that is three months after the Closing Date, it shall file with the SEC a Shelf Registration Statement relating to the offer and sale of all of the Registrable Securities by the Holders from time to time in accordance with the methods of distribution elected by such holders and set forth in the Shelf Registration Statement and shall use its reasonable best efforts to cause such Shelf Registration Statement to be declared effective under the Securities Act no later than the date that is six months after the Closing Date.

(b) The Company shall use its reasonable best efforts to keep such Shelf Registration Statement continuously effective under the Securities Act in order to permit the Prospectus forming a part thereof to be usable by Holders until the earlier of (i) the date as of which all Registrable Securities have been sold pursuant to the Shelf Registration Statement or another registration statement filed under the Securities Act (but in no event prior to the applicable period referred to in Section 4(3) of the Securities Act and Rule 174 thereunder) and (ii) the date as of which each of the Holders is permitted to sell its Registrable Securities without registration pursuant to Rule 144 under the Securities Act without volume limitation (or a Holder can sell all of its Registrable Securities in a three-month period) or other restrictions on transfer thereunder (such period of effectiveness, the Shelf Period).

(c) The Company shall be entitled to postpone (but not more than twice in any 12-month period), for a reasonable period of time not in excess of 90 days, the filing or initial effectiveness of, or suspend the use of, a Shelf Registration

Statement if the Company notifies the Holders Representative that, in the good faith judgment of the Board of Directors of the Company, such registration, offering or use would reasonably be expected to materially adversely affect or materially interfere with any bona fide material financing of the Company or any material transaction under consideration by the Company or would require the disclosure of information that has not been, and is not otherwise required to be, disclosed to the public, the premature disclosure of which would materially adversely affect the Company.

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(d) If any of the Registrable Securities to be sold pursuant to a Shelf Registration Statement are to be sold in a firm commitment underwritten offering, and the managing underwriter(s) of such underwritten offering advise the Holders in writing that it is their good faith opinion that the total number or dollar amount of Registrable Securities proposed to be sold in such offering, together with any Other Securities proposed to be included by holders thereof which are entitled to include securities in such Registration Statement, exceeds the total number or dollar amount of such securities that can be sold without having an adverse effect on the price, timing or distribution of the Registrable Securities to be so included together with all such Other Securities, then there shall be included in such firm commitment underwritten offering the number or dollar amount of Registrable Securities and such Other Securities that in the opinion of such managing underwriter(s) can be sold without so adversely affecting such offering, and such number of Registrable Securities and Other Securities shall be allocated for inclusion as follows:

(i) first, the Registrable Securities for which inclusion in such underwritten offering was requested by the Holders and any Other Securities proposed to be included by the Stockholders, pro rata (if applicable), based on the number of Registrable Securities Beneficially Owned by each such Holder and any Other Securities Beneficially Owned by each such Stockholder until all such securities have been allocated for inclusion; and

(ii) second, among any other holders of Other Securities, pro rata, based on the number of Other Securities Beneficially Owned by each such holder of Other Securities.

(e) The Holders Representative shall have the right to notify the Company that it has determined that the Shelf Registration Statement be abandoned or withdrawn, in which event the Company shall promptly abandon or withdraw such Shelf Registration Statement.

Section 2.2 Demand Registrations.

(a) If, following the date hereof, the Company is unable to file, cause to be effective or maintain the effectiveness of a Shelf Registration Statement as required under Section 2.1, the Holders Representative shall have the right by delivering a written notice to the Company (a **Demand Notice**) to require the Company to, pursuant to the terms of this Agreement, register under and in accordance with the provisions of the Securities Act the number of Registrable Securities Beneficially Owned by any Holders and requested by such Demand Notice to be so registered (a **Demand Registration**); provided, however, that a Demand Notice may only be made if the sale of the Registrable Securities requested to be registered by the Holders Representative is reasonably expected to result in aggregate gross cash proceeds in excess of \$70,000,000 (without regard to any underwriting discount or commission). A Demand Notice shall also specify the expected method or methods of disposition of the applicable Registrable Securities. Following receipt of a Demand Notice, the Company shall use its reasonable best efforts to file, as promptly as reasonably practicable, but not later than 45 days after receipt by the Company of such Demand Notice (subject to paragraph (d) of this Section 2.2), a Registration Statement relating to the offer and sale of the Registrable Securities requested to be included therein by the Holders thereof in accordance with the methods of distribution elected by such Holders (a **Demand Registration Statement**) and shall use its reasonable best efforts to cause such Registration Statement to be declared effective under the Securities Act as promptly as practicable after the filing thereof.

(b) If any of the Registrable Securities registered pursuant to a Demand Registration are to be sold in a firm commitment underwritten offering, and the managing underwriter(s) of such underwritten offering advise the Holders in writing that it is their good faith opinion that the total number or dollar amount of Registrable Securities proposed to be sold in such offering, together with any Other Securities proposed to be included by holders thereof which are entitled to include securities in such Registration Statement, exceeds the total number or dollar amount of such securities that can be sold without having an adverse effect on the price, timing or distribution of the Registrable Securities to be so included together with all such Other Securities, then there shall be included in such firm

commitment underwritten offering the number or dollar amount of Registrable Securities and such Other Securities

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that in the opinion of such managing underwriter(s) can be sold without so adversely affecting such offering, and such number of Registrable Securities and Other Securities shall be allocated for inclusion as follows:

(i) first, the Registrable Securities for which inclusion in such underwritten offering was requested by the Holders and any Other Securities proposed to be included by the Stockholders, pro rata (if applicable), based on the number of Registrable Securities Beneficially Owned by each such Holder and any Other Securities Beneficially Owned by each such Stockholder until all such securities have been allocated for inclusion; and

(ii) second, among any other holders of Other Securities, pro rata, based on the number of Other Securities Beneficially Owned by each such holder of Other Securities.

(c) In the event of a Demand Registration, the Company shall be required to maintain the continuous effectiveness of the applicable Registration Statement for a period of at least 180 days after the effective date thereof or such shorter period in which all Registrable Securities included in such Registration Statement have actually been sold.

(d) The Company shall be entitled to postpone (but not more than twice in any 12-month period), for a reasonable period of time not in excess of 90 days, the filing or initial effectiveness of, or suspend the use of, a Demand Registration Statement if the Company delivers to the Holders Representative a certificate signed by both the Chief Executive Officer and Chief Financial Officer of the Company certifying that, in the good faith judgment of the Board of Directors of the Company, such registration, offering or use would reasonably be expected to materially adversely affect or materially interfere with any bona fide material financing of the Company or any material transaction under consideration by the Company or would require the disclosure of information that has not been, and is not otherwise required to be, disclosed to the public, the premature disclosure of which would materially adversely affect the Company. Such certificate shall contain a statement of the reasons for such postponement or suspension and an approximation of the anticipated delay.

(e) The Holders Representative shall have the right to notify the Company that it has determined that the Registration Statement relating to a Demand Registration be abandoned or withdrawn, in which event the Company shall promptly abandon or withdraw such Registration Statement.

Section 2.3 Piggyback Registrations

(a) If, other than pursuant to Section 2.1 and 2.2, the Company proposes or is required to file a registration statement under the Securities Act with respect to an offering of Common Stock or any other of the Company's equity securities or securities convertible into or exchangeable or exercisable for any of the Company's equity securities, whether for sale for its own account or for the account of another Person (other than a registration statement (i) on Form S-4, Form S-8 or any successor forms thereto or (ii) filed solely in connection with any employee benefit or dividend reinvestment plan), then the Company shall give prompt written notice of such proposed filing at least 30 days before the anticipated filing date (the **Piggyback Notice**) to the Holders. The Piggyback Notice shall offer the Holders the opportunity to include in such registration statement the number of Registrable Securities (for purposes of this Section 2.3, Registrable Securities shall be deemed to mean solely securities of the same type and class as those proposed to be offered by the Company for its own account) as they may request (a **Piggyback Registration**). Subject to Section 2.3(b) hereof, the Company shall include in each such Piggyback Registration all Registrable Securities with respect to which the Company has received written requests for inclusion therein within 10 days after notice has been given to the Holders. The Holders shall be permitted to withdraw all or part of the Registrable Securities from a Piggyback Registration at any time at least 5 Business Days prior to the effective date of the Registration Statement relating to such Piggyback Registration.

(b) If any of the securities to be registered pursuant to the registration giving rise to the Holders' rights under this Section 2.3 are to be sold in an underwritten offering, the Holders shall be permitted to include all Registrable Securities requested to be included in such registration in such offering on the same terms and conditions as any other shares of Capital Stock, if any, of the Company included therein;

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provided, however, that if such offering involves a firm commitment underwritten offering and the managing underwriter(s) of such underwritten offering advise the Company in writing that it is their good faith opinion that the total amount of Registrable Securities requested to be so included, together with all Other Securities that the Company and any other Persons having rights to participate in such registration intend to include in such offering, exceeds the total number or dollar amount of such securities that can be sold without having an adverse effect on the price, timing or distribution of the Registrable Securities to be so included together with all Other Securities, then there shall be included in such firm commitment underwritten offering the number or dollar amount of Registrable Securities and such Other Securities that in the opinion of such managing underwriter(s) can be sold without so adversely affecting such offering, and such number of Registrable Securities and Other Securities shall be allocated for inclusion as follows:

- (i) first, all Other Securities being sold by the Stockholders or by any Person (other than a Holder) exercising a contractual right to demand registration until all such Other Securities have been allocated for inclusion;
- (ii) second, all Registrable Securities requested to be included by the Holders and any Other Securities proposed to be included by the Stockholders (other than a Stockholder selling Other Securities under (i) Section 2.3 (b) (i)), pro rata (if applicable), based on the number of Registrable Securities Beneficially Owned by each such Holder and any Other Securities Beneficially Owned by each such Stockholder until all such Registrable Securities have been allocated for inclusion; and
- (iii) third, among any other holders of Other Securities requesting such registration, pro rata, based on the number of Other Securities Beneficially Owned by each such holder of Other Securities.

Section 2.4 Shelf Take-Downs. At any time that a Shelf Registration Statement covering Registrable Securities pursuant to Section 2.1 or Section 2.2 2.3 is effective, if the Holders Representative delivers a notice to the Company (a **Shelf Take-Down Notice** ) stating that one or more of the Holders intends to effect an underwritten offering of all or part of the Registrable Securities included by the Holders on the Shelf Registration Statement (a **Shelf Underwritten Offering** ) or any other offering of such securities and stating the number of the Registrable Securities to be included in such Shelf Underwritten Offering or other offering, then the Company shall amend or supplement the Shelf Registration Statement as may be necessary in order to enable such Registrable Securities and Other Securities, as the case may be, to be distributed pursuant to the Shelf Underwritten Offering (taking into account the inclusion of Other Securities by any other holders pursuant to this Section 2.4) or other offering. In connection with any Shelf Underwritten Offering, the Company shall also deliver the Shelf Take-Down Notice to all other holders whose securities are included on such Shelf Registration Statement and permit each holder to include its Other Securities included on the shelf registration statement in the Shelf Underwritten Offering if such other holder notifies the Proposing Holder and the Company within 5 Business Days after delivery of the Shelf Take-Down Notice to such other holder; and in the event that the managing underwriter(s) have informed the Company in writing that it is their good faith opinion that the total amount of Registrable Securities requested to be so included in such Shelf Underwritten Offering, together with all Other Securities that the Company and any other Persons having rights to participate in such Shelf Underwritten Offering exceeds the total number or dollar amount of such securities that can be included in such Shelf Underwritten Offering without having an adverse effect on the price, timing or distribution of the securities proposed to be included in such Shelf Underwritten Offering, then there shall be included in such Shelf Underwritten Offering the number or dollar amount of such securities that in the opinion of such managing underwriter(s) can be sold without so adversely affecting such offering, and such number of Registrable Securities and Other Securities shall be allocated (A) if the applicable Registration Statement was filed pursuant to Section 2.1, then in accordance with Section 2.1(d); and (B) if the applicable Shelf Registration Statement was filed pursuant to Section 2.3, then in accordance with Section 2.3(b).



Section 2.5 Lock-Up Agreements.

(a) Each Holder agrees, in connection with any underwritten offering made pursuant to a Registration Statement filed pursuant to this Article II in which such Holder has elected to include

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Registrable Securities, or, solely as to the Stockholders, which underwritten offering is being effected by the Stockholders for their own account, if requested (pursuant to a written notice) by the managing underwriter(s) not to effect any public sale or distribution of any common equity securities of the Company (or securities convertible into or exchangeable or exercisable for such common equity securities) (except as part of such underwritten offering) during such period as the managing underwriter(s) shall advise is customary in underwritten offerings (not to exceed 180 days); provided, that the Holders shall only be so bound so long as and to the extent that any other stockholder having registration rights with respect to the securities of the Company is similarly bound.

Section 2.6 Registration Procedures. If and whenever the Company is required to use its reasonable best efforts to effect the registration of any Registrable Securities under the Securities Act as provided in Article II, the Company shall effect such registration to permit the sale of such Registrable Securities in accordance with the intended method or methods of disposition thereof, and pursuant thereto the Company shall cooperate in the sale of the securities and shall, as expeditiously as possible:

- (a) Prepare and file with the SEC a Registration Statement or Registration Statements on such form which shall be available for the sale of the Registrable Securities by the Holders or the Company in accordance with the intended method or methods of distribution thereof, and use its reasonable best efforts to cause such Registration Statement to become effective and to remain effective as provided (and subject to the exceptions set forth) herein; provided, however, that before filing a Registration Statement or Prospectus (including any Issuer Free Writing Prospectus related thereto) or any amendments or supplements thereto (including documents that would be incorporated or deemed to be incorporated therein by reference), the Company shall furnish or otherwise make available to the Selling Holders, their counsel and the managing underwriter(s), if any, copies of all such documents proposed to be filed and shall reasonably consider any comments thereto from the Selling Holders and their counsel.
- (b) Prepare and file with the SEC such amendments and post-effective amendments to each Registration Statement as may be necessary to keep such Registration Statement continuously effective during the period provided herein and comply in all material respects with the provisions of the Securities Act with respect to the disposition of all securities covered by such Registration Statement, and cause the related Prospectus to be supplemented by any Prospectus supplement or Issuer Free Writing Prospectus as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of the securities covered by such Registration Statement, and as so supplemented to be filed pursuant to Rule 424 (or any similar provisions then in force) under the Securities Act.
- (c) Notify each Selling Holder and the managing underwriter(s), if any, promptly, and (if requested by any such Person) confirm such notice in writing, (i) when a Prospectus or any Prospectus supplement, Issuer Free Writing Prospectus or post-effective amendment has been filed, and, with respect to a Registration Statement or any post-effective amendment, when the same has become effective, (ii) of any request by the SEC or any other Governmental Entity for amendments or supplements to a Registration Statement or related Prospectus or Issuer Free Writing Prospectus or for additional information, (iii) of the issuance by the SEC of any stop order suspending the effectiveness of a Registration Statement or the initiation of any proceedings for that purpose, (iv) of the receipt by the Company of any notification with respect to the suspension of the qualification or exemption from qualification of any of the Registrable Securities for sale in any jurisdiction, or the initiation or threatening of any proceeding for such purpose and (v) of the happening of any event, or the existence of any facts or circumstance, in each case that makes any statement made in such Registration Statement or related Prospectus or any document incorporated or deemed to be incorporated therein by reference or any Issuer Free Writing Prospectus related thereto untrue in any material respect or that requires the making of any changes in such Registration Statement, Prospectus, documents or Issuer Free Writing Prospectus so that, in the case of the Registration Statement, it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, not misleading, and that in the case of any Prospectus or Issuer Free Writing Prospectus, it will not contain

any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

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(d) Use its reasonable best efforts to obtain the withdrawal of any order suspending the effectiveness of a Registration Statement, or the lifting of any suspension of the qualification (or exemption from qualification) of any of the Registrable Securities for sale in any jurisdiction at the reasonably earliest practical date.

(e) If requested by the managing underwriter(s), if any, or the Holders of a majority of the Registrable Securities being sold in connection with an underwritten offering, promptly include in a Prospectus supplement, post-effective amendment or Issuer Free Writing Prospectus such information as the managing underwriter(s), if any, or such Holders may reasonably request in order to permit the intended method of distribution of such securities and make all required filings of such Prospectus supplement, such post-effective amendment or Issuer Free Writing Prospectus as soon as practicable after the Company has received such request.

(f) Furnish or make available to each Selling Holder, and each managing underwriter, if any, without charge, such number of conformed copies of the Registration Statement and each post-effective amendment thereto, including financial statements (but excluding schedules, all documents incorporated or deemed to be incorporated therein by reference, and all exhibits, unless requested in writing by such Holder, counsel or managing underwriter(s)), and such other documents, as such Holders or such managing underwriter(s) may reasonably request, and upon request a copy of any and all transmittal letters or other correspondence to or received from, the SEC or any other Governmental Entity relating to such offering.

(g) Deliver to each Selling Holder, and the managing underwriter(s), if any, without charge, as many copies of the Prospectus or Prospectuses (including each form of Prospectus and any Issuer Free Writing Prospectus related to any such Prospectuses) and each amendment or supplement thereto as such Persons may reasonably request in connection with the distribution of the Registrable Securities; and the Company, subject to the last paragraph of this Section 2.6, hereby consents to the use of such Prospectus and each amendment or supplement thereto by each of the Selling Holders and the managing underwriter(s), if any, in connection with the offering and sale of the Registrable Securities covered by such Prospectus and any such amendment or supplement thereto.

(h) Prior to any public offering of Registrable Securities, use its reasonable best efforts to register or qualify or cooperate with the Selling Holders, the managing underwriter(s), if any, and their respective counsel in connection with the registration or qualification (or exemption from such registration or qualification) of such Registrable Securities for offer and sale under the securities or Blue Sky laws of such jurisdictions within the United States as any seller or managing underwriter(s) reasonably requests in writing and to keep each such registration or qualification (or exemption therefrom) effective during the period such Registration Statement is required to be kept effective and to take any other action that may be necessary or advisable to enable such Selling Holders to consummate the disposition of such Registrable Securities in such jurisdiction; provided, however, that the Company will not be required to (i) qualify generally to do business in any jurisdiction where it is not then so qualified or (ii) take any action that would subject it to general service of process in any such jurisdiction where it is not then so subject.

(i) Cooperate with the Selling Holders and the managing underwriter(s), if any, to facilitate the preparation and delivery of certificates (not bearing any legends) representing Registrable Securities to be sold after receiving written representations from each Selling Holder that the Registrable Securities represented by the certificates so delivered by such Selling Holder will be transferred in accordance with the Registration Statement, and enable such Registrable Securities to be in such denominations and registered in such names as the managing underwriter(s), if any, or the Selling Holders may request at least 2 Business Days prior to any sale of Registrable Securities.

(j) Upon the occurrence of any event contemplated by Section 2.6(c)(ii), (c)(iii), (c)(iv) or (c)(v) above, prepare a supplement or post-effective amendment to the Registration Statement or a supplement to the related Prospectus or any document incorporated or deemed to be incorporated therein by reference or an Issuer Free Writing Prospectus

related thereto, or file any other required document so that, as thereafter delivered to the Selling Holders, such Prospectus will not contain an untrue statement of a

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material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

- (k) Use its reasonable best efforts to cause all shares of Registrable Securities covered by such Registration Statement to be authorized to be listed on each national securities exchange, if any, on which similar securities issued by the Company are then listed.
- (l) Enter into such agreements (including an underwriting agreement in form, scope and substance as is customary in underwritten offerings) and take all such other actions reasonably requested by the Holders of a majority of the Registrable Securities being sold in connection therewith or by the managing underwriter(s), if any, to expedite or facilitate the disposition of such Registrable Securities, and in connection therewith, whether or not an underwriting agreement is entered into and whether or not the registration is an underwritten registration, (i) make such representations and warranties to the Selling Holders and the managing underwriter(s), if any, with respect to the business of the Company and its subsidiaries, and the Registration Statement, Prospectus and documents, if any, incorporated or deemed to be incorporated by reference therein, in each case, in form, substance and scope as are customarily made by issuers in underwritten offerings, and, if true, confirm the same if and when requested, (ii) use its reasonable best efforts to furnish to the Selling Holders of such Registrable Securities customary opinions of counsel to the Company and updates thereof, addressed to each of the managing underwriter(s), if any, covering the matters customarily covered in opinions requested in underwritten offerings and such other matters as may be reasonably requested by such counsel and managing underwriter(s), (iii) use its reasonable best efforts to obtain cold comfort letters and updates thereof from the independent certified public accountants of the Company (and, if necessary, any other independent certified public accountants of any Subsidiary of the Company or of any business acquired by the Company for which financial statements and financial data are, or are required to be, included in the Registration Statement) who have certified the financial statements included in such Registration Statement, addressed to each of the managing underwriter(s), if any, such letters to be in customary form and covering matters of the type customarily covered in cold comfort letters in connection with underwritten offerings, (iv) if an underwriting agreement is entered into, the same shall contain indemnification provisions and procedures substantially to the effect set forth in Section 2.7 hereof with respect to all parties to be indemnified pursuant to said Section except as otherwise agreed by the Holders of a majority of the Registrable Securities being sold in connection therewith and the managing underwriter(s) and (v) deliver such documents and certificates as may be reasonably requested by the Holders of a majority of the Registrable Securities being sold in connection therewith, their counsel and the managing underwriter(s), if any, to evidence the continued validity of the representations and warranties made pursuant to clause (i) above and to evidence compliance with any customary conditions contained in the underwriting agreement or other agreement entered into by the Company.
- (m) Upon execution of a customary confidentiality agreement, make available for inspection by a representative of the Selling Holders, the managing underwriter(s), if any, and any attorneys or accountants retained by such Selling Holders or managing underwriter(s), at the offices where normally kept, during reasonable business hours, financial and other records, pertinent corporate documents and properties of the Company and its Subsidiaries, and cause the officers, directors and employees of the Company and its Subsidiaries to supply all information in each case reasonably requested by any such representative, managing underwriter(s), attorney or accountant in connection with such Registration Statement.
- (n) Otherwise use its reasonable best efforts to comply with all applicable rules and regulations of the SEC and any applicable national securities exchange, and make available to its security holders, as soon as reasonably practicable (but not more than 18 months) after the effective date of the registration statement, an earnings statement which shall satisfy the provisions of Section 11(a) of the Securities Act.

The Company may require each Selling Holder to furnish to the Company in writing such information required in connection with such registration regarding such Selling Holder and the distribution of such Registrable Securities as the Company may, from time to time, reasonably request in writing and the Company may exclude from such registration the Registrable Securities of any Selling Holder who unreasonably fails to furnish such information within a reasonable time after receiving such request.

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Each Selling Holder agrees that, upon receipt of any notice from the Company of (x) the happening of any event of the kind described in Section 2.6(c)(ii), (c)(iii), (c)(iv) or (c)(v) hereof, or (y) that the Company is suspending use of a Registration Statement as permitted by Section 2 hereof, such Holder will forthwith discontinue disposition of such Registrable Securities covered by such Registration Statement or Prospectus until such Holder's receipt of the copies of the supplemented or amended Prospectus contemplated by Section 2.6(j) hereof, or until it is advised in writing by the Company that the use of the applicable Prospectus may be resumed, and has received copies of any additional or supplemental filings that are incorporated or deemed to be incorporated by reference in such Prospectus; provided, however, in the case of (y) above that the Company shall extend the time periods under Section 2.2 and 2.3 with respect to the length of time that the effectiveness of a Registration Statement must be maintained by the amount of time the Holder is required to discontinue disposition of such securities.

Section 2.7 Indemnification.

(a) Indemnification by the Company. The Company shall indemnify and hold harmless, to the fullest extent permitted by Law, each Selling Holder whose Registrable Securities are covered by a Registration Statement or Prospectus, the officers, directors and employees of each of them, each Person who controls (within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act) each such Selling Holder and the officers, directors and employees of each such controlling person, each underwriter (including any Holder that is deemed to be an underwriter pursuant to any SEC comments or policies), if any, and each Person who controls (within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act) such underwriter (collectively, Holder Indemnitees), from and against any and all losses, claims, damages, liabilities, expenses (including, without limitation, costs of preparation and reasonable attorneys' fees and any other reasonable fees or expenses incurred by such party in connection with any investigation or Action), judgments, fines, penalties, charges and amounts paid in settlement (collectively, Losses), as incurred, arising out of or based upon any untrue statement (or alleged untrue statement) of a material fact contained in any applicable Registration Statement (or in any preliminary or final Prospectus contained therein, any document incorporated by reference therein or Issuer Free Writing Prospectus related thereto) or any amendment of or supplement to any of the foregoing or other document incident to any such registration, qualification, or compliance, or based on any omission (or alleged omission) to state therein (in the case of a final or preliminary Prospectus, in light of the circumstances under which they were made) a material fact required to be stated therein or necessary to make the statements therein not misleading; provided, that the Company will not be liable to a Selling Holder or underwriter in any such case to the extent that any such Loss arises out of or is based on any untrue statement or omission by such Selling Holder or underwriter, but only to the extent, that such untrue statement (or alleged untrue statement) or omission (or alleged omission) is made in such Registration Statement (or in any preliminary or final Prospectus contained therein, any document incorporated by reference therein or Issuer Free Writing Prospectus related thereto), offering circular, amendment of or supplement to any of the foregoing or other document in reliance upon and in conformity with written information furnished to the Company by such Selling Holder or underwriter specifically for inclusion in such document. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of any Holder Indemnitee or any other Holder and shall survive the transfer of such securities. The foregoing indemnity agreement is in addition to any liability that the Company may otherwise have to each Holder Indemnitee.

(b) Indemnification by Selling Holders. In connection with any Registration Statement in which a Selling Holder is participating by registering Registrable Securities, such Selling Holder shall furnish to the Company in writing such information as the Company reasonably requests specifically for use in connection with any Registration Statement or Prospectus and agrees to indemnify and hold harmless, to the fullest extent permitted by Law, severally and not jointly, the Company, the officers, directors and employees of the Company, and each Person who controls (within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act) the Company, and each underwriter, if any, and each Person who controls (within the meaning of Section 15 of the Securities Act or Section 20 of the



Exchange Act) such underwriter (collectively, **Company Indemnitees** ), from and against all Losses, as incurred, arising out of or based on any untrue statement (or alleged untrue statement) of a material fact

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contained in any such Registration Statement (or in any preliminary or final Prospectus contained therein, any document incorporated by reference therein or Issuer Free Writing Prospectus related thereto) or any other offering circular or any amendment of or supplement to any of the foregoing or any other document incident to such registration, or any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein (in the case of a final or preliminary Prospectus, in light of the circumstances under which they were made) not misleading, in each case solely to the extent that such untrue statement (or alleged untrue statement) or omission (or alleged omission) is made in such Registration Statement (or in any preliminary or final Prospectus contained therein, any document incorporated by reference therein or Issuer Free Writing Prospectus related thereto), offering circular, or any amendment of or supplement to any of the foregoing or other document in reliance upon and in conformity with written information furnished to the Company by such Selling Holder expressly for inclusion in such document; and provided, however, that the liability of each Selling Holder hereunder shall be limited to the net proceeds received by such Selling Holder from the sale of Registrable Securities covered by such Registration Statement.

(c) Conduct of Indemnification Proceedings. If any Person shall be entitled to indemnity hereunder (an indemnified party ), such indemnified party shall give prompt notice to the party from which such indemnity is sought (the indemnifying party ) of any claim or of the commencement of any Action with respect to which such indemnified party seeks indemnification or contribution pursuant hereto; provided, however, that the delay or failure to so notify the indemnifying party shall not relieve the indemnifying party from any obligation or liability except to the extent that the indemnifying party has been actually prejudiced by such delay or failure. The indemnifying party shall have the right, exercisable by giving written notice to an indemnified party promptly after the receipt of written notice from such indemnified party of such claim or Action, to assume, at the indemnifying party's expense, the defense of any such Action, with counsel reasonably satisfactory to such indemnified party; provided, however, that an indemnified party shall have the right to employ separate counsel in any such Action and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless: (i) the indemnifying party agrees to pay such fees and expenses; (ii) the indemnifying party fails promptly to assume, or in the event of a conflict of interest cannot assume, the defense of such Action or fails to employ counsel reasonably satisfactory to such indemnified party, in which case the indemnified party shall also have the right to employ counsel and to assume the defense of such Action; or (iii) in the indemnified party's reasonable judgment a conflict of interest between such indemnified and indemnifying parties may exist in respect of such Action; provided, further, however, that the indemnifying party shall not, in connection with any one such Action or separate but substantially similar or related Actions in the same jurisdiction, arising out of the same general allegations or circumstances, be liable for the fees and expenses of more than one firm of attorneys (together with appropriate local counsel) at any time for all of the indemnified parties, or for fees and expenses that are not reasonable. Whether or not such defense is assumed by the indemnifying party, such indemnified party will not be subject to any liability for any settlement made without its consent. The indemnifying party shall not consent to entry of any judgment or enter into any settlement that does not include as an unconditional term thereof the giving by all claimants or plaintiffs to such indemnified party of a release, in form and substance reasonably satisfactory to the indemnified party, from all liability in respect of such claim or litigation.

(d) Contribution.

(i) If the indemnification provided for in this Section 2.7 is unavailable to an indemnified party in respect of any Losses (other than in accordance with its terms), then each applicable indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of such Losses, in such proportion as is appropriate to reflect the relative fault of the indemnifying party, on the one hand, and such indemnified party, on the other hand, in connection with the actions, statements or omissions that resulted in such Losses as well as any other relevant equitable considerations. The relative fault of such indemnifying party, on the one

hand, and indemnified party, on the other hand, shall be determined by reference to, among other things, whether any action in question, including any untrue or alleged untrue statement of a material fact or omission or alleged omission to state a

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material fact, has been taken by, or relates to information supplied by, such indemnifying party or indemnified party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent any such action, statement or omission.

(ii) The parties hereto agree that it would not be just and equitable if contribution pursuant to this Section 2.7(d) were determined by pro rata allocation or by any other method of allocation that does not take account of the equitable considerations referred to in the immediately preceding paragraph. Notwithstanding anything to the contrary contained in this Section 2.7(d), an indemnifying party that is a Selling Holder shall not be required to contribute any amount in excess of the amount by which the net proceeds from the sale of the Registrable Securities sold by such indemnifying party exceeds the amount of any damages that such indemnifying party has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any Person who was not guilty of such fraudulent misrepresentation.

Section 2.8 Rule 144; Rule 144A. The Company covenants that it will file the reports required to be filed by it under the Exchange Act (or, if the Company is not required to file such reports, it will, upon the request of any Holder, make publicly available other information so long as necessary to permit sales pursuant to Rule 144 or 144A under the Securities Act), and at any time it is not registered under the Exchange Act, it will take such further action as any Holder may reasonably request, all to the extent required from time to time to enable such Holder to sell Registrable Securities without registration under the Securities Act within the limitation of the exemptions provided by (i) Rule 144 or 144A under the Securities Act, as such Rules may be amended from time to time, or (ii) any similar rule or regulation hereafter adopted by the SEC.

Section 2.9 Underwritten Registrations.

(a) No Person may participate in any underwritten registration hereunder unless such Person (i) agrees to sell the Registrable Securities or Other Securities it desires to have covered by the registration on the basis provided in any underwriting arrangements in customary form and (ii) completes and executes all reasonable and customary questionnaires, powers of attorney, indemnities, underwriting agreements and other documents required under the terms of such underwriting arrangements.

Section 2.10 Registration Expenses. The Company shall pay all fees and expenses incident to the performance of or compliance with its obligations under this Article II, including (i) all registration and filing fees (including fees and expenses (A) with respect to filings required to be made with all applicable securities exchanges and/or the Financial Industry Regulatory Authority and (B) of compliance with securities or Blue Sky laws including any fees and disbursements of counsel for the underwriter(s) in connection with Blue Sky qualifications of the Registrable Securities pursuant to Section 2.6(h)), (ii) printing expenses (including expenses of printing certificates for Registrable Securities in a form eligible for deposit with The Depository Trust Company and of printing Prospectuses if the printing of Prospectuses is requested by the managing underwriter(s), if any), (iii) messenger, telephone and delivery expenses of the Company, (iv) fees and disbursements of counsel for the Company, (v) expenses of the Company incurred in connection with any road show, (vi) fees and disbursements of all independent certified public accountants (including, without limitation, the expenses of any "cold comfort" letters required by this Agreement) and any other persons, including special experts retained by the Company, and (vii) the reasonable fees and disbursements of one counsel for the Selling Holders as a group (such counsel to be selected by the Company) in connection with transactions covered by this Agreement in which the Selling Holders participate. For the avoidance of doubt, the Company shall not pay any other expenses of Selling Holders or underwriting commissions attributable to securities sold by any Selling Holder in an underwritten offering. In addition, the Company shall bear all of its internal expenses (including all salaries and expenses of its officers and employees performing legal or accounting duties), the expense

of any annual audit, the fees and expenses incurred in connection with the listing of the securities to be registered on any securities exchange on which similar securities issued by the Company are then listed and rating agency fees and the fees and expenses of any Person, including special experts, retained by the Company.

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## **ARTICLE III MISCELLANEOUS**

Section 3.1 Termination. This Agreement shall terminate upon the later of the expiration of the Shelf Period and such time as there are no Registrable Securities, except for the provisions of Section 2.7, 2.8, 2.10 and this Article III, which shall survive such termination.

Section 3.2 Amendment and Waiver. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the Company and Purchaser (or, in the case of an amendment at any time when Purchaser is not the sole Holder, signed on behalf of each of (i) the Company and (ii) the Holders of a majority of the aggregate number of Registrable Securities then held by all Holders). Any party hereto may waive any right of such party hereunder only by an instrument in writing signed by such party and delivered to the other parties (or, in the case of a waiver of any rights of the Holders at any time when Purchaser is not the sole Holder, by an instrument in writing signed by the Holders of a majority of the aggregate number of Registrable Securities then held by all Holders and delivered to the Company and the Holders Representative). The failure of any party to enforce any of the provisions of this Agreement shall in no way be construed as a waiver of such provisions and shall not affect the right of such party thereafter to enforce each and every provision of this Agreement in accordance with its terms.

Section 3.3 Severability. If any provision of this Agreement shall be declared by any court of competent jurisdiction to be illegal, void or unenforceable, all other provisions of this Agreement shall not be affected and shall remain in full force and effect.

Section 3.4 Entire Agreement. Except as otherwise expressly set forth herein, this Agreement and the Purchase Agreement, together with the several agreements and other documents and instruments referred to herein or therein or annexed hereto or thereto, embody the complete agreement and understanding among the parties hereto with respect to the subject matter hereof and supersede and preempt any prior understandings, agreements or representations by or among the parties, written or oral, that may have related to the subject matter hereof in any way.

Section 3.5 Successors and Assigns. Neither this Agreement nor any right or obligation hereunder is assignable in whole or in part by any party without the prior written consent of the other party hereto, provided that Purchaser may transfer its rights and obligations hereunder (in whole or in part) to any Transferee (and any Transferee may transfer such rights and obligations to any subsequent Transferee) without the prior written consent of the Company. Any such assignment shall be effective upon receipt by the Company of (x) written notice from the transferring Holder stating the name and address of any Transferee and identifying the number of shares of Registrable Securities with respect to which the rights under this Agreement are being transferred and the nature of the rights so transferred and (y) a written agreement in substantially the form attached as Exhibit A hereto from such Transferee to be bound by the applicable terms of this Agreement.

Section 3.6 Counterparts: Execution by Facsimile Signature. This Agreement may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument. This Agreement may be executed by facsimile signature(s).

Section 3.7 Remedies.

(a) Each party hereto acknowledges that monetary damages would not be an adequate remedy in the event that any of the covenants or agreements in this Agreement is not performed in accordance with its terms, and it is therefore agreed that, in addition to and without limiting any other remedy or right it may have, the non-breaching party will have the right to an injunction, temporary restraining order or other equitable relief in any court of competent jurisdiction

enjoining any such breach or threatened breach and enforcing specifically the terms and provisions hereof. Each party hereto agrees not to oppose the granting of such relief in the event a court determines that such a breach has occurred, and to waive any requirement for the securing or posting of any bond in connection with such remedy.

(b) All rights, powers and remedies provided under this Agreement or otherwise available in respect hereof at law or in equity shall be cumulative and not alternative, and the exercise or beginning of the exercise of any thereof by any party shall not preclude the simultaneous or later exercise of any other such right, power or remedy by such party.

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Section 3.8 Notices. All notices required or permitted hereunder shall be in writing and shall be deemed effectively given (i) upon personal delivery to the party to be notified, (ii) when sent by confirmed facsimile if sent during normal business hours of the recipient, if not, then on the next Business Day or (iii) one Business Day after deposit with a nationally recognized overnight courier, specifying next day delivery, with written verification of receipt. All communications shall be sent to the addresses set forth below or such other address or facsimile number as a party may from time to time specify by notice to the other parties hereto:

If to the Company:

Colfax Corporation  
8170 Maple Lawn Blvd., Suite 180  
Fulton, Maryland 20759  
Attention: Lynne Puckett  
Fax: (301) 323-9001

with a copy (which shall not constitute notice) to:

Skadden, Arps, Slate, Meagher & Flom (UK) LLP  
40 Bank Street  
London E14 5DS  
United Kingdom  
Attention:  
Scott V. Simpson  
James A. McDonald  
Fax: +44 20 7072 7183

If to Purchaser:

401 North Michigan, Suite 3100  
Chicago, Illinois 60611  
Attention: William Bush  
Fax: (312) 832-1700

with a copy (which shall not constitute notice) to:

Munger, Tolles & Olson LLP  
355 South Grand Avenue, 35<sup>th</sup> Floor  
Los Angeles, California 90071  
Attention: Mary Ann Todd & Brett Rodda  
Fax: (213) 687-3702

Section 3.9 Governing Law; Consent to Jurisdiction.

(a) This Agreement shall be governed by the laws of the State of New York.

(b) Each of the parties hereto (a) consents to submit itself to the personal jurisdiction of any Federal or state court located in the Borough of Manhattan in the City of New York, New York in the event any dispute arises out of this Agreement, (b) agrees that it will not attempt to deny or defeat such personal jurisdiction by motion or other request



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for leave from any such court and (c) agrees that it will not bring any action relating to this Agreement in any court other than a Federal or state court located in the Borough of Manhattan in the City of New York, New York.

(c) Each of the parties hereto hereby irrevocably and unconditionally waives trial by jury in any legal action or proceeding in relation to this Agreement and for any counterclaim therein.

*[Signature page follows.]*

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**IN WITNESS WHEREOF**, the parties hereto have executed this Registration Rights Agreement as of the date first written above.

COLFAX CORPORATION

By:

Name:

Title:

BDT CF ACQUISITION VEHICLE,  
LLC

By:

Name:

Title:

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**EXHIBIT A**

**JOINDER**

By execution of this Joinder, the undersigned agrees to become a party to that certain Registration Rights Agreement, dated as of \_\_\_\_\_, 20\_\_ (the Agreement ), between Colfax Corporation and BDT CF Acquisition Vehicle, LLC. By execution of this Joinder, the undersigned shall have all the rights and shall observe all the obligations of a Holder (as defined in the Agreement) contained in the Agreement.

Name:

Address for Notices:

With Copies to:

Signature:

Date:

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**Exhibit E**

**Company Officer Closing Certificate**

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**Exhibit F**

**Company Secretary Closing Certificate**

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**Exhibit G**

**Investor Officer Closing Certificate**

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**Annex III**

**EXECUTION VERSION**

**SECURITIES PURCHASE AGREEMENT  
BY AND BETWEEN  
MITCHELL P. RALES  
AND  
COLFAX CORPORATION  
DATED AS OF SEPTEMBER 12, 2011**

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**Annex III**

SECURITIES PURCHASE AGREEMENT, dated as of September 12, 2011 (together with the schedules and exhibits hereto, the Agreement ), by and between Colfax Corporation, a Delaware corporation (the Company ) and Mitchell P. Rales (the Investor ).

**RECITALS**

A. The Investor desires to purchase from the Company, and the Company desires to issue and sell to the Investor, against payment of the Common Share Investment Amount (as defined below) and pursuant to the terms and conditions set forth in this Agreement, certain shares of the Company's common stock, par value \$0.001 per share ( Common Stock ). The shares of Common Stock to be purchased by the Investor pursuant to this Agreement are referred to herein as the Purchased Common Shares . The sale and purchase of the Purchased Common Shares and the other transactions contemplated by this Agreement and the Ancillary Agreements are referred to herein collectively as the Transaction .

B. Concurrent with the execution and delivery of this Agreement, and in connection with the Acquisition (as defined below), the Company is entering into a credit agreement (the Credit Agreement ) with Deutsche Bank AG New York Branch ( Deutsche Bank ), a syndicate of other financial institutions as lenders (the Lenders ) and Deutsche Bank Securities, Inc., with respect to credit facilities to be provided to the Company and certain of its subsidiaries by Deutsche Bank and the Lenders.

C. Concurrent with the execution and delivery of this Agreement, and in connection with the Acquisition, the Company is entering into a purchase agreement (the BDT Purchase Agreement ) with BDT CF Acquisition Vehicle LLC (the BDT Investor ), pursuant to which the BDT Investor shall agree to invest an aggregate amount of \$340,000,000 in newly issued shares of Common Stock and \$340,000,000 in newly issued shares of the Company's preferred stock, par value \$0.001 per share, designated as Series A Perpetual Convertible Preferred Stock (the BDT Investment ).

D. Concurrent with the execution and delivery of this Agreement, and in connection with the Acquisition, the Company is entering into a purchase agreement (the SMR Purchase Agreement ) with Steven M. Rales, pursuant to which Steven M. Rales shall agree to invest \$50,000,000 in newly issued shares of Common Stock (the SMR Investment ).

E. Concurrent with the execution and delivery of this Agreement, and in connection with the Acquisition, the Company is entering into a purchase agreement (the Markel Purchase Agreement ) with Markel Corporation, pursuant to which Markel Corporation shall agree to invest \$25,000,000 in newly issued shares of Common Stock (the Markel Investment ).

F. In accordance with the BDT Purchase Agreement, the SMR Purchase Agreement, the Markel Purchase Agreement and the Credit Agreement, the Company shall use the proceeds of the Transaction, the BDT Investment, the SMR Investment, the Markel Investment and a portion of the proceeds of the Company's borrowings under the Credit Agreement to finance the acquisition (the Acquisition ) by the Company of Charter International plc (the Target ) pursuant to an Offer or a Scheme of Arrangement (each as defined below). The material terms and provisions of the Acquisition are set forth in the form of announcement attached hereto as **Exhibit C** (the Rule 2.5 Announcement ), to be published by the Company in accordance with this Agreement pursuant to Rule 2.5 of the City Code.





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NOW, THEREFORE, in consideration of the foregoing and the promises and representations, warranties, covenants and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound hereby, the parties hereto hereby agree as follows:

## ARTICLE 1

### Defined Terms

As used in this Agreement, the following terms shall have the following meanings:

Acquisition has the meaning assigned to such term in Recital F.

Agreement has the meaning assigned to such term in the Preamble.

Amended and Restated Charter the Amended and Restated Certificate of Incorporation of the Company to be adopted on or before the Closing Date, substantially in the form attached hereto as Exhibit A.

Ancillary Agreements means the Registration Rights Agreement.

Announcement Date has the meaning assigned to such term in Section 2.3.2(a).

Announcement Price has the meaning assigned to such term in Section 2.3.2(b).

BDT Investment has the meaning assigned to such term in Recital C.

BDT Investor means BDT CF Acquisition Vehicle LLC.

BDT Purchase Agreement has the meaning assigned to such term in Recital C.

Business Day means any day except Saturday, Sunday or a day that is a public holiday in England, Jersey or in the United States of America.

Bylaws means the Amended and Restated Bylaws of the Company, adopted effective as of May 13, 2008.

Certificate of Designations the certificate of designation establishing the Company's preferred stock, par value \$0.001 per share, designated as 6.0% Series A Perpetual Convertible Preferred Stock, substantially in the form attached hereto as Exhibit B.

Charter means the Amended and Restated Certificate of Incorporation of the Company, as filed with the Secretary of State of the State of Delaware on May 13, 2008.

City Code means the City Code on Takeovers and Mergers.

Closing has the meaning assigned to such term in Section 2.4.

Closing Date has the meaning assigned to such term in Section 2.4.

Code means the Internal Revenue Code of 1986, as amended.

Common Share Investment Amount has the meaning assigned to such term in Section 2.2.

Common Share Purchase Price has the meaning assigned to such term in Section 2.3.2(c).

Common Stock has the meaning assigned to such term in Recital A.

Companies Act means the Companies (Jersey) Law 1991 as amended from time to time.

Contract means any contract, agreement, lease, purchase order, license, mortgage, indenture, supplemental indenture, line of credit, note, bond, loan, credit agreement, capital lease, sale/leaseback arrangement, concession agreement, franchise agreement or other instrument, including all amendments, supplements, exhibits and attachments thereto.

Credit Agreement has the meaning assigned to such term in Recital B.

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Encumbrance means any lien, encumbrance, security interest, pledge, mortgage, hypothecation, charge, restriction on transfer of title, adverse claim, title retention agreement of any nature or kind, or similar claim or right. Encumbrance shall not include any restrictions on transfer under applicable securities laws.

GAAP means generally accepted accounting principles in the United States of America as in effect from time to time.

Governmental Authorizations means, collectively, all applicable consents, approvals, permits, orders, authorizations, licenses and registrations, given or otherwise made available by or under the authority of Governmental Entities or pursuant to the requirements of any Applicable Law.

Governmental Entity means any domestic or foreign, transnational, national, Federal, state, municipal or local government, or any other domestic or foreign governmental, regulatory or administrative authority, or any agency, board, department, commission, court, tribunal or instrumentality thereof.

including means including, without limitation.

Investor has the meaning assigned to such term in the Preamble.

Major Representation means each representation and warranty set forth in Sections 3.1, 3.2 and 3.3 of this Agreement.

Market Investment has the meaning assigned to such term in Recital E.

Market Purchase Agreement has the meaning assigned to such term in Recital E.

Material Adverse Effect means any material adverse effect on (i) the business, results of operations or financial condition of the Company and its subsidiaries, taken as a whole (other than (a) any change, event, occurrence or development that generally affects the industry in which the Company and its subsidiaries operate and does not disproportionately affect (relative to other industry participants) the Company and its subsidiaries, (b) any change, event, occurrence or development to the extent attributable to conditions generally affecting (I) the industries in which the Company participates that does not have a materially disproportionate effect (relative to other industry participants) on the Company and its subsidiaries, (II) the U.S. economy as a whole, or (III) the equity capital markets generally, and (c) any change, event, occurrence or development that results from any action taken by the Company at the request of the Investor or as required by the terms of this Agreement) or (ii) the ability of the Company to perform its obligations hereunder or under the Ancillary Agreements.

Material Contract means any Contract of a type described in Item 6.01 of Regulation S-K.

Offer means a public offer by the Company in accordance with the City Code and the provisions of the Companies Act to acquire all of the Target Shares not owned, held, or agreed to be acquired by the Company.

person means any individual, firm, corporation, partnership, limited liability company, trust, joint venture, incorporated or unincorporated association, Governmental Entity or other entity.

Purchased Common Shares has the meaning assigned to such term in Recital A.

Registration Rights Agreement means the Registration Rights Agreement, to be executed on the Closing Date by and among, the Company, the Investor, and the other parties specified therein.

Rule 2.5 Announcement has the meaning assigned to such term in Recital F.

Scheme of Arrangement means a scheme of arrangement effected pursuant to Part 18A of the Companies Act under which the Target Shares will be cancelled (or transferred) and the Purchaser will become the holder of new shares issued in place of such cancelled Target Shares (or, as the case may be, the holder of such transferred Target Shares).

SEC means the Securities and Exchange Commission.

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Securities Act means the Securities Act of 1933.

SMR Investment has the meaning assigned to such term in Recital D.

SMR Purchase Agreement has the meaning assigned to such term in Recital D.

SOX means the Sarbanes-Oxley Act of 2002.

Target has the meaning assigned to such term in Recital F.

Target Shares means the ordinary shares of the Target subject of an Offer, or as the case may be, a Scheme of Arrangement.

Tax means any foreign, Federal, state or local income, sales and use, excise, franchise, real and personal property, gross receipt, capital stock, license, stamp, premium, windfall profit, environmental, transfer, alternative or add-on minimum, production, business and occupation, disability, estimated, employment, payroll, severance or withholding tax, value-added tax or other tax, duty, fee, impost, levy, assessment or charge imposed by any taxing authority, and any interest or penalties and other additions to tax related thereto.

Tax Returns means any return, report, claim for refund, declaration, information return or other document required to be filed with any Tax authority with respect to Taxes, including any schedule or attachment thereto, and including any amendments thereof.

Third Party means any person other than the Company, the Investor, or any of their respective subsidiaries or Affiliates.

Transaction has the meaning assigned to such term in Recital A.

Voting Debt means bonds, debentures, notes or other debt securities having the right to vote (or convertible into, or exchangeable for, securities having the right to vote) as to matters on which holders of the Company's Common Stock may vote.

## ARTICLE 2

### Issuance and Sale of Purchased Common Shares

**2.1 Issuance and Sale of the Purchased Common Shares.** On the terms and subject to the conditions set forth in this Agreement, at the Closing (as defined below), the Company shall issue, sell and deliver to the Investor, and the Investor shall purchase from the Company, the Purchased Common Shares to be acquired by such Investor pursuant to this Agreement, free and clear of all Encumbrances. The number of shares of Common Stock comprising the Purchased Common Shares to be issued and delivered to the Investor at the Closing shall be determined in accordance with Section 2.3.

**2.2 Consideration.** In full consideration for the purchase of the Purchased Common Shares to be acquired by such Investor pursuant to this Agreement, the Investor shall pay to the Company at the Closing cash in the aggregate

amount of \$50,000,000 (the Common Share Investment Amount ).

**2.3 Determination of Purchased Share Amounts.**

2.3.1 Purchased Common Shares. The number of shares of Common Stock comprising the Purchased Common Shares to be issued and delivered to the Investor at the Closing pursuant to Section 2.1 shall be equal to the quotient of (a) the Common Share Investment Amount, *divided by* (b) the Common Share Purchase Price (as defined in Section 2.3.2), rounded up to the nearest whole number of shares of Common Stock.

2.3.2 Certain Definitions. As used in this Section 2.3, the following terms shall have the following meanings:

(a) Announcement Date means the date that the Rule 2.5 Announcement is published.

(b) Announcement Price shall equal \$23.04

(c) Common Share Purchase Price means the Announcement Price.

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**2.4 Closing.** Subject to the satisfaction of the conditions set forth in Article 6, the closing of the sale and purchase of the Purchased Common Shares (the Closing ) shall take place on the date falling six (6) Business Days after the date on which an Offer becomes unconditional in all respects or, as the case may be, the date on which a Scheme of Arrangement becomes effective in accordance with its terms, at the offices of the Company unless another date or place is agreed to in writing by the Investor and the Company. The date on which the Closing occurs is referred to in this Agreement as the Closing Date .

### **2.5 Deliveries.**

- (a) At the Closing, the Company shall issue to the Investor the Purchased Common Shares to be acquired by such Investor pursuant to this Agreement, validly issued and free and clear of Encumbrances, evidenced by certificates registered in the name of the Investor and duly authorized, executed and delivered on behalf of the Company, bearing a legend evidencing restrictions on transfer under the Securities Act, or if the Investor shall so elect, and if permitted by law, including, without limitation the Securities Act, uncertificated book-entry shares;
- (b) At the Closing, the Investor shall deliver to the Company the Common Share Investment Amount in immediately available funds by wire transfer to such account as the Company shall specify in writing not later than three (3) Business Days prior to the Closing Date.
- (c) On or before the Closing, each of the parties shall execute and deliver the Registration Rights Agreement.

## **ARTICLE 3**

### **Representations and Warranties** **of the Company**

Subject to the qualifications set forth in the corresponding sections of the disclosure schedules delivered by the Company to the BDT Investor concurrently with the execution and delivery of this BDT Purchase Agreement (the Company Disclosure Schedules to the BDT Purchase Agreement ), the Company hereby represents and warrants to the Investor, as of the date hereof and as of the Closing Date, as follows:

**3.1 Entity Status.** Each of the Company and its subsidiaries is duly incorporated or otherwise organized, validly existing and in good standing under the applicable laws of its governing jurisdiction and each has all requisite corporate or other power and authority to carry on its business as it is now being conducted and is duly qualified to do business in each of the jurisdictions in which the ownership, operation or leasing of its assets or the conduct of its business requires it to be so qualified, and no proceeding has been instituted in any such jurisdiction revoking, limiting or curtailing, or seeking to revoke, limit or curtail, such power, authority or qualification, in each case, except as has not had and would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.

### **3.2 Authorization; Noncontravention.**

(a) Authorization. The execution, delivery and performance of this Agreement and the Ancillary Agreements and the consummation by the Company of the Transaction (including the issuance (or reservation for issuance), sale and delivery of the Purchased Common Shares and the Acquisition have been duly and validly authorized by all necessary



corporate action (except the stockholder actions contemplated by Section 5.1 of the BDT Purchase Agreement), and no other corporate proceedings on the part of the Company or its subsidiaries or (except the stockholder actions contemplated by Section 5.1 of the BDT Purchase Agreement) vote of holders of any class or series of capital stock of the Company or its subsidiaries is necessary to authorize this Agreement or the Ancillary Agreements or to consummate the Transaction or the Acquisition. This Agreement and the Ancillary Agreements have been, or, as to Ancillary Agreements to be executed after the date hereof, will be, duly executed and delivered by the Company and (assuming due authorization, execution and delivery by each other party thereto) each constitutes, a valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and other

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similar laws relating to or affecting creditors' rights generally or by general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(b) Preemptive Rights: Rights of First Offer. None of the sale and issuance of the Purchased Common Shares pursuant to this Agreement is or will be subject to any preemptive rights, rights of first offer or similar rights of any person (except as set forth in the Certificate of Designations or the Amended and Restated Charter).

(c) No Conflict. The Company is not in violation or default in any material respect of any provision of its Charter or Bylaws. The execution, delivery and performance by the Company of this Agreement and the Ancillary Agreements do not, and the consummation of the Transaction and compliance with the provisions hereof and thereof will not, result in a change of control (or similar event) under, or conflict with, or result in any default under, or give rise to an increase in, or right of termination, cancellation, acceleration or mandatory prepayment of, any obligation or to the loss of a benefit under, or result in the suspension, revocation, impairment, forfeiture or amendment of any term or provision of or the creation of any Encumbrance upon any of the properties or assets of the Company or any of its subsidiaries under, or require any consent or waiver under, any provision of (i) the Charter, the Bylaws or the comparable organizational documents of any of the Company's subsidiaries (other than the requirement to obtain stockholder approval as contemplated by Section 5.1 of the BDT Purchase Agreement), (ii) save in relation to the execution of the Credit Agreement, any Material Contract, or (iii) any applicable law, Judgment or Governmental Authorization, in each case applicable to the Company and its subsidiaries or their respective assets. Neither the execution and delivery of this Agreement, nor the consummation of the Transaction or the Acquisition, either alone or in combination with another event (whether contingent or otherwise) will (1) result in any payment of any excess parachute payment under Section 280G of the Code, (2) entitle any current or former employee, consultant or director of the Company or any of its subsidiaries to any payment, (3) increase the amount of compensation or benefits due to any such employee, consultant or director, or (4) accelerate the vesting, funding or time of payment of any compensation, equity award or other benefit.

(d) No Governmental Authorization. Except as contemplated by Section 5.7 of the BDT Purchase Agreement, no Governmental Authorization, order or authorization of, or registration, qualification, declaration or filing with, or notice to, any Governmental Entity is required to be obtained or made by or with respect to the Company or any of its subsidiaries in connection with the execution, delivery and performance of this Agreement or any of the Ancillary Agreements or the Transaction, including the issuance of the Purchased Common Shares, except for such Governmental Authorizations, orders, authorizations, registrations, qualifications, declarations, filings and notices, the failure of which to be obtained or made would not (i) materially impair the Company's and/or the Investor's ability to perform its obligations under this Agreement or the Ancillary Agreements or consummate the Transaction or (ii) have a Material Adverse Effect.

**3.3 Capital Structure.**

(a) As of the date of this Agreement, the authorized capital stock of the Company consists solely of (i) 200,000,000 shares of Common Stock, of which 43,590,915 shares are issued and outstanding and 6,500,000 shares are reserved for issuance pursuant to the Company's 2008 Omnibus Incentive Plan, and (ii) 10,000,000 shares of preferred stock, of which zero (0) shares are issued and outstanding and zero (0) shares are reserved for issuance. As of the Closing, and after giving effect to the Transaction, the authorized capital stock of the Company shall consist solely of 400,000,000 shares of Common Stock and up to 20,000,000 shares of preferred stock, and the number of shares issued, outstanding and reserved for issuance shall consist solely of (w) the shares of Common Stock and preferred stock referred to in the foregoing sentence, (x) the Purchased Common Shares, (y) a number of shares of Common Stock to be issued to each of Steven M. Rales and Markel Corporation in connection with the SMR Investment and Markel Investment at the Common Share Purchase Price (z) the Shares of Common Stock and 6.0% Series A Perpetual Convertible Preferred

Stock to be issued in connection with the BDT Investment and (xx) shares of

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Common Stock issued or reserved for issuance under the Company's 2008 Omnibus Incentive Plan, as outstanding in the SEC Report for the three months ended June 30, 2011 and any awards under the plan granted in the ordinary course of business since such SEC Report. No other shares of capital stock of the company are authorized, issued and outstanding or reserved for issuance.

(b) Subject to the Company obtaining shareholder approval as contemplated in Section 5.1 of the BDT Purchase Agreement, the Purchased Common Shares have been duly authorized and upon the Closing shall be (i) validly issued, fully paid and nonassessable, (ii) not issued in violation of any purchase option, call option, right of first refusal, preemptive right, subscription right or any similar right under any provision of the Charter or Bylaws of the Company or any Contract to which the Company or any of its subsidiaries is a party or by which any of its or their respective assets are bound, and (iii) free and clear of all Encumbrances.

(c) The Company has not issued any Voting Debt that is outstanding. Except as set forth in the SEC Reports or in Schedule 3.3(c) of the Company Disclosure Schedules to the BDT Purchase Agreement, there are no (A) outstanding obligations, options, warrants, convertible securities, exchangeable securities, securities or rights that are linked to the value of the Common Stock or other rights, agreements or commitments relating to the capital stock of the Company or that obligate the Company to issue or sell or otherwise transfer shares of capital stock of the Company or any securities convertible into or exchangeable for any shares of capital stock of the Company or any Voting Debt of the Company, (B) outstanding obligations of the Company to repurchase, redeem or otherwise acquire shares of capital stock of the Company, (C) voting trusts, stockholder agreements, proxies or other agreements or understandings in effect with respect to the voting or transfer of shares of capital stock of the Company (but only to the Company's knowledge with respect to any such agreements to which neither the Company nor any subsidiary of the Company is a party), or (D) rights of first refusal, preemptive rights, subscription rights or any similar rights with respect to the capital stock of the Company under the Charter or Bylaws or any Contract to which the Company or any subsidiary of the Company is a party or by which any of its assets are bound. True, correct, and complete copies of the Charter and the Bylaws have been filed as exhibits to the Company's SEC Reports. Neither the Company, nor any of its subsidiaries has any stockholder rights plan, poison pill or any similar arrangement in effect.

(d) The shares of outstanding capital stock of the Company's subsidiaries are duly authorized, validly issued, fully paid and nonassessable, and are held of record and beneficially owned by the Company or a subsidiary of the Company. There is no Voting Debt of any subsidiary of the Company that is outstanding. Except as set forth in the SEC Reports or in Schedule 3.3(d) of the Company Disclosure Schedules to the BDT Purchase Agreement, there are no (i) outstanding obligations, options, warrants, convertible securities, exchangeable securities, securities or rights that are linked to the value of the Common Stock or other rights, agreements or commitments, in each case, relating to the capital stock or equity interests of the subsidiaries of the Company or that obligate the Company or its subsidiaries to issue or sell or otherwise transfer shares of the capital stock or any securities convertible into or exchangeable for any shares of capital stock or any Voting Debt of any subsidiary of the Company, (ii) outstanding obligations of the subsidiaries of the Company to repurchase, redeem or otherwise acquire shares of their respective capital stock or equity interests, (iii) voting trusts, stockholder agreements, proxies or other agreements or understandings in effect with respect to the voting or transfer of shares of capital stock of the subsidiaries of the Company (but only to the Company's knowledge with respect to any such agreements to which neither the Company nor any subsidiary of the Company is a party), or (iv) rights of first refusal, preemptive rights, subscription rights or any similar rights under any provision of the governing documents of any material subsidiary or any non-wholly owned subsidiary of the Company.

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**3.4 Taxes.**

- (a) Except as disclosed in the SEC Reports or except as would not reasonably be expected, individually or in the aggregate, to be material to the Company: (i) the Company and each of its subsidiaries have filed all Tax Returns required to be filed by them; (ii) all such Tax Returns are true, correct and complete; (iii) all Taxes due and owed by the Company and each of its subsidiaries (whether or not shown on any Tax Return) have been paid; (iv) neither the Company nor any of its subsidiaries currently is the beneficiary of any extension of time within which to file any material Tax Return; (v) no claim has ever been made by a Governmental Entity in a jurisdiction where the Company or any of its subsidiaries does not file Tax Returns that the Company or any such subsidiary is or may be subject to taxation by that jurisdiction; (vi) there are no liens on any of the assets or properties of the Company or any of its subsidiaries that arose in connection with any failure (or alleged failure) to pay any Tax; (vii) there are no ongoing, pending or, to the Company's knowledge, threatened audits, assessments, or other proceedings for or relating to any liability in respect of Taxes of the Company or any of its subsidiaries; (viii) neither the Company nor any of its subsidiaries has waived any statute of limitations in respect of Taxes or agreed to any extension of time with respect to a Tax assessment or deficiency; and (ix) the Company and each of its subsidiaries have timely withheld and paid all Taxes required to have been withheld and paid in connection with amounts paid or owing to any employee, independent contractor, creditor, stockholder or other third party.
- (b) Neither the Company nor any of its subsidiaries has been a member of any affiliated group filing a consolidated Federal income Tax Return other than a group the common parent of which is the Company.

**3.5 Compliance with Laws.**

- (a) The Company and each of its subsidiaries and the conduct and operation of their respective businesses are and have been, since January 1, 2010, in compliance in all material respects with each applicable law that is applicable to the Company or its subsidiaries or their respective businesses, including any laws relating to employment practices, except, in each case, as has not had and would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.
- (b) Neither the Company nor any of its subsidiaries has received any written notice or other written communication from any Governmental Entity or any other person regarding (1) any actual, alleged, possible or potential violation of or failure to comply with any material term or requirement of any Governmental Authorization, or (2) any actual, proposed, possible or potential revocation, withdrawal, suspension, cancellation, termination of or modification to any Governmental Authorization, except, in each case, as has not had and would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.

**3.6 SEC Reports and Company Financial Statements.**

- (a) Since January 1, 2009, except as disclosed in Schedule 3.6(a) of the Company Disclosure Schedules to the BDT Purchase Agreement, the Company has filed all reports, schedules, forms, statements and other documents required to be filed by it with the SEC pursuant to the reporting requirements of the Exchange Act (all the foregoing and all exhibits included or incorporated by reference therein and financial statements and schedules thereto and documents included or incorporated by reference therein being sometimes hereinafter collectively referred to as the SEC Reports ). As of their respective filing dates, the SEC Reports complied with the requirements of the Exchange Act applicable to the SEC Reports (as amended or supplemented), and none of the SEC Reports, at the time they were filed with the SEC, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. No subsidiary of the Company is, or is required to be, a registrant with the SEC.



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(b) As of their respective dates, except as set forth therein or in the notes thereto, the financial statements contained in the SEC Reports and the related notes (the Financial Statements ) complied as to form with all applicable accounting requirements and the published rules and regulations of the SEC with respect thereto. The Financial Statements (i) were prepared in accordance with GAAP, consistently applied during the periods involved (except (x) as may be otherwise indicated in the notes thereto or (y) in the case of unaudited interim statements, to the extent that they may not include footnotes or may be condensed or summary statements), (ii) fairly present in all material respects the consolidated financial position of the Company and its consolidated subsidiaries as of the dates thereof and the consolidated results of their operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal year-end audit adjustments), and (iii) are in all material respects in accordance with the books of account and records of the Company and its consolidated subsidiaries.

(c) Neither the Company nor any of its subsidiaries is a party to, or has any commitment to become a party to, any joint venture, off-balance sheet partnership or any similar Contract or arrangement (including any Contract relating to any transaction or relationship between or among the Company and any of its subsidiaries, on the one hand, and any unconsolidated affiliate of the Company or any of its subsidiaries, including any structured finance, special purpose or limited purpose entity or person, on the other hand, or any off-balance sheet arrangements (as defined in Item 303(a) of Regulation S-K of the SEC)), where the result, purpose or effect of such Contract is to avoid disclosure of any material transaction involving, or material liabilities of, the Company or any of its subsidiaries in the Company's or such subsidiary's audited financial statements or other SEC Reports.

(d) To the Company's knowledge, there is no reason that its outside auditors and its chief executive officer and chief financial officer will not be able to give the attestations and certifications, as applicable, required pursuant to the rules and regulations adopted pursuant to Section 404 of SOX, without qualification, when next due.

(e) Except as set forth in SEC Reports and the transactions contemplated by this Agreement, the SMR Investment and the Markel Investment, none of the executive officers, directors or related persons (as defined in Regulation S-K Item 404) of the Company is presently a party to any transaction with the Company or any of its subsidiaries that would be required to be reported on Form 10-K by Item 13 thereof pursuant to Regulation S-K Item 404.

**3.7 Private Placement.** Assuming that the representations of Investor set forth in Section 4.2 are true and correct, the offer, sale, and issuance of the Purchased Common Shares, in conformity with the terms of this Agreement, are exempt from the registration requirements of Section 5 of the Securities Act.

**3.8 Brokers.** The Company and its subsidiaries have incurred no obligation or liability, contingent or otherwise, in connection with this Agreement or the Transaction that would result in the obligation of the Investor to pay any finder's fees, brokerage or agent's commissions or other like payments in connection with the negotiations leading to this Agreement or the consummation of the Transaction.

**3.9 Registration Rights.** Other than the Registration Rights Agreement and any other registration rights agreement entered into in connection with the financing of the Acquisition, the Company has not granted or agreed to grant, and is not under any obligation to provide, any rights (including piggy-back registration rights) to register under the Securities Act any of its presently outstanding securities or any of its securities that may be issued subsequently.

**3.10 No Restriction on the Ability to Pay Cash Dividends.** Except as set forth in the Amended and Restated Charter, the Certificate of Designations and the Credit Agreement and any existing credit facilities of the Company or its subsidiaries that are being replaced by the Credit Agreement, neither the Company nor any of its subsidiaries is, or will be, immediately following the Closing, a party to any Contract, and is not, and will not be, immediately following the Closing, subject to any provisions in its Charter or Bylaws or other governing documents or resolutions of the

Board of Directors or other governing body, that restricts, limits, prohibits or prevents the payment of cash dividends with respect to any of its equity securities.

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3.11 **Credit Agreement.** True, correct and complete copies of the Credit Agreement and all ancillary agreements thereto that have been executed as of the date hereof have been provided to the Investor, and the Credit Agreement and each such ancillary agreement is in full force and effect.

## ARTICLE 4

### Representations and Warranties of the Investor

The Investor hereby represents and warrants to the Company, as of the date hereof and as of the Closing Date, as follows:

4.1 **Authorization.** The Investor has all necessary entity power and authority to execute and deliver this Agreement and the Ancillary Agreements to which it is a party, to perform its obligations hereunder and thereunder and to consummate the Transaction. This Agreement and the Ancillary Agreements to which the Investor is a party have been duly executed and delivered by the Investor and (assuming due authorization, execution and delivery by each other party thereto) each constitutes a valid and binding obligation of the Investor, enforceable against the Investor in accordance with its respective terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally or by general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law).

4.2 **Securities Act; Purchase for Investment Purposes.** The Investor (i) is acquiring the Purchased Common Shares solely for investment with no present intention to distribute them in violation of the Securities Act and the rules and regulations thereunder or any applicable U.S. state securities laws, (ii) has such knowledge and experience in financial and business matters and in investments of this type that it is capable of evaluating the merits and risks of making an informed investment decision to purchase the Purchased Common Shares, (iii) is an accredited investor (as that term is defined by Rule 501 promulgated under the Securities Act), and (iv) acknowledges and understands that the Purchased Common Shares have not been registered under the Securities Act, or any state securities laws, and agrees that it will not offer, sell, assign, transfer, pledge, encumber or otherwise dispose of such Purchased Common Shares absent registration under the Securities Act or unless such transaction is exempt from, or not subject to, registration under the Securities Act, and in each case, in accordance with all applicable state securities laws.

## ARTICLE 5

### Covenants

5.1 Upon the terms and subject to the conditions set forth in this Agreement, each of the parties hereto agrees to use its reasonable best efforts to take, or cause to be taken, all actions that are necessary, proper or advisable to consummate and make effective the Transaction, including using its reasonable best efforts to accomplish the following: (i) the satisfaction of the conditions precedent set forth in Article 6, (ii) the taking of all reasonable steps to provide any supplemental information requested by a Governmental Entity, including participating in meetings with officials of such entity in the course of its review of the Transaction, (iii) the defending of any lawsuits or other legal proceedings, whether judicial or administrative, that challenge this Agreement, the Transaction, the BDT Investment, the SMR Investment, the Markel Investment, the Credit Agreement or the consummation of the Acquisition or any

other transaction contemplated hereby, and (iv) the execution and delivery of any additional instruments necessary to consummate and make effective the Transaction.

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## ARTICLE 6

### Conditions

6.1 **Conditions to all Parties Obligations.** The respective obligations of the Company, on the one hand, and the Investor, on the other hand, to effect the Closing are subject to the satisfaction of the following conditions:

(a) Offer/Scheme of Arrangement. In the case of an Offer, the Offer shall have become or been declared unconditional by the Company in all respects. In the case of a Scheme of Arrangement, the High Court of Jersey shall have filed an order (and the Investor shall have received a copy thereof) sanctioning the Scheme of Arrangement on behalf of the Target with the Registrar of Companies in accordance with Part 18A of the Companies Act.

(b) Stockholder Approvals; Filing of Amended and Restated Charter and Certificate of Designations. All approvals of the Company's stockholders required in connection with the Transaction, including any such approvals required under applicable law and the applicable listing rules of the New York Stock Exchange, shall have been obtained on or before the Closing Date, and the Amended and Restated Charter and the Certificate of Designations, substantially in the forms attached hereto as **Exhibit A** and **Exhibit B**, respectively, shall have been properly filed with the office of the Secretary of State of the State of Delaware.

6.2 **Conditions to the Investor's Obligations.** The obligations of the Investor to effect the Closing are subject to the satisfaction, or written waiver by the Investor (given in accordance with Section 8.1), of each of the following conditions:

(a) Representations and Warranties. Each of the Major Representations of the Company contained in this Agreement shall be true and correct in all material respects on and as of the date of this Agreement and as of the Closing with the same force and effect as if made as of the Closing (except that representations and warranties which address matters only as of a particular date need only be true and correct as of such date).

(b) Debt Financing. As of the Closing Date, (i) the Credit Agreement shall be in full force and effect, and (ii) all conditions precedent to the effectiveness of the Credit Agreement and to the extensions of credit thereunder (other than receipt of the proceeds of the Equity Financing (as defined in the Credit Agreement)) shall have been satisfied or waived.

## ARTICLE 7

### Termination

7.1 **Termination.** This Agreement may be terminated prior to the Closing as follows:

(a) At any time, by the mutual written consent of the Investor and the Company;

(b) By the Investor if the Company does not publish the Rule 2.5 Announcement by September 15, 2011 or, if the Rule 2.5 Announcement is published by such date, on such later date, if any, upon which the Scheme of Arrangement

or Offer, as applicable, lapses, terminates or is withdrawn; or

(c) By written notice by either the Company or the Investor to the other party or parties, at any time after the date that is two hundred (200) calendar days after the Announcement Date (the Termination Date ) if the Closing shall not have occurred on or prior to the Termination Date; provided, that the right to terminate this Agreement under this Section 7.1(c) shall not be available to such party if the action or inaction of such party has been a principal cause of or resulted in the failure of the Closing to occur on or before the Termination Date and such action or failure to act constitutes a breach of this Agreement.

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(d) By the Investor at any time prior to the Closing, if (i) the Company is in breach of a Major Representation (ii) such breach is not cured or capable of being cured by the earlier of the Termination Date and twenty (20) days following written notice of such breach from the Investor (to the extent such breach is curable) and (iii) such breach, if not cured, would render the conditions set forth in Section 6.2 incapable of being satisfied;

**7.2 Effect of Termination.** In the event of the termination of this Agreement as provided in Section 7.1, all obligations and agreements of the parties set forth in this Agreement shall become void and of no further force and effect whatsoever and there shall be no liability or obligation on the part of the parties hereto except (i) for any liability of the Company as a result of a breach of this Agreement prior to such termination, and (ii) that the provisions of this Section 7.2 and ARTICLE 8 (and all related definitions in ARTICLE 1) shall survive any such termination and shall be enforceable hereunder.

## ARTICLE 8

### General Provisions

**8.1 Amendments and Waivers.** This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties hereto. Except as otherwise provided in this Agreement, any failure of any party to comply with any obligation, covenant, agreement or condition herein may be waived by the party entitled to the benefits thereof only by a written instrument signed by the party granting such waiver, but such waiver shall not operate as a waiver of, or estoppel with respect to, any subsequent or other failure. The failure of any party to this Agreement to assert any of its rights under this Agreement or otherwise shall not constitute a waiver of such rights.

**8.2 Assignment.** This Agreement and the rights and obligations hereunder shall not be assignable or transferable by any party without the prior written consent of the other parties hereto

**8.3 No Third-Party Beneficiaries.** This Agreement is for the sole benefit of the parties hereto and their permitted assigns and nothing herein expressed or implied shall give or be construed to give to any person, other than the parties hereto and such permitted assigns, any legal or equitable rights hereunder.

**8.4 Notices.** All notices or other communications required or permitted to be given hereunder shall be in writing and shall be delivered by hand or sent by a nationally recognized overnight courier service (with tracking capability), and shall be deemed given when received, as follows:

if to the Investor, to:

2200 Pennsylvania Avenue NW  
Suite 800W  
Washington DC 20037  
Attention: Michael G. Ryan

With a copy to:

DLA Piper LLP (US)  
6225 Smith Avenue

Edgar Filing: Colfax CORP - Form PRER14A

Baltimore, Maryland 21209  
Attention: Jason C. Harmon, Esq.

if to the Company, to:

Colfax Corporation  
8170 Maple Lawn Blvd, Suite 180  
Fulton, MD 20759  
Attention: A. Lynne Puckett

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**8.5 Counterparts.** This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement, and shall become effective when one or more such counterparts have been signed by each of the parties hereto and delivered to the other parties hereto.

**8.6 Entire Agreement.** This Agreement and the Ancillary Agreements, along with the Schedules and the Exhibits hereto and thereto, contain the entire agreement and understanding among the parties hereto with respect to the subject matter hereof and thereof and supersede all prior agreements and understandings relating to such subject matter. None of the parties shall be liable or bound to any other party in any manner by any representations, warranties or covenants relating to such subject matter except as specifically set forth herein or in the Ancillary Agreements.

**8.7 Interpretation; Exhibits and Schedules.** The headings contained in this Agreement, in any Exhibit or Schedule hereto and in the table of contents to this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. All Exhibits and Schedules annexed hereto or referred to herein are hereby incorporated in and made a part of this Agreement as if set forth in full herein. Any capitalized terms used in any Schedule or Exhibit but not otherwise defined therein shall have the meaning assigned to such term in this Agreement. When a reference is made in this Agreement to a Section, Exhibit or Schedule, such reference shall be to a Section of, or an Exhibit or Schedule to, this Agreement unless otherwise indicated.

**8.8 Severability.** If any provision of this Agreement (or any portion thereof) or the application of any such provision (or any portion thereof) to any person or circumstance shall be held invalid, illegal or unenforceable in any respect by a court of competent jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision hereof (or the remaining portion thereof) or the application of such provision to any other persons or circumstances, so long as the economic and legal substance of the Transaction is not affected in a manner materially adverse to any party hereto.

**8.9 Consent to Jurisdiction.** Each of the parties hereby consents to the exclusive jurisdiction of the state and federal courts sitting in the City of New York in any action on a claim arising out of, under or in connection with this Agreement or the Transaction.

**8.10 Governing Law.** This Agreement shall be governed and construed in accordance with the laws of the State of New York.

**8.11 Waiver of Jury Trial.** Each party hereby waives, to the fullest extent permitted by Applicable Law, any right it may have to a trial by jury in respect to any litigation directly or indirectly arising out of, under or in connection with this Agreement, any Ancillary Agreement or the Transaction. Each party (a) certifies that no representative, agent or attorney of any other party has represented, expressly or otherwise, that such other party would not, in the event of litigation, seek to enforce the foregoing waiver and (b) acknowledges that it and the other parties hereto have been induced to enter into this Agreement and the Ancillary Agreements, as applicable, by, among other things, the mutual waivers and certifications in this Section 8.11.

**8.12 Rights of Holders.** Each party to this Agreement shall have the absolute right to exercise or refrain from exercising any right or rights that such party may have by reason of this Agreement, including the right to consent to the waiver or modification of any obligation under this Agreement, and such party shall not incur any liability to any other party or other holder of any securities of the Company as a result of exercising or refraining from exercising any such right or rights.

**8.13 Adjustment in Share Numbers and Prices.** In the event of any (i) stock split, (ii) subdivision, (iii) dividend or distribution payable in shares of Common Stock (or other securities or rights convertible into or entitling the holder

thereof to receive directly or indirectly shares of Common Stock), (iv) combination or (v) other similar recapitalization or event, in each case, occurring after the date hereof and prior to the Closing Date, each reference in this Agreement and the Ancillary Agreements to a number of shares or a price per share shall be amended to appropriately account for such event.

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8.14 **Construction.** The parties acknowledge that each party and its counsel have participated in the negotiation and preparation of this Agreement. This Agreement shall be construed without regard to any presumption or other rule requiring construction against the party causing the Agreement to be drafted. Each covenant, term and provision of this Agreement shall be construed simply according to its fair meaning and not strictly for or against any party hereto.

*[Signature page follows.]*

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In Witness Whereof, the Company and the Investor have executed this Agreement as of the date first above written.

COMPANY  
COLFAX CORPORATION

By:

/s/ A. Lynne Puckett

Name: A. Lynne Puckett

Title: Senior Vice President,  
General Counsel and Secretary

INVESTOR

Mitchell P. Rales

/s/ Mitchell P. Rales

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**EXHIBIT A**

**AMENDED AND RESTATED CERTIFICATE OF  
INCORPORATION**

**OF**

**COLFAX CORPORATION**

Colfax Corporation (the **Corporation** ), a corporation organized and existing under the General Corporation Law of the State of Delaware (the **Delaware General Corporation Law** ), does hereby certify as follows:

- The present name of the Corporation is Colfax Corporation. The Corporation was incorporated under the name Constellation Pumps Corporation by filing its original Certificate of Incorporation with the Secretary of State of the State of Delaware on February 25, 1998. An Amended and Restated Certificate of Incorporation was filed with and
1. accepted by the Secretary of State of the State of Delaware on May 22, 2003 and amended by Certificates of Amendment on May 30, 2003, May 3, 2004, and April 21, 2008. An Amended and Restated Certificate of Incorporation was filed with and accepted by the Secretary of State of the State of Delaware on May 13, 2008. This Amended and Restated Certificate of Incorporation was duly adopted by the Board of Directors of the
  2. Corporation (the **Board** ) and by the stockholders of the Corporation in accordance with Sections 228, 242, and 245 of the Delaware General Corporation Law.
- Pursuant to Sections 242 and 245 of the Delaware General Corporation Law, this Amended and Restated Certificate
3. of Incorporation restates and integrates and also further amends the provisions of the Certificate of Incorporation of the Corporation as heretofore amended or supplemented. The Certificate of Incorporation of the Corporation, as heretofore amended or supplemented, is superseded by this Amended and Restated Certificate of Incorporation.
- This Amended and Restated Certificate of Incorporation shall become effective upon the time of filing of this
4. Amended and Restated Certificate of Incorporation with the Secretary of State of the State of Delaware pursuant to Section 103 of the Delaware General Corporation Law.
5. The Certificate of Incorporation of the Corporation as heretofore amended or supplemented is hereby restated and further amended to read in its entirety as follows:

**Article 1. NAME**

The name of this corporation is Colfax Corporation.

**Article 2. REGISTERED OFFICE AND AGENT**

The address of this Corporation's registered office in the State of Delaware is 2711 Centerville Road, Suite 400, in the City of Wilmington, Delaware 19808, in the County of New Castle. The name of this Corporation's registered agent at such address is Corporation Service Company.

## **Article 3. PURPOSE AND POWERS**

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the Delaware General Corporation Law. The Corporation shall have all power necessary or convenient to the conduct, promotion or attainment of such acts and activities.

## **Article 4. CAPITAL STOCK AND ISSUANCE OF SECURITIES**

### **4.1. Authorized Shares**

The total number of shares of all classes of stock that the Corporation shall have the authority to issue is 420,000,000 of which 400,000,000 of such shares shall be Common Stock having a par value of \$.001 per share (the **Common Stock** ), and 20,000,000 of such shares shall be Preferred Stock, having a par value of \$.001 per share (the **Preferred Stock** ).

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## **4.2. Common Stock**

### **4.2.1. Relative Rights**

The Common Stock shall be subject to all of the rights, privileges, preferences, priorities, and restrictions set forth in this Amended and Restated Certificate of Incorporation (including any certificate of designations relating to any series of the Preferred Stock). Each share of the Common Stock shall have the same relative rights as, and be identical in all respects to, all the other shares of the Common Stock.

### **4.2.2. Dividends**

Whenever there shall have been paid, or declared and set aside for payment, to the holders of shares of any class of stock having preference over the Common Stock as to the payment of dividends, the full amount of dividends and of sinking fund or retirement payments, if any, to which such holders are respectively entitled in preference to the Common Stock, then dividends may be paid on the Common Stock and on any class or series of stock entitled to participate therewith as to dividends, out of any assets legally available for the payment of dividends thereon, but only when and as declared by the Board and subject to the restrictions set forth in any certificate of designations relating to any series of Preferred Stock. Any dividends on the Common Stock will not be cumulative.

### **4.2.3. Dissolution, Liquidation, Winding Up**

In the event of any dissolution, liquidation, or winding up of the Corporation, whether voluntary or involuntary, the holders of the Common Stock, and holders of any class or series of stock entitled to participate therewith, in whole or in part, as to the distribution of assets in such event, shall be entitled to participate in the distribution of any assets of the Corporation remaining after the Corporation shall have paid, or provided for payment of, all debts and liabilities of the Corporation and after the Corporation shall have paid, or set aside for payment, to the holders of any class of stock having preference over the Common Stock in the event of dissolution, liquidation or winding up the full preferential amounts (if any) to which they are entitled.

### **4.2.4. Voting Rights**

Each holder of shares of the Common Stock shall be entitled to attend all special and annual meetings of the stockholders of the Company at which any action is to be taken as to which holders of Common Stock are entitled to vote pursuant to this Amended and Restated Certificate of Incorporation or applicable law. Except as may otherwise be required by law, and subject to the provisions of such resolution or resolutions as may be adopted by the Board pursuant to Section 4.3 of this Article 4 granting the holders of one or more series of the Preferred Stock exclusive or special voting powers with respect to any matter, each holder of the Common Stock shall have one vote with respect to each share of the Common Stock held on all matters voted upon by the stockholders, provided, however, that except as otherwise required by law, holders of the Common Stock, as such, shall not be entitled to vote on any amendment to this Amended and Restated Certificate of Incorporation (including a certificate of designations relating to any series of the Preferred Stock) that relates solely to the terms of one or more outstanding series of the Preferred Stock if the holders of such affected series are entitled, either voting separately or together with the holders of one or more other such series, to vote thereon pursuant to this Amended and Restated Certificate of Incorporation (including any certificate of designations relating to any series of the Preferred Stock) or pursuant to the Delaware General Corporation Law. Each holder of shares of the Common Stock may exercise its vote either in person or by proxy.

## **4.2.5 Stockholder Action**

Subject to the rights of any holders of the Preferred Stock, (i) only the chairman of the Board or a majority of the Board shall be permitted to call a special meeting of stockholders; (ii) the business permitted to be conducted at a special meeting of stockholders shall be limited to matters properly brought before the meeting by or at the direction of the 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.

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### 4.3. Preferred Stock

The Board is authorized, subject to limitations prescribed by the Delaware General Corporation Law and the provisions of this Amended and Restated Certificate of Incorporation, to provide, by resolution or resolutions from time to time and by filing certificates of designations pursuant to the Delaware General Corporation Law, for the issuance of shares of the Preferred Stock in one or more series, to establish from time to time the number of shares to be included in each such series, to fix the voting powers, designations, preferences and relative, participating, optional or other special rights of the shares of each such series of the Preferred Stock and to fix the qualifications, limitations or restrictions thereof.

The authority of the Board with respect to each series shall include, but not be limited to, determination of the following: (1) the number of shares constituting that series and the distinctive designation of that series; (2) the dividend rate on the shares of that series, whether dividends shall be cumulative, and, if so, from which date or dates, and the relative rights of priority, if any, of payment of dividends on shares of that series; (3) whether that series shall have voting rights, in addition to the voting rights provided by law, and, if so, the terms of such voting rights; (4) whether that series shall have conversion privileges, and, if so, the terms and conditions of such conversion, including provision for adjustment of the conversion rate in such events as the Board shall determine; (5) whether or not the shares of that series shall be redeemable, and, if so, the terms and conditions of such redemption, including the dates upon or after which they shall be redeemable, and the amount per share payable in case of redemption, which amount may vary under different conditions and at different redemption dates; (6) whether that series shall have a sinking fund for the redemption or purchase of shares of that series, and, if so, the terms and amount of such sinking fund; (7) the rights of the shares of that series in the event of voluntary or involuntary liquidation, dissolution or winding up of the Corporation, and the relative rights of priority, if any, of payment of shares of that series; and (8) any other relative powers, preferences, and rights of that series, and qualifications, limitations or restrictions on that series as the Board shall determine.

### 4.4 Rights of Certain Holders

So long as the Investor and its Permitted Transferees collectively Beneficially Own, in the aggregate, at least fifty percent (50%) of the Purchased Preferred Shares, the written consent of the Investor will be required in order for the Corporation to take any of the following actions:

1. The incurrence of Senior Net Indebtedness, excluding
  - (i) Permitted Indebtedness, and
  - (ii) the issuance of Preferred Stock,if, after giving effect to such incurrence, the ratio of Senior Net Indebtedness to Adjusted EBITDA would exceed 3.75 : 1 measured by reference to the last twelve-month period for which financial information of the Corporation is reported by the Corporation (the **LTM Period**), pro forma for any acquisition in the LTM Period; *provided, however*, that the consent of the Investor will not be required pursuant to this Section 4.4(1) as to the incurrence of Indebtedness, the net proceeds of which are used for Refinancing of Indebtedness that existed on the Closing Date (including any Indebtedness incurred on the Closing Date);
2. The incurrence of Total Net Indebtedness, excluding:
  - (i) Permitted Indebtedness,
  - (ii) the issuance of Preferred Stock,if, after giving effect to such incurrence, the ratio of Total Net Indebtedness to Adjusted EBITDA would exceed 4.25 : 1 measured by reference to the LTM Period, pro forma for any acquisition in the LTM Period; *provided, however*, that

the consent of the Investor will not be required pursuant to this Section 4.4(2) as to the incurrence of Indebtedness, the net proceeds of which are used for the Refinancing of Indebtedness that existed on the Closing Date (including any Indebtedness incurred on the Closing Date);

3. The issuance by the Corporation of any shares of Preferred Stock;

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- Any change to the Corporation's dividend policy, or the declaration or payment of any dividend or distribution on any Junior Stock, unless the ratio of the Corporation's Total Net Indebtedness, excluding Permitted Indebtedness and any Preferred Stock, to Adjusted EBITDA is less than 2:1 measured by reference to the LTM Period, pro forma for any acquisition in the LTM period;
- 4.
5. Any voluntary liquidation, dissolution or winding up of the Corporation;
6. Any change in the Corporation's independent auditor;
7. The election of anyone other than Mr. Mitchell P. Rales as the Corporation's Chairman of the Board;
- Any acquisition by the Corporation or any of its subsidiaries, in any transaction or series of related transactions, of another entity or assets for a purchase price exceeding thirty percent (30%) of the Corporation's equity market capitalization at the time the applicable acquisition agreement is signed;
- 8.
- Any merger, consolidation, reclassification, joint venture or strategic partnership, or any similar transaction, any sale, lease, transfer or other disposition of any assets of the Corporation or any subsidiary of the Corporation (excluding sale/leaseback transactions and other financing transactions, in each case, entered into in the ordinary course of the Corporation's or such subsidiary's business or any sales among the Company and its subsidiaries), or any voluntary liquidation, dissolution or winding up of any subsidiary of the Corporation if (i) the value of the entity resulting from any such merger, consolidation, reclassification or similar transaction, (ii) the level of investment in any such joint venture, strategic partnership or similar transaction by the Corporation or such subsidiary, (iii) the value of the assets being sold, leased, transferred or disposed of, or (iv) the value of the subsidiary being liquidated, dissolved, or wound up (including the value of any subsidiary or subsidiaries thereof), as applicable, exceeds thirty percent (30%) of the Corporation's equity market capitalization at the time the applicable transaction agreement or other transaction documentation is signed;
- 9.
- Any amendments to the Corporation's Certificate of Incorporation or bylaws or other organizational or governing documents, as applicable; or
- 10.
11. Any change to the size of the Board.

**Article 5. BOARD OF DIRECTORS**

**5.1. Number; Election; Nomination Right of Certain Holders**

So long as the Investor and its Permitted Transferees collectively Beneficially Own, in the aggregate, more than twenty percent (20%) of the outstanding Common Stock, calculated on a fully-diluted basis, assuming conversion of all outstanding convertible securities (including the Series A Preferred Stock) and exercise of all existing warrants at the then-existing conversion or exercise price, but excluding any Unexercised Options and RSUs: (A) (1) the authorized number of directors of the Corporation shall be eleven (11); (B) the Investor shall be entitled to exclusively nominate two (2) members of the Board; and (C) the Investor shall be entitled to select one of its nominees, once elected to the Board, to serve on the audit committee of the Board, and one of its nominees, once elected to the Board, to serve on the compensation committee of the Board, subject to applicable law and New York Stock Exchange listing requirements.

So long as the Investor and its Permitted Transferees collectively Beneficially Own, in the aggregate, equal to or less than twenty percent (20%) but more than ten percent (10%) of the outstanding Common Stock, calculated on a fully-diluted basis, assuming conversion of all outstanding convertible securities (including the Series A Preferred Stock) and exercise of all existing warrants at the then-existing conversion or exercise price, but excluding any (2) Unexercised Options and RSUs: (A) the authorized number of directors of the Corporation shall be ten (10); (B) the Investor shall be entitled to exclusively nominate one (1) member of the Board; and (C) the Investor shall be entitled to select its nominee, once elected to the Board, to serve on the audit committee and compensation committee of the Board, subject to applicable law and New York Stock Exchange listing requirements.



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From the time the Investor and its Permitted Transferees collectively cease to Beneficially Own, in the aggregate, at least ten percent (10%) of the outstanding Common Stock, calculated on a fully-diluted basis, assuming conversion of all outstanding convertible securities (including the Series A Preferred Stock) and exercise of all (3) existing warrants at the then-existing conversion or exercise price, but excluding any Unexercised Options and RSUs, the Investor shall have no right under this Section 5.1 to nominate any members of the Board, and the authorized number of directors of the Corporation shall be such number as from time to time shall be fixed by, or in the manner provided in, the bylaws of the Corporation.

Unless and except to the extent that the bylaws of the Corporation shall otherwise require, the election of directors (4) of the Corporation need not be by written ballot. Each director of the Corporation shall be entitled to one vote per director on all matters voted or acted upon by the Board.

For purposes of calculating Beneficial Ownership percentages in this Section 5.1, the Investor and any Permitted Transferees shall not be deemed to Beneficially Own any shares of preferred stock other than the Purchased (5) Preferred Shares and any shares of Common Stock other than shares of Common Stock acquired (i) on the Closing Date, (ii) upon conversion of Preferred Stock or (iii) pursuant to anti-dilution provisions or pre-emption rights set forth in the Certificate of Designations.

### **5.2. Management of Business and Affairs of the Corporation**

The business and affairs of the Corporation shall be managed by, or under the direction of, the Board.

### **5.3. Limitation of Liability**

No director of the Corporation shall be liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, provided that this provision shall not eliminate or limit the liability of a director (a) for any breach of the director's duty of loyalty to the Corporation 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 Delaware General Corporation Law; or (d) for any transaction from which the director derived an improper personal benefit.

Any repeal or modification of this Article 5.3 shall be prospective only and shall not adversely affect any right or protection of, or any limitation of the liability of, a director of the Corporation existing at, or arising out of facts or incidents occurring prior to, the effective date of such repeal or modification.

## **Article 6. AMENDMENT OF BYLAWS**

In furtherance and not in limitation of the powers conferred by the Delaware General Corporation Law, the Board is expressly authorized and empowered to adopt, amend and repeal the bylaws of the Corporation.

## **Article 7. RESERVATION OF RIGHT TO AMEND CERTIFICATE OF INCORPORATION**

The Corporation reserves the right at any time, and from time to time, to amend, alter, change, or repeal any provision contained in this Amended and Restated Certificate of Incorporation, and other provisions authorized by the laws of the State of Delaware at the time in force may be added or inserted, in the manner now or hereafter prescribed by law; and all rights, preferences, and privileges of any nature conferred upon stockholders, directors, or any other persons by and pursuant to this Amended and Restated Certificate of Incorporation in its present form or as hereafter amended are granted subject to the rights reserved in this Article 7. Notwithstanding the foregoing, or any provision of law which might otherwise permit a lesser vote or no vote, but in addition to any affirmative vote of the holders of any particular

class or series of stock required by law or this Amended and Restated Certificate of Incorporation, until such time as the Investor and its Permitted Transferees collectively cease to Beneficially Own, in the aggregate, at least ten percent (10%) of the outstanding Common Stock, calculated on a fully-diluted basis, assuming conversion of all outstanding convertible securities (including the Series A Preferred Stock) and exercise of all existing warrants at the then-existing conversion or exercise price, but excluding any Unexercised Options and RSUs, the written consent of the Investor shall be required to alter, amend or repeal any provision of Section 5.1 of Article 5, this Article 7 or Article 8, including by merger, consolidation or otherwise.

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**Article 8. DEFINITIONS**

Capitalized terms not otherwise defined in this Amended and Restated Certificate of Incorporation shall have the following meanings:

**Adjusted EBITDA** means EBITDA, as such term is defined in that certain credit agreement, dated as of September 12, 2011, between and among the Company, Deutsche Bank A.G. New York Branch, a syndicate of other financial institutions as lenders and Deutsche Bank Securities Inc., as in effect as of September 12, 2011.

**Beneficial Ownership** and **Beneficially Own** and similar terms have the meaning set forth in Rule 13d-3 under the Securities and Exchange Act of 1934. For the avoidance of doubt, the Investor and its Permitted Transferees will be deemed to Beneficially Own all of the Common Stock issuable upon conversion of the Series A Preferred Stock held by the Investor and its Permitted Transferees at the time of determination.

**Closing Date** has the meaning set forth in the Securities Purchase Agreement.

**Indebtedness** means the principal of, accrued but unpaid interest on, and premium (if any, to the extent such premium is determinable) in respect of, indebtedness of such person for borrowed money, but excluding any indebtedness among the Corporation and its subsidiaries.

**Investor** means BDT CF Acquisition Vehicle, LLC.

**Junior Stock** means the Common Stock and any other class or series of stock of the Corporation, other than Parity Stock and Senior Stock, not expressly ranking senior to the Series A Preferred Stock with respect to the payment of dividends and distributions.

**Parity Stock** means any class or series of stock of the Corporation that may be authorized that expressly ranks equal to the Series A Preferred Stock with respect to the payment of dividends and distributions.

**Permitted Transferee** shall have the meaning assigned to such term in the Securities Purchase Agreement.

**Permitted Indebtedness** means Indebtedness under the Corporation's revolving line of credit as in existence on the Closing Date, leases and letters of credit, performance guarantees, bid bonds, surety bonds and similar instruments.

**Purchased Preferred Shares** shall have the meaning assigned to such term in the Securities Purchase Agreement.

**Refinance** or **Refinancing** means to refund, refinance, replace, renew, repay, or extend (including pursuant to any defeasance or discharge mechanism).

**Securities Purchase Agreement** means that certain Securities Purchase Agreement, dated as of September 12, 2011, by and between the Corporation and the Investor.

**Senior Net Indebtedness** means, as of any date, all Senior Indebtedness of the Corporation outstanding on such date minus all cash and cash equivalents of the Corporation as of such date.

**Senior Indebtedness** means Indebtedness that is not Subordinated Indebtedness.

**Senior Stock** means any class or series of stock of the Corporation that may be authorized that expressly ranks senior to the Series A Preferred Stock with respect to the payment of dividends and distributions.

**Subordinated Indebtedness** means Indebtedness which is subordinate or junior in right of payment to any other Indebtedness pursuant to a written agreement.

**Total Net Indebtedness** means, as of any date, all Indebtedness of the Corporation and its subsidiaries minus all cash and cash equivalents of the Corporation and its subsidiaries as of such date.

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**Unexercised Options and RSUs** means (i) any convertible securities outstanding as of the Closing Date (as such term is defined in the Securities Purchase Agreement), or (ii) any options, restricted stock units or similar awards issued to officers, employees, consultants or directors of the Corporation or its subsidiaries, in each case, in the form of Common Stock or entitling the holder thereof to receive shares of Common Stock upon the exercise or conversion thereof.

**IN WITNESS WHEREOF**, this Amended and Restated Certificate of Incorporation has been executed by the President and Chief Executive Officer of the Corporation on this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_.

**COLFAX CORPORATION**

By:

Name:

Title:

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**Exhibit B**

**CERTIFICATE OF DESIGNATIONS OF  
SERIES A PERPETUAL CONVERTIBLE PREFERRED  
STOCK**

**(PAR VALUE \$0.001)**

**OF**

**COLFAX CORPORATION**

Pursuant to Section 151 of the

General Corporation Law of the State of Delaware

Colfax Corporation, a corporation organized and existing under the General Corporation Law of the State of Delaware (the Corporation ), in accordance with the provisions of Section 151 thereof, DOES HEREBY CERTIFY:

That pursuant to the authority conferred upon the Board of Directors of the Corporation (the Board ) in accordance with the Second Amended and Restated Certificate of Incorporation of the Corporation (the Certificate of Incorporation ) and the Amended and Restated Bylaws of the Corporation (the Bylaws ), the Board on September 10, 2011 adopted the following resolution, creating a series of 13,877,552 shares of Preferred Stock, par value \$0.001 per share, of the Corporation designated as Series A Perpetual Convertible Preferred Stock, which is subject to shareholder approval of certain amendments to the Certificate of Incorporation including amendments that will increase the authorized number of shares of preferred stock:

RESOLVED, that pursuant to the authority vested in the Board by Article IV of the Certificate of Incorporation and out of the Preferred Stock, par value \$0.001 per share, authorized therein, the Board hereby authorizes, designates and creates a series of Preferred Stock, and states that the designation and amount thereof and the voting powers, preferences and relative, participating, optional and other special rights of the shares of such series, and the qualifications, limitations or restrictions thereof be, and hereby are, as follows:

**Section 1. Number of Shares and Designation.**



The designation of the series of Preferred Stock created by this resolution shall be Series A Perpetual Convertible Preferred Stock (the Series ), and the number of shares constituting the Series shall be Thirteen Million Eight Hundred Seventy-Seven Thousand Five Hundred Fifty-Two (13,877,552) (the Series A Preferred Stock ). Each share of Series A Preferred Stock shall have a liquidation preference of \$24.50 (the Liquidation Preference ).

**Section 2. Dividends.**

(1) Holders of Series A Preferred Stock shall be entitled to receive, on each share of Series A Preferred Stock, out of funds legally available for the payment of dividends under Delaware law, cumulative cash dividends with respect to each Dividend Period (as defined below) at a per annum rate of 6% (as such may be adjusted pursuant to this Section 2(1), the Dividend Rate ) on (i) the Liquidation Preference per share and (ii) to the extent unpaid on the Dividend Payment Date (as defined below), the amount of any accrued and unpaid dividends, if any, on such share of Series A Preferred Stock; *provided* that if, on any Dividend Payment Date, the Corporation shall not have paid in cash the full amount of any dividend required to be paid on such share (such amount being Unpaid Dividends ) on such Dividend Payment Date pursuant to this Section 2(1), then from such Dividend Payment Date, the Dividend Rate shall automatically be at a per annum rate of 8% for such share until the date on which all Unpaid Dividends have been declared and paid in full in cash. Dividends shall begin to accrue and be cumulative from the Issue Date (whether or not declared), shall compound on each Dividend Payment Date, and shall be payable in arrears (as provided below in this Section 2(1)), but only when, as and if declared by the Board (or a duly authorized committee of the Board) on each March 1, June 1, September 1 and December 1, and each Mandatory Conversion Date, Redemption Date and Liquidation Date (each, a Dividend Payment Date ); *provided* that if any such Dividend Payment

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Date would otherwise occur on a day that is not a Business Day, such Dividend Payment Date shall instead be (and any dividend payable on Series A Preferred Stock on such Dividend Payment Date shall instead be payable on) the immediately succeeding Business Day with no additional dividends payable as a result of such payment being made on such succeeding Business Day. Dividends that are payable on Series A Preferred Stock on any Dividend Payment Date will be payable to holders of record of Series A Preferred Stock as they appear on the stock register of the Corporation on the applicable record date, which shall be the fifteenth (15<sup>th</sup>) calendar day before such Dividend Payment Date (as originally scheduled) or such other record date fixed by the Board (or a duly authorized committee of the Board) that is not more than 60 nor less than 10 days prior to such Dividend Payment Date (each, a Dividend Record Date ). Any such day that is a Dividend Record Date shall be a Dividend Record Date whether or not such day is a Business Day. Each dividend period (a Dividend Period ) shall commence on and include the calendar day immediately following a Dividend Payment Date (other than the initial Dividend Period, which shall commence on and include the Issue Date) and shall end on and include the next Dividend Payment Date. Dividends payable in respect of a Dividend Period shall be payable in arrears on the first Dividend Payment Date after such Dividend Period.

(2) The Corporation (including its subsidiaries) shall not declare, pay or set apart funds for any dividends or other distributions with respect to any Junior Stock of the Corporation or repurchase, redeem or otherwise acquire, or set apart funds for repurchase, redemption or other acquisition of, any Junior Stock, or make any guarantee payment with respect thereto, unless all accrued but unpaid dividends on the Series A Preferred Stock for all Dividend Periods through and including the date of such declaration, payment, repurchase, redemption or acquisition (including, if applicable as provided in Section 2(1) above, dividends on such amount) have been declared and paid in full in cash (or declared and a sum sufficient for the payment thereof set apart for such payment). Without limitation of the foregoing, any such dividend or other distributions on the Junior Stock shall be subject to Section 2(3).

(3) In the event that any dividend is declared and paid on, or any distribution is made with respect to, any Junior Stock (including, without limitation, in connection with a recapitalization of the Corporation), the Series A Preferred Stock shall share proportionately with such Junior Stock in any such dividend or distribution, (a) if such Junior Stock is Common Stock or is convertible into Common Stock, in accordance with the number of shares of Common Stock issuable upon conversion of the Series A Preferred Stock calculated as of the record date for such dividend or distribution, or (b) if such Junior Stock is not Common Stock or convertible into Common Stock, in such manner and at such time as the Board may determine in good faith to be equitable in the circumstances.

(4) Any reference to dividends or distributions in this Section 2 shall not be deemed to include any distribution made in connection with any voluntary or involuntary dissolution, liquidation or winding up of the Corporation.

**Section 3. Mandatory Conversion; Optional Conversion; Redemption.**

(1) Mandatory Conversion at the Option of the Corporation.

(a) Mandatory Conversion. On or after the third anniversary of the Issue Date, the Corporation shall have the right, at its option, at any time or from time to time, to cause some or all of the outstanding shares of Series A Preferred Stock to be mandatorily converted (a Mandatory Conversion ) into fully paid and nonassessable shares of Common Stock at the Conversion Rate in effect as of the applicable Mandatory Conversion Date (as defined below) in accordance with the provisions of this Section 3(1), subject to satisfaction of the following conditions:

(i) the closing price of the Common Stock on the New York Stock Exchange (or, if the shares of Common Stock are not listed or admitted for trading on the New York Stock Exchange, as reported on the principal consolidated transaction reporting system on the principal national securities exchange on which the shares of Common Stock are

listed or admitted for trading) shall exceed one-hundred and thirty-three percent (133%) of the Conversion Price for a period of thirty (30) consecutive trading days ending on the trading day immediately preceding the date that the Corporation delivers a Mandatory Conversion Notice (as defined below); and

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(ii) the Corporation shall have declared and paid in full in cash, or shall have declared and set apart for payment in cash, all accrued but unpaid dividends (including, if applicable as provided in Section 2(1) above, dividends on such amount) on the Series A Preferred Stock for all Dividend Periods through and including the effective date of such Mandatory Conversion (the Mandatory Conversion Date ).

(b) Mechanics of Mandatory Conversion. In order to effect a Mandatory Conversion, the Corporation shall provide written notice (a Mandatory Conversion Notice ) to each holder of outstanding shares of Series A Preferred Stock by first class mail, postage prepaid, to such holder at such holder's address as it shall appear in the records of the Corporation or such other address as such holder shall specify to the Corporation in writing from time to time. The Mandatory Conversion Notice shall specify (i) the applicable Mandatory Conversion Date, and (ii) the number of shares of Common Stock that each holder shall be entitled to receive in connection with such Mandatory Conversion. Upon receipt of the Mandatory Conversion Notice, each holder of shares of Series A Preferred Stock shall surrender his, her, or its certificate of certificates for all such shares (or, if applicable, a pro rata portion thereof determined in accordance with the penultimate sentence of this Section 3(1)(b)) (or, if such certificate or certificates have been lost, stolen, or destroyed, a lost certificate affidavit and indemnity in form and substance reasonably acceptable to the Corporation) to the Corporation at its principal office or at the office of the agency which may be maintained for the purpose of administering conversions and redemptions of the shares of Common Stock (the Conversion Agent ), in each case, as specified in the applicable Mandatory Conversion Notice. All rights with respect to the shares of Series A Preferred Stock that are converted pursuant to a Mandatory Conversion shall terminate on the Mandatory Conversion Date, subject to the rights of the holders thereof to receive the items provided for in the following sentence. As soon as practicable after the Mandatory Conversion Date, but in no event later than ten (10) days after the Mandatory Conversion Date, the Corporation shall issue and deliver to each holder that has surrendered shares of Series A Preferred Stock in connection therewith, (i) a certificate or certificates (or if the holder shall so elect, and if permitted by applicable law, including without limitation the Securities Act of 1933, uncertificated book-entry shares) representing the number of fully paid and nonassessable shares of Common Stock issuable upon such conversion, with no personal liability attaching to the ownership thereof, free of all taxes with respect to the issuance thereof, liens, charges and security interests and not subject to any preemptive rights, into which such shares of Series A Preferred Stock have been converted in connection with such Mandatory Conversion, and (ii) any cash payable in respect of fractional shares as provided in Section 3(4). The converted shares of Series A Preferred Stock shall be retired and cancelled and may not be reissued. In the case of Mandatory Conversion of fewer than all of the shares of Series A Preferred Stock at the time outstanding, the shares of Series A Preferred Stock to be redeemed shall be selected, and allocated among the holders of outstanding shares of Series A Preferred Stock on a *pro rata* basis in accordance with the number of shares of Series A Preferred Stock then held by each such holder. In the event that fewer than all of the shares of Series A Preferred Stock represented by a certificate are converted in connection with a Mandatory Conversion, then a new certificate representing the unconverted shares of Series A Preferred Stock shall be issued to the holder of such certificate.

(2) Redemption at the Option of the Corporation.

(a) Redemption. On or after the fifth anniversary of the Issue Date, the Corporation shall have the right, at its option, at any time to redeem (a Redemption ) all (but not less than all) of the outstanding shares of Series A Preferred Stock in return for a payment in cash (the Call Payment ) equal, on a per share basis, to the greater of (i) the Conversion Price, and (ii) the Liquidation Preference, in each case, as of the applicable Redemption Date (as defined below) in accordance with the provisions of this Section 3(2), subject to satisfaction of the following conditions:

(i) on the trading date preceding the date of the Redemption Notice (as defined below) the closing price of the Common Stock on the New York Stock Exchange (or, if the shares of Common Stock are not listed or admitted for trading on the New York Stock Exchange, as reported on the



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principal consolidated transaction reporting system on the principal national securities exchange on which the shares of Common Stock are listed or admitted for trading) shall be less than the Conversion Price; and

(ii) the Corporation shall have declared and paid in full in cash, or shall have declared and set apart for payment in cash, all accrued but unpaid dividends (including, if applicable as provided in Section 2(1) above, dividends on such amount) on the Series A Preferred Stock for all Dividend Periods through and including the Redemption Date (as defined below).

(b) Mechanics of Redemption. In order to effect a Redemption, the Corporation shall provide written notice (a Redemption Notice ) of such Redemption to each holder of outstanding shares of Series A Preferred Stock by first class mail, postage prepaid, to such holder at such holder's address as it shall appear in the records of the Corporation or such other address as such holder shall specify to the Corporation in writing from time to time. Subject to the satisfaction of the conditions set forth in Section 3(2)(a)(i) and Section 3(2)(a)(ii), the Redemption shall become effective on the ninetieth (90<sup>th</sup>) day after delivery of the Redemption Notice, or if such date is not a Business Day, then on the next Business Day (such date, the Redemption Date ). The Redemption Notice shall specify (i) the applicable Redemption Date (determined in accordance with the preceding sentence), and (ii) the Call Payment to which each holder of outstanding shares of Series A Preferred Stock shall be entitled in connection with such Redemption. On or before the applicable Redemption Date, each holder of outstanding shares of Series A Preferred Stock to be redeemed shall surrender the certificate or certificates representing such shares (or, if such certificate or certificates have been lost, stolen, or destroyed, a lost certificate affidavit and indemnity in form and substance reasonably acceptable to the Corporation) to the Corporation at its principal office or to the Conversion Agent, in each case, as may be specified in the Redemption Notice, and upon receipt thereof by the Corporation or the Conversion Agent, as the case may be, the Call Payment for such redeemed shares shall be immediately due and payable in cash to the order of the record holder of the shares of Series A Preferred Stock being redeemed. From and after the Redemption Date, all dividends on shares of Series A Preferred Stock that are redeemed on such Redemption Date shall cease to accumulate and all rights of the holders thereof as holders of Series A Preferred Stock shall cease and terminate, so long as the Call Payment is received on the Redemption Date and the conditions to the effectiveness of such redemption set forth in Section 3(2)(a) are satisfied.

(3) Right of Holders to Optionally Convert.

(a) Each share of Series A Preferred Stock shall be convertible, in whole or in part, at the option of the holder thereof (an Optional Conversion ), at any time after the Issue Date, and from time to time, and without payment of any additional consideration by the holder of such share, into fully paid and nonassessable shares of Common Stock at the Conversion Rate in effect as of the applicable Optional Conversion Date (as defined below) in accordance with the procedures set forth in this Section 3(3).

(b) In order to effect an Optional Conversion, the holder of shares of Series A Preferred Stock to be converted shall (i) deliver a properly completed and duly executed written notice of election to convert (an Optional Conversion Notice ) to the Corporation at its principal office or to the Conversion Agent, and (ii) surrender the certificate or certificates for the shares of Series A Preferred Stock that are to be converted, accompanied, if so required by the Corporation or the Conversion Agent, by a written instrument or instruments of transfer in form reasonably satisfactory to the Corporation or the Conversion Agent, duly executed by the holder or its attorney duly authorized in writing. The Optional Conversion Notice shall specify: (i) the number (in whole shares) of shares of Series A Preferred Stock to be converted, and (ii) the name or names in which the converting holder wishes the certificate or certificates for shares of Common Stock in connection with such conversion to be issued.

(c) The Optional Conversion shall become effective at the close of business on the date (such date, the Optional Conversion Date ) of receipt by the Corporation or the Conversion Agent of the Optional Conversion Notice and the other items referred to in Section 3(3)(b). Promptly following the Optional Conversion Date (and in no event more than ten (10) days after the Optional Conversion Date), the Corporation shall deliver or cause to be delivered at the office or agency of the Conversion Agent, to or

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upon the written order of the holders of the surrendered shares of Series A Preferred Stock, (i) a certificate or certificates (or if the converting holder shall so elect, and if permitted by applicable law, including without limitation the Securities Act of 1933, uncertificated book-entry shares) representing the number of fully paid and nonassessable shares of Common Stock issuable upon such conversion, with no personal liability attaching to the ownership thereof, free of all taxes with respect to the issuance thereof, liens, charges and security interests and not subject to any preemptive rights, into which such shares of Series A Preferred Stock have been converted in connection with such Optional Conversion, (ii) a cash payment equal to the amount of all accrued but unpaid dividends (including, if applicable as provided in Section 2(1) above, dividends on such amount) for all Dividend Periods through and including the most recent Dividend Payment Date (the Cash Payment ), provided, that, if on such Optional Conversion Date, the Corporation has not declared all or any portion of the accrued but unpaid dividends (including, if applicable as provided in Section 2(1) above, dividends on such amount) for all Dividend Periods through and including the most recent Dividend Payment Date, the converting holder shall receive (instead of and in full satisfaction of the Corporation's obligation to make the Cash Payment) such number of shares of Common Stock equal to the amount of accrued but unpaid dividends (including, if applicable as provided in Section 2(1) above, dividends on such amount), divided by the current market price per share of Common Stock, and (iii) any cash payable in respect of fractional shares as provided in Section 3(4). Except as described above, upon any Optional Conversion, the Corporation shall make no payment or allowance for unpaid dividends on the shares of Series A Preferred Stock that are converted in connection with such Optional Conversion. In the case of an Optional Conversion Date that occurs after a Dividend Record Date and before a Dividend Payment Date, the Cash Payment shall be reduced in an amount equal to any dividends declared with respect to such Dividend Record Date on any shares of Series A Preferred Stock that are converted on such Optional Conversion Date, provided that such dividends are actually received by the record holder of such shares on such Dividend Payment Date; or, to the extent that such reduction in the Cash Payment is less than the amount of such dividends to be received with respect to such Dividend Record Date, the excess amount thereof will be repaid to the Corporation.

(d) Upon the surrender of a certificate representing shares of Series A Preferred Stock that is converted in part, the Corporation shall issue or cause to be issued to the surrendering holder a new certificate representing shares of Series A Preferred Stock equal in number to the unconverted portion of the shares of Series A Preferred Stock represented by the certificate so surrendered.

(e) On the Optional Conversion Date, upon the delivery to the converting holder of the shares Common Stock issuable in connection with such conversion and the payments referred to in Section 3(3)(c)(ii) and (iii), the rights of the holders of the shares of converted Series A Preferred Stock and the person entitled to receive the shares of Common Stock upon the conversion of such shares of Series A Preferred Stock shall be treated for all purposes as having become the Beneficial Owner of such shares of Common Stock.

(4) Fractional Shares.

(a) No fractional shares or scrip representing fractional shares of Common Stock shall be issued upon the conversion of any shares of Series A Preferred Stock in connection with a Mandatory Conversion or Optional Conversion. Instead of any fractional interest in a share of Common Stock which would otherwise be deliverable upon the conversion of a share of Series A Preferred Stock in connection with a Mandatory Conversion or Optional Conversion, the Corporation shall pay to the holder of such share of Series A Preferred Stock an amount in cash (computed to the nearest cent) equal to the product of (A) such fraction and (B) the current market price (as defined below) of a share of Common Stock on the Business Day next preceding the day of conversion. If more than one share of Series A Preferred Stock shall be surrendered for conversion at one time by the same holder, the number of full shares of Common Stock issuable upon conversion thereof shall be computed on the basis of the aggregate Liquidation Preference of the shares of Series A Preferred Stock so surrendered.





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(b) For the purposes of this Section 3, the current market price per share of Common Stock at any date shall be deemed to be the average of the daily closing prices on the New York Stock Exchange (or if the shares of Common Stock are not listed or admitted for trading on the New York Stock Exchange as reported on the principal consolidated transaction reporting system on the principal national securities exchange on which the shares of Common Stock are listed or admitted for trading) for the ten consecutive trading days immediately prior to the date in question or in the event that no trading price is available for the shares of Common Stock, the fair market value thereof, as determined in good faith by the Board.

(5) Reservation of Shares. The Corporation shall at all times when the Series A Preferred Stock shall be outstanding, reserve and keep available out of its authorized but unissued Common Stock, for the purpose of effecting the conversion of the Series A Preferred Stock pursuant to Section 3(1) and Section 3(3), such number of its duly authorized shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding Series A Preferred Stock.

**Section 4. Voting Rights.**

(1) Each share of Series A Preferred Stock shall entitle the holder thereof to vote on all matters voted on by holders of the Common Stock, voting together as a single class with the shares of Common Stock entitled to vote, at all meetings of the stockholders of the Corporation and in connection with any actions of the stockholders of the Corporation taken by written consent. With respect to any such vote, the holder of each share of Series A Preferred Stock shall be entitled to cast the number of votes equal to the number of votes which could be cast in such vote by a holder of the shares of Common Stock of the Corporation into which such holder's shares of Series A Preferred Stock are convertible as of the record date for such vote.

(2) The affirmative vote or consent of more than fifty percent (50%) of the shares of Series A Preferred Stock, voting separately as a class, shall be necessary for authorizing, approving, effecting or validating:

(a) the amendment, alteration or repeal of any of the provisions of the Certificate of Incorporation or Bylaws or any document amendatory or supplemental thereto (including this Certificate of Designations), whether by merger, consolidation or otherwise, that would adversely affect or cause to be terminated the powers, designations, preferences and other rights of the Series; or

(b) any other action for which a vote of the Series A Preferred Stock, voting separately as a class, is required by law.

Other than as specifically set forth in this Section 4 or to the extent of applicable law, the Series A Preferred Stock shall not be entitled to a separate vote on any matter.

**Section 5. Liquidation Rights.**

(1) Upon any voluntary or involuntary liquidation, dissolution or winding-up of the Corporation, each holder of shares of the Preferred Stock shall be entitled to payment out of the assets of the Corporation legally available for distribution of an amount per share of Series A Preferred Stock (the Liquidation Amount) held by such holder equal to the greater of (i) the Liquidation Preference per share of Series A Preferred Stock held by such holder, plus any accrued but unpaid dividends (including, if applicable as provided in Section 2(1) above, dividends on such amount) in respect of such shares, whether or not declared paid in cash, calculated to the date fixed for liquidation, dissolution or winding-up (the Liquidation Date), and (ii) the amount that the holders of Series A Preferred Stock would have received in connection with such liquidation, dissolution or winding up had each share of Series A Preferred Stock been converted into shares of Common Stock pursuant to Section 3(3) immediately prior to such liquidation,

dissolution or winding up of the Corporation, before any distribution is made on any Junior Stock of the Corporation.

After payment in full of the Liquidation Amount to which holders of Series A Preferred Stock are entitled, such holders shall not be entitled to any further participation in any distribution of assets of the Corporation in respect of their shares of Series A Preferred Stock. If, upon any voluntary or involuntary liquidation, dissolution or winding-up of the Corporation, the amounts payable with respect to the Series A Preferred Stock are not paid in full, the holders of the Series A Preferred Stock will share in any distribution of assets of the Corporation on a *pro rata* basis in proportion to the number of shares of Series A Preferred Stock held by each such holder.

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(2) Neither the voluntary sale, conveyance, exchange or transfer (for cash, shares of stock, securities or other consideration) of all or substantially all of the property or assets of the Corporation nor the consolidation or merger of the Corporation with or into one or more Persons will be deemed to be a voluntary or involuntary liquidation, dissolution or winding-up of the Corporation for purposes of this Section 5.

**Section 6. Pre-emptive Rights**

(1) Except for (i) (A) the issuance of any shares of Common Stock or options or rights to purchase those shares pursuant to any present or future employee, director or consultant benefit plan, program or practice of or assumed by the Corporation or any of its subsidiaries or (B) the issuance of any shares of Common Stock pursuant to any option, warrant, right or exercisable, exchangeable or convertible security outstanding as of the Issue Date, (ii) a subdivision (including by way of a stock dividend) of the outstanding shares of Common Stock into a larger number of shares of Common Stock, and (iii) the issuance of capital stock as full or partial consideration for a merger, acquisition, joint venture, strategic alliance, or other similar non-financing transaction, if, from the Issue Date until the date that is twenty-four (24) months after the Issue Date, the Corporation wishes to issue any shares of capital stock or any other securities convertible into or exchangeable for capital stock of the Corporation (collectively, New Securities ) at a price per share less than the Liquidation Preference (a Dilutive Issuance ) to any person (the Proposed Purchaser ), then the Corporation shall send written notice (the New Issuance Notice ) to the holders of the Series A Preferred Stock, which New Issuance Notice shall state (x) the number of New Securities proposed to be issued and (y) the proposed purchase price per share of the New Securities (the Proposed Price ).

(2) For a period of fifteen (15) Business Days after the giving of the New Issuance Notice, each holder of the Series A Preferred Stock shall have the right to purchase (a) if the Dilutive Issuance occurs during the period from the Issue Date until the date that is two hundred seventy (270) days after the Issue Date, up to its Proportionate Share (as defined below) of the New Securities, or (b) if the Dilutive Issuance occurs after such two-hundred-seventy-(270)-day period, up to its Double Proportionate Share (as defined below) of the New Securities, in each case at a purchase price per share equal to the Proposed Price and upon the terms and conditions set forth in the New Issuance Notice. As used herein, the term Proportionate Share means, as to each holder of Series A Preferred Stock as of a given date, the fraction, expressed as a percentage, determined by dividing (i) a number of shares of Common Stock Beneficially Owned by such holder and (without duplication) its Permitted Transferees (other than any other holder of shares of Series A Preferred Stock) plus the number of shares of Common Stock into which the shares of Series A Preferred Stock then Beneficially Owned by such holder are convertible as of such date, by (ii) the number of shares of Common Stock of the Corporation issued and outstanding as of such date, calculated on a fully-diluted basis, assuming conversion of all outstanding convertible securities (including the Series A Preferred Stock) and the exercise in full of all existing warrants at the then-existing conversion or exercise price, but excluding any Unexercised Options and RSUs. As used herein, the term Double Proportionate Share means, as to each holder of Series A Preferred Stock as of a given date, such holder's Proportionate Share as of such date multiplied by two (2).

(3) The right of each holder of Series A Preferred Stock to purchase the New Securities shall be exercisable by delivering written notice of its exercise, prior to the expiration of the fifteen (15) Business Day period referred to in Section 6(2) above, to the Corporation, which notice shall state the amount of New Securities that the holder elects to purchase. The failure of such holder to respond within the fifteen (15) Business Day period or to pay for such New Securities when such payment is due shall be deemed to be a waiver of such holder's rights under this Section 6 only with respect to the Dilutive Issuance described in the applicable New Issuance Notice.

(4) Except for the foregoing and to the extent arising under applicable law, there are no pre-emptive rights associated with the Series A Preferred Stock.



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**Section 7. Ranking and Issuance of Parity Stock or Senior Stock Prior to Conversion**

The Series A Preferred Stock shall rank senior to any series of Junior Stock with respect to the payment of dividends and distributions and rights upon liquidation, dissolution or winding up of the Corporation. Prior to the conversion or redemption or retirement and cancellation of all shares of the Series A Preferred Stock in accordance with this Certificate of Designations, the Corporation shall not issue an Parity Stock or Senior Stock, or authorize any additional shares of Series A Preferred Stock.

**Section 8. Retirement.**

If any share of the Series A Preferred Stock is purchased or otherwise acquired by the Corporation in any manner whatsoever, then such share shall be retired and promptly cancelled. Upon the retirement or cancellation of a share of Series A Preferred Stock, such share shall not for any reason be reissued as shares of the Series.

**Section 9. Definitions.**

Capitalized terms not otherwise defined in this Certificate of Designations shall have the following meanings:

Beneficial Ownership and Beneficially Own and similar terms shall have the meaning set forth in Rule 13d-3 under the Securities Exchange Act of 1934.

Board shall have the meaning set forth in the Preamble.

Business Day means a day other than Saturday, Sunday or a day on which banking institutions in any of London, UK, St. Helier, Jersey and New York, New York, USA are authorized or obligated to close.

Bylaws shall have the meaning set forth in the Preamble.

Call Date shall have the meaning set forth in Section 3(2).

Call Payment shall have the meaning set forth in Section 3(2).

Certificate of Incorporation shall have the meaning set forth in the Preamble.

Common Stock means the Corporation's common stock, par value \$0.001 per share.

Conversion Agent shall have the meaning set forth in Section 3(1)(b).

Conversion Price means, for each share of Series A Preferred Stock, the U.S. dollar amount equal to the Liquidation Preference divided by the then-applicable Conversion Rate.

Conversion Rate means the Liquidation Preference divided by 114% of the Liquidation Preference, subject to the following adjustments:

- (i) If the Corporation shall (1) declare or pay a dividend on its outstanding Common Stock in shares of Common Stock or make a distribution to holders of its Common Stock in shares of Common Stock, (2) subdivide its outstanding shares of Common Stock into a greater number of shares of Common Stock, (3) combine its outstanding shares of Common Stock into a smaller number of shares of Common Stock or (4) issue by reclassification of its

shares of Common Stock other securities of the Corporation, then the Conversion Rate in effect immediately prior thereto shall be adjusted so that a holder of any shares of Series A Preferred Stock thereafter converted shall be entitled to receive the number and kind of shares of Common Stock or other securities that such holder of Series A Preferred Stock would have owned or been entitled to receive after the happening of any of the events described above had such shares of Series A Preferred Stock been converted immediately prior to the happening of such event or any record date with respect thereto. An adjustment so made shall become effective on the date of the dividend payment, subdivision, combination or issuance retroactive to the record date with respect thereto, if any, for such event. Such adjustment shall be made successively.

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(ii) If the Corporation shall be a party to any transaction, including without limitation a merger, consolidation, sale of all or substantially all of the Corporation's assets, reorganization, liquidation or recapitalization of the Common Stock (each of the foregoing being referred to as a Transaction), in each case as a result of which shares of Common Stock shall be converted into the right to receive stock, securities or other property (including cash or any combination thereof), each share of Series A Preferred Stock shall, upon consummation of the Transaction, be convertible into the kind and amount of shares of stock and other securities and property receivable (including cash) upon the consummation of such Transaction by a holder of that number of shares of Common Stock into which one share of Series A Preferred Stock was convertible immediately prior to such Transaction.

Corporation shall have the meaning set forth in the Preamble.

Dilutive Issuance shall have the meaning set forth in Section 6.

Dividend Payment Date shall have the meaning set forth in Section 2(1).

Dividend Period shall have the meaning set forth in Section 2(1).

Dividend Rate shall have the meaning set forth in Section 2(1).

Dividend Records Date shall have the meaning set forth in Section 2(1).

Double Proportionate Percentage shall have the meaning set forth in Section 6.

Issue Date means the date on which any shares of Series A Preferred Stock are first issued by the Corporation.

Junior Stock means the Common Stock and any other class or series of stock of the Corporation, other than Series A Preferred Stock and Senior Stock not expressly ranking senior to the Series A Preferred Stock with respect to the payment of dividends and distributions.

Liquidation Date shall have the meaning set forth in Section 5.

Liquidation Amount shall have the meaning set forth in Section 5.

Liquidation Preference shall have the meaning set forth Section 1, subject to the adjustments set forth in the definition of Conversion Rate.

Mandatory Conversion shall have the meaning set forth in Section 3(1).

Mandatory Conversion Date means the effective date of a mandatory conversion of the shares of Series A Preferred Stock pursuant to Section 3(1).

Mandatory Conversion Notice shall have the meaning set forth in Section 3(1).

New Issuance Notice shall have the meaning set forth in Section 6.

New Securities shall have the meaning set forth in Section 6.

Optional Conversion shall have the meaning set forth in Section 3(3).



Optional Conversion Date means the effective date of an optional conversion of the shares of Series A Preferred Stock pursuant to Section 3(3).

Optional Conversion Notice shall have the meaning set forth in Section 3(3).

Parity Stock means any class or series of stock of the Corporation that would expressly rank equal to the Series A Preferred Stock with respect to the payment of dividends and distributions.

Permitted Transferee shall have the meaning set forth in the Certificate of Incorporation.

Person means an individual, a partnership, a joint venture, a corporation, a limited liability company, a trust, an unincorporated organization and a government or any department or agency thereof.

Preferred Stock means the Corporation's preferred stock, par value \$0.001 per share.

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Proportionate Percentage shall have the meaning set forth in Section 6.

Proposed Purchase shall have the meaning set forth in Section 6.

Redemption shall have the meaning set forth in Section 3(2).

Redemption Date means the effective date of a redemption of the shares of Series A Preferred Stock pursuant to Section 3(2).

Redemption Notice shall have the meaning set forth in Section 3(2).

Senior Stock means any class or series of stock of the Corporation that would expressly rank senior to the Series A Preferred Stock with respect to the payment of dividends and distributions and/or rights upon liquidation or winding up of the Corporation.

Series shall have the meaning set forth in Section 1.

Series A Preferred Stock shall have the meaning set forth in Section 1.

Unexercised Options and RSUs means (i) any convertible securities outstanding as of the Issue Date, or (ii) any options, restricted stock units or similar awards issued to officers, employees, consultants or directors of the Corporation or its subsidiaries, in each case, in the form of Common Stock or entitling the holder thereof to receive shares of Common Stock upon the exercise or conversion thereof.

Unpaid Dividends shall have the meaning set forth in Section 2(1).

**Section 10. Descriptive Headings and Governing Law.**

The descriptive headings of the several Sections and paragraphs of this Certificate of Designations are inserted for convenience only and do not constitute a part of this Certificate of Designations. The General Corporation Law of the State of Delaware shall govern all issues concerning this Certificate of Designations.

**IN WITNESS WHEREOF**, Colfax Corporation has caused this Certificate to be duly executed in its corporate name this day of , 20.

**COLFAX CORPORATION**

By:

Name:

Title:

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**Annex IV**

**EXECUTION VERSION**

**SECURITIES PURCHASE AGREEMENT  
BY AND BETWEEN  
STEVEN M. RALES  
AND  
COLFAX CORPORATION  
DATED AS OF SEPTEMBER 12, 2011**

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SECURITIES PURCHASE AGREEMENT, dated as of September 12, 2011 (together with the schedules and exhibits hereto, the Agreement ), by and between Colfax Corporation, a Delaware corporation (the Company ) and Steven M. Rales (the Investor ).

**RECITALS**

A. The Investor desires to purchase from the Company, and the Company desires to issue and sell to the Investor, against payment of the Common Share Investment Amount (as defined below) and pursuant to the terms and conditions set forth in this Agreement, certain shares of the Company's common stock, par value \$0.001 per share (Common Stock ). The shares of Common Stock to be purchased by the Investor pursuant to this Agreement are referred to herein as the Purchased Common Shares . The sale and purchase of the Purchased Common Shares and the other transactions contemplated by this Agreement and the Ancillary Agreements are referred to herein collectively as the Transaction .

B. Concurrent with the execution and delivery of this Agreement, and in connection with the Acquisition (as defined below), the Company is entering into a credit agreement (the Credit Agreement ) with Deutsche Bank AG New York Branch (Deutsche Bank ), a syndicate of other financial institutions as lenders (the Lenders ) and Deutsche Bank Securities, Inc., with respect to credit facilities to be provided to the Company and certain of its subsidiaries by Deutsche Bank and the Lenders.

C. Concurrent with the execution and delivery of this Agreement, and in connection with the Acquisition, the Company is entering into a purchase agreement (the BDT Purchase Agreement ) with BDT CF Acquisition Vehicle LLC (the BDT Investor ), pursuant to which the BDT Investor shall agree to invest an aggregate amount of \$340,000,000 in newly issued shares of Common Stock and \$340,000,000 in newly issued shares of the Company's preferred stock, par value \$0.001 per share, designated as Series A Perpetual Convertible Preferred Stock (the BDT Investment ).

D. Concurrent with the execution and delivery of this Agreement, and in connection with the Acquisition, the Company is entering into a purchase agreement (the MPR Purchase Agreement ) with Mitchell P. Rales, pursuant to which Mitchell P. Rales shall agree to invest \$50,000,000 in newly issued shares of Common Stock (the MPR Investment ).

E. Concurrent with the execution and delivery of this Agreement, and in connection with the Acquisition, the Company is entering into a purchase agreement (the Markel Purchase Agreement ) with Markel Corporation, pursuant to which Markel Corporation shall agree to invest \$25,000,000 in newly issued shares of Common Stock (the Markel Investment ).

F. In accordance with the BDT Purchase Agreement, the MPR Purchase Agreement, the Markel Purchase Agreement and the Credit Agreement, the Company shall use the proceeds of the Transaction, the BDT Investment, the MPR Investment, the Markel Investment and a portion of the proceeds of the Company's borrowings under the Credit Agreement to finance the acquisition (the Acquisition ) by the Company of Charter International plc (the Target ) pursuant to an Offer or a Scheme of Arrangement (each as defined below). The material terms and provisions of the Acquisition are set forth in the form of announcement attached hereto as **Exhibit C** (the Rule 2.5 Announcement ), to be published by the Company in accordance with this Agreement pursuant to Rule 2.5 of the City Code.



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NOW, THEREFORE, in consideration of the foregoing and the promises and representations, warranties, covenants and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound hereby, the parties hereto hereby agree as follows:

## ARTICLE 1

### Defined Terms

As used in this Agreement, the following terms shall have the following meanings:

Acquisition has the meaning assigned to such term in Recital F.

Agreement has the meaning assigned to such term in the Preamble.

Amended and Restated Charter the Amended and Restated Certificate of Incorporation of the Company to be adopted on or before the Closing Date, substantially in the form attached hereto as Exhibit A.

Ancillary Agreements means the Registration Rights Agreement.

Announcement Date has the meaning assigned to such term in Section 2.3.2(a).

Announcement Price has the meaning assigned to such term in Section 2.3.2(b).

BDT Investment has the meaning assigned to such term in Recital C.

BDT Investor means BDT CF Acquisition Vehicle LLC.

BDT Purchase Agreement has the meaning assigned to such term in Recital C.

Business Day means any day except Saturday, Sunday or a day that is a public holiday in England, Jersey or in the United States of America.

Bylaws means the Amended and Restated Bylaws of the Company, adopted effective as of May 13, 2008.

Certificate of Designations the certificate of designation establishing the Company's preferred stock, par value \$0.001 per share, designated as 6.0% Series A Perpetual Convertible Preferred Stock, substantially in the form attached hereto as Exhibit B.

Charter means the Amended and Restated Certificate of Incorporation of the Company, as filed with the Secretary of State of the State of Delaware on May 13, 2008.

City Code means the City Code on Takeovers and Mergers.

Closing has the meaning assigned to such term in Section 2.4.

Closing Date has the meaning assigned to such term in Section 2.4.

Code means the Internal Revenue Code of 1986, as amended.

Common Share Investment Amount has the meaning assigned to such term in Section 2.2.

Common Share Purchase Price has the meaning assigned to such term in Section 2.3.2(c).

Common Stock has the meaning assigned to such term in Recital A.

Companies Act means the Companies (Jersey) Law 1991 as amended from time to time.

Contract means any contract, agreement, lease, purchase order, license, mortgage, indenture, supplemental indenture, line of credit, note, bond, loan, credit agreement, capital lease, sale/leaseback arrangement, concession agreement, franchise agreement or other instrument, including all amendments, supplements, exhibits and attachments thereto.

Credit Agreement has the meaning assigned to such term in Recital B.

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Encumbrance means any lien, encumbrance, security interest, pledge, mortgage, hypothecation, charge, restriction on transfer of title, adverse claim, title retention agreement of any nature or kind, or similar claim or right. Encumbrance shall not include any restrictions on transfer under applicable securities laws.

GAAP means generally accepted accounting principles in the United States of America as in effect from time to time.

Governmental Authorizations means, collectively, all applicable consents, approvals, permits, orders, authorizations, licenses and registrations, given or otherwise made available by or under the authority of Governmental Entities or pursuant to the requirements of any Applicable Law.

Governmental Entity means any domestic or foreign, transnational, national, Federal, state, municipal or local government, or any other domestic or foreign governmental, regulatory or administrative authority, or any agency, board, department, commission, court, tribunal or instrumentality thereof.

including means including, without limitation.

Investor has the meaning assigned to such term in the Preamble.

Major Representation means each representation and warranty set forth in Sections 3.1, 3.2 and 3.3 of this Agreement.

Market Investment has the meaning assigned to such term in Recital E.

Market Purchase Agreement has the meaning assigned to such term in Recital E.

Material Adverse Effect means any material adverse effect on (i) the business, results of operations or financial condition of the Company and its subsidiaries, taken as a whole (other than (a) any change, event, occurrence or development that generally affects the industry in which the Company and its subsidiaries operate and does not disproportionately affect (relative to other industry participants) the Company and its subsidiaries, (b) any change, event, occurrence or development to the extent attributable to conditions generally affecting (I) the industries in which the Company participates that does not have a materially disproportionate effect (relative to other industry participants) on the Company and its subsidiaries, (II) the U.S. economy as a whole, or (III) the equity capital markets generally, and (c) any change, event, occurrence or development that results from any action taken by the Company at the request of the Investor or as required by the terms of this Agreement) or (ii) the ability of the Company to perform its obligations hereunder or under the Ancillary Agreements.

Material Contract means any Contract of a type described in Item 6.01 of Regulation S-K.

MPR Investment has the meaning assigned to such term in Recital D.

MPR Purchase Agreement has the meaning assigned to such term in Recital D.

Offer means a public offer by the Company in accordance with the City Code and the provisions of the Companies Act to acquire all of the Target Shares not owned, held, or agreed to be acquired by the Company.

person means any individual, firm, corporation, partnership, limited liability company, trust, joint venture, incorporated or unincorporated association, Governmental Entity or other entity.

Purchased Common Shares has the meaning assigned to such term in Recital A.



Registration Rights Agreement means the Registration Rights Agreement, to be executed on the Closing Date by and among, the Company, the Investor, and the other parties specified therein.

Rule 2.5 Announcement has the meaning assigned to such term in Recital F.

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Scheme of Arrangement means a scheme of arrangement effected pursuant to Part 18A of the Companies Act under which the Target Shares will be cancelled (or transferred) and the Purchaser will become the holder of new shares issued in place of such cancelled Target Shares (or, as the case may be, the holder of such transferred Target Shares).

SEC means the Securities and Exchange Commission.

Securities Act means the Securities Act of 1933.

SOX means the Sarbanes-Oxley Act of 2002.

Target has the meaning assigned to such term in Recital F.

Target Shares means the ordinary shares of the Target subject of an Offer, or as the case may be, a Scheme of Arrangement.

Tax means any foreign, Federal, state or local income, sales and use, excise, franchise, real and personal property, gross receipt, capital stock, license, stamp, premium, windfall profit, environmental, transfer, alternative or add-on minimum, production, business and occupation, disability, estimated, employment, payroll, severance or withholding tax, value-added tax or other tax, duty, fee, impost, levy, assessment or charge imposed by any taxing authority, and any interest or penalties and other additions to tax related thereto.

Tax Returns means any return, report, claim for refund, declaration, information return or other document required to be filed with any Tax authority with respect to Taxes, including any schedule or attachment thereto, and including any amendments thereof.

Third Party means any person other than the Company, the Investor, or any of their respective subsidiaries or Affiliates.

Transaction has the meaning assigned to such term in Recital A.

Voting Debt means bonds, debentures, notes or other debt securities having the right to vote (or convertible into, or exchangeable for, securities having the right to vote) as to matters on which holders of the Company's Common Stock may vote.

## ARTICLE 2

### Issuance and Sale of Purchased Common Shares

2.1 **Issuance and Sale of the Purchased Common Shares.** On the terms and subject to the conditions set forth in this Agreement, at the Closing (as defined below), the Company shall issue, sell and deliver to the Investor, and the Investor shall purchase from the Company, the Purchased Common Shares to be acquired by such Investor pursuant to this Agreement, free and clear of all Encumbrances. The number of shares of Common Stock comprising the Purchased Common Shares to be issued and delivered to the Investor at the Closing shall be determined in accordance with Section 2.3.

**2.2 Consideration.** In full consideration for the purchase of the Purchased Common Shares to be acquired by such Investor pursuant to this Agreement, the Investor shall pay to the Company at the Closing cash in the aggregate amount of \$50,000,000 (the Common Share Investment Amount ).

**2.3 Determination of Purchased Share Amounts.**

2.3.1 Purchased Common Shares. The number of shares of Common Stock comprising the Purchased Common Shares to be issued and delivered to the Investor at the Closing pursuant to Section 2.1 shall be equal to the quotient of (a) the Common Share Investment Amount, *divided by* (b) the Common Share Purchase Price (as defined in Section 2.3.2), rounded up to the nearest whole number of shares of Common Stock.

2.3.2 Certain Definitions. As used in this Section 2.3, the following terms shall have the following meanings:

(a) Announcement Date means the date that the Rule 2.5 Announcement is published.

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(b) Announcement Price shall equal \$23.04.

(c) Common Share Purchase Price means the Announcement Price.

2.4 **Closing.** Subject to the satisfaction of the conditions set forth in Article 6, the closing of the sale and purchase of the Purchased Common Shares (the Closing ) shall take place on the date falling six (6) Business Days after the date on which an Offer becomes unconditional in all respects or, as the case may be, the date on which a Scheme of Arrangement becomes effective in accordance with its terms, at the offices of the Company unless another date or place is agreed to in writing by the Investor and the Company. The date on which the Closing occurs is referred to in this Agreement as the Closing Date .

**2.5 Deliveries.**

(a) At the Closing, the Company shall issue to the Investor the Purchased Common Shares to be acquired by such Investor pursuant to this Agreement, validly issued and free and clear of Encumbrances, evidenced by certificates registered in the name of the Investor and duly authorized, executed and delivered on behalf of the Company, bearing a legend evidencing restrictions on transfer under the Securities Act, or if the Investor shall so elect, and if permitted by law, including, without limitation the Securities Act, uncertificated book-entry shares;

(b) At the Closing, the Investor shall deliver to the Company the Common Share Investment Amount in immediately available funds by wire transfer to such account as the Company shall specify in writing not later than three (3) Business Days prior to the Closing Date.

(c) On or before the Closing, each of the parties shall execute and deliver the Registration Rights Agreement.

**ARTICLE 3**

**Representations and Warranties  
of the Company**

Subject to the qualifications set forth in the corresponding sections of the disclosure schedules delivered by the Company to the BDT Investor concurrently with the execution and delivery of this BDT Purchase Agreement (the Company Disclosure Schedules to the BDT Purchase Agreement ), the Company hereby represents and warrants to the Investor, as of the date hereof and as of the Closing Date, as follows:

3.1 **Entity Status.** Each of the Company and its subsidiaries is duly incorporated or otherwise organized, validly existing and in good standing under the applicable laws of its governing jurisdiction and each has all requisite corporate or other power and authority to carry on its business as it is now being conducted and is duly qualified to do business in each of the jurisdictions in which the ownership, operation or leasing of its assets or the conduct of its business requires it to be so qualified, and no proceeding has been instituted in any such jurisdiction revoking, limiting or curtailing, or seeking to revoke, limit or curtail, such power, authority or qualification, in each case, except as has not had and would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.

**3.2 Authorization; Noncontravention.**

(a) Authorization. The execution, delivery and performance of this Agreement and the Ancillary Agreements and the consummation by the Company of the Transaction (including the issuance (or reservation for issuance), sale and delivery of the Purchased Common Shares and the Acquisition have been duly and validly authorized by all necessary corporate action (except the stockholder actions contemplated by Section 5.1 of the BDT Purchase Agreement), and no other corporate proceedings on the part of the Company or its subsidiaries or (except the stockholder actions contemplated by Section 5.1 of the BDT Purchase Agreement) vote of holders of any class or series of capital stock of the Company or its subsidiaries is necessary to authorize this Agreement or the Ancillary Agreements or to consummate the Transaction or the Acquisition. This Agreement and the Ancillary Agreements have been, or, as to Ancillary Agreements to be executed after the date hereof, will be, duly executed and delivered by the Company and (assuming due authorization, execution and delivery by each other party thereto) each constitutes, a valid and binding obligation

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of the Company, enforceable against the Company in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors rights generally or by general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(b) Preemptive Rights; Rights of First Offer. None of the sale and issuance of the Purchased Common Shares pursuant to this Agreement is or will be subject to any preemptive rights, rights of first offer or similar rights of any person (except as set forth in the Certificate of Designations or the Amended and Restated Charter).

(c) No Conflict. The Company is not in violation or default in any material respect of any provision of its Charter or Bylaws. The execution, delivery and performance by the Company of this Agreement and the Ancillary Agreements do not, and the consummation of the Transaction and compliance with the provisions hereof and thereof will not, result in a change of control (or similar event) under, or conflict with, or result in any default under, or give rise to an increase in, or right of termination, cancellation, acceleration or mandatory prepayment of, any obligation or to the loss of a benefit under, or result in the suspension, revocation, impairment, forfeiture or amendment of any term or provision of or the creation of any Encumbrance upon any of the properties or assets of the Company or any of its subsidiaries under, or require any consent or waiver under, any provision of (i) the Charter, the Bylaws or the comparable organizational documents of any of the Company's subsidiaries (other than the requirement to obtain stockholder approval as contemplated by Section 5.1 of the BDT Purchase Agreement), (ii) save in relation to the execution of the Credit Agreement, any Material Contract, or (iii) any applicable law, Judgment or Governmental Authorization, in each case applicable to the Company and its subsidiaries or their respective assets. Neither the execution and delivery of this Agreement, nor the consummation of the Transaction or the Acquisition, either alone or in combination with another event (whether contingent or otherwise) will (1) result in any payment of any excess parachute payment under Section 280G of the Code, (2) entitle any current or former employee, consultant or director of the Company or any of its subsidiaries to any payment, (3) increase the amount of compensation or benefits due to any such employee, consultant or director, or (4) accelerate the vesting, funding or time of payment of any compensation, equity award or other benefit.

(d) No Governmental Authorization. Except as contemplated by Section 5.7 of the BDT Purchase Agreement, no Governmental Authorization, order or authorization of, or registration, qualification, declaration or filing with, or notice to, any Governmental Entity is required to be obtained or made by or with respect to the Company or any of its subsidiaries in connection with the execution, delivery and performance of this Agreement or any of the Ancillary Agreements or the Transaction, including the issuance of the Purchased Common Shares, except for such Governmental Authorizations, orders, authorizations, registrations, qualifications, declarations, filings and notices, the failure of which to be obtained or made would not (i) materially impair the Company's and/or the Investor's ability to perform its obligations under this Agreement or the Ancillary Agreements or consummate the Transaction or (ii) have a Material Adverse Effect.

**3.3 Capital Structure.**

(a) As of the date of this Agreement, the authorized capital stock of the Company consists solely of (i) 200,000,000 shares of Common Stock, of which 43,590,915 shares are issued and outstanding and 6,500,000 shares are reserved for issuance pursuant to the Company's 2008 Omnibus Incentive Plan, and (ii) 10,000,000 shares of preferred stock, of which zero (0) shares are issued and outstanding and zero (0) shares are reserved for issuance. As of the Closing, and after giving effect to the Transaction, the authorized capital stock of the Company shall consist solely of 400,000,000 shares of Common Stock and up to 20,000,000 shares of preferred stock, and the number of shares issued, outstanding and reserved for issuance shall consist solely of (w) the shares of Common Stock and preferred stock referred to in the foregoing sentence, (x) the Purchased Common Shares, (y) a number of shares of Common Stock to be issued to each

of Mr. Mitchell P. Rales and Markel Corporation in connection with the MPR Investment and Markel Investment at  
the

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Common Share Purchase Price and (z) the Shares of Common Stock and 6.0% Series A Perpetual Convertible Preferred Stock to be issued in connection with the BDT Investment and (xx) shares of Common Stock issued or reserved for issuance under the Company's 2008 Omnibus Incentive Plan, as outstanding in the SEC Report for the three months ended June 30, 2011 and any awards under the plan granted in the ordinary course of business since such SEC Report. No other shares of capital stock of the company are authorized, issued and outstanding or reserved for issuance.

(b) Subject to the Company obtaining shareholder approval as contemplated in Section 5.1 of the BDT Purchase Agreement, the Purchased Common Shares have been duly authorized and upon the Closing shall be (i) validly issued, fully paid and nonassessable, (ii) not issued in violation of any purchase option, call option, right of first refusal, preemptive right, subscription right or any similar right under any provision of the Charter or Bylaws of the Company or any Contract to which the Company or any of its subsidiaries is a party or by which any of its or their respective assets are bound, and (iii) free and clear of all Encumbrances.

(c) The Company has not issued any Voting Debt that is outstanding. Except as set forth in the SEC Reports or in Schedule 3.3(c) of the Company Disclosure Schedules to the BDT Purchase Agreement, there are no (A) outstanding obligations, options, warrants, convertible securities, exchangeable securities, securities or rights that are linked to the value of the Common Stock or other rights, agreements or commitments relating to the capital stock of the Company or that obligate the Company to issue or sell or otherwise transfer shares of capital stock of the Company or any securities convertible into or exchangeable for any shares of capital stock of the Company or any Voting Debt of the Company, (B) outstanding obligations of the Company to repurchase, redeem or otherwise acquire shares of capital stock of the Company, (C) voting trusts, stockholder agreements, proxies or other agreements or understandings in effect with respect to the voting or transfer of shares of capital stock of the Company (but only to the Company's knowledge with respect to any such agreements to which neither the Company nor any subsidiary of the Company is a party), or (D) rights of first refusal, preemptive rights, subscription rights or any similar rights with respect to the capital stock of the Company under the Charter or Bylaws or any Contract to which the Company or any subsidiary of the Company is a party or by which any of its assets are bound. True, correct, and complete copies of the Charter and the Bylaws have been filed as exhibits to the Company's SEC Reports. Neither the Company, nor any of its subsidiaries has any stockholder rights plan, poison pill or any similar arrangement in effect.

(d) The shares of outstanding capital stock of the Company's subsidiaries are duly authorized, validly issued, fully paid and nonassessable, and are held of record and beneficially owned by the Company or a subsidiary of the Company. There is no Voting Debt of any subsidiary of the Company that is outstanding. Except as set forth in the SEC Reports or in Schedule 3.3(d) of the Company Disclosure Schedules to the BDT Purchase Agreement, there are no (i) outstanding obligations, options, warrants, convertible securities, exchangeable securities, securities or rights that are linked to the value of the Common Stock or other rights, agreements or commitments, in each case, relating to the capital stock or equity interests of the subsidiaries of the Company or that obligate the Company or its subsidiaries to issue or sell or otherwise transfer shares of the capital stock or any securities convertible into or exchangeable for any shares of capital stock or any Voting Debt of any subsidiary of the Company, (ii) outstanding obligations of the subsidiaries of the Company to repurchase, redeem or otherwise acquire shares of their respective capital stock or equity interests, (iii) voting trusts, stockholder agreements, proxies or other agreements or understandings in effect with respect to the voting or transfer of shares of capital stock of the subsidiaries of the Company (but only to the Company's knowledge with respect to any such agreements to which neither the Company nor any subsidiary of the Company is a party), or (iv) rights of first refusal, preemptive rights, subscription rights or any similar rights under any provision of the governing documents of any material subsidiary or any non-wholly owned subsidiary of the Company.





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**3.4 Taxes.**

- (a) Except as disclosed in the SEC Reports or except as would not reasonably be expected, individually or in the aggregate, to be material to the Company: (i) the Company and each of its subsidiaries have filed all Tax Returns required to be filed by them; (ii) all such Tax Returns are true, correct and complete; (iii) all Taxes due and owed by the Company and each of its subsidiaries (whether or not shown on any Tax Return) have been paid; (iv) neither the Company nor any of its subsidiaries currently is the beneficiary of any extension of time within which to file any material Tax Return; (v) no claim has ever been made by a Governmental Entity in a jurisdiction where the Company or any of its subsidiaries does not file Tax Returns that the Company or any such subsidiary is or may be subject to taxation by that jurisdiction; (vi) there are no liens on any of the assets or properties of the Company or any of its subsidiaries that arose in connection with any failure (or alleged failure) to pay any Tax; (vii) there are no ongoing, pending or, to the Company's knowledge, threatened audits, assessments, or other proceedings for or relating to any liability in respect of Taxes of the Company or any of its subsidiaries; (viii) neither the Company nor any of its subsidiaries has waived any statute of limitations in respect of Taxes or agreed to any extension of time with respect to a Tax assessment or deficiency; and (ix) the Company and each of its subsidiaries have timely withheld and paid all Taxes required to have been withheld and paid in connection with amounts paid or owing to any employee, independent contractor, creditor, stockholder or other third party.
- (b) Neither the Company nor any of its subsidiaries has been a member of any affiliated group filing a consolidated Federal income Tax Return other than a group the common parent of which is the Company.

**3.5 Compliance with Laws.**

- (a) The Company and each of its subsidiaries and the conduct and operation of their respective businesses are and have been, since January 1, 2010, in compliance in all material respects with each applicable law that is applicable to the Company or its subsidiaries or their respective businesses, including any laws relating to employment practices, except, in each case, as has not had and would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.
- (b) Neither the Company nor any of its subsidiaries has received any written notice or other written communication from any Governmental Entity or any other person regarding (1) any actual, alleged, possible or potential violation of or failure to comply with any material term or requirement of any Governmental Authorization, or (2) any actual, proposed, possible or potential revocation, withdrawal, suspension, cancellation, termination of or modification to any Governmental Authorization, except, in each case, as has not had and would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.

**3.6 SEC Reports and Company Financial Statements.**

- (a) Since January 1, 2009, except as disclosed in Schedule 3.6(a) of the Company Disclosure Schedules to the BDT Purchase Agreement, the Company has filed all reports, schedules, forms, statements and other documents required to be filed by it with the SEC pursuant to the reporting requirements of the Exchange Act (all the foregoing and all exhibits included or incorporated by reference therein and financial statements and schedules thereto and documents included or incorporated by reference therein being sometimes hereinafter collectively referred to as the SEC Reports ). As of their respective filing dates, the SEC Reports complied with the requirements of the Exchange Act applicable to the SEC Reports (as amended or supplemented), and none of the SEC Reports, at the time they were filed with the SEC, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. No subsidiary of the Company is, or is required to be, a registrant with the SEC.



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(b) As of their respective dates, except as set forth therein or in the notes thereto, the financial statements contained in the SEC Reports and the related notes (the Financial Statements ) complied as to form with all applicable accounting requirements and the published rules and regulations of the SEC with respect thereto. The Financial Statements (i) were prepared in accordance with GAAP, consistently applied during the periods involved (except (x) as may be otherwise indicated in the notes thereto or (y) in the case of unaudited interim statements, to the extent that they may not include footnotes or may be condensed or summary statements), (ii) fairly present in all material respects the consolidated financial position of the Company and its consolidated subsidiaries as of the dates thereof and the consolidated results of their operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal year-end audit adjustments), and (iii) are in all material respects in accordance with the books of account and records of the Company and its consolidated subsidiaries.

(c) Neither the Company nor any of its subsidiaries is a party to, or has any commitment to become a party to, any joint venture, off-balance sheet partnership or any similar Contract or arrangement (including any Contract relating to any transaction or relationship between or among the Company and any of its subsidiaries, on the one hand, and any unconsolidated affiliate of the Company or any of its subsidiaries, including any structured finance, special purpose or limited purpose entity or person, on the other hand, or any off-balance sheet arrangements (as defined in Item 303(a) of Regulation S-K of the SEC)), where the result, purpose or effect of such Contract is to avoid disclosure of any material transaction involving, or material liabilities of, the Company or any of its subsidiaries in the Company's or such subsidiary's audited financial statements or other SEC Reports.

(d) To the Company's knowledge, there is no reason that its outside auditors and its chief executive officer and chief financial officer will not be able to give the attestations and certifications, as applicable, required pursuant to the rules and regulations adopted pursuant to Section 404 of SOX, without qualification, when next due.

(e) Except as set forth in SEC Reports and the transactions contemplated by this Agreement, the MPR Investment and the Markel Investment, none of the executive officers, directors or related persons (as defined in Regulation S-K Item 404) of the Company is presently a party to any transaction with the Company or any of its subsidiaries that would be required to be reported on Form 10-K by Item 13 thereof pursuant to Regulation S-K Item 404.

**3.7 Private Placement.** Assuming that the representations of Investor set forth in Section 4.2 are true and correct, the offer, sale, and issuance of the Purchased Common Shares, in conformity with the terms of this Agreement, are exempt from the registration requirements of Section 5 of the Securities Act.

**3.8 Brokers.** The Company and its subsidiaries have incurred no obligation or liability, contingent or otherwise, in connection with this Agreement or the Transaction that would result in the obligation of the Investor to pay any finder's fees, brokerage or agent's commissions or other like payments in connection with the negotiations leading to this Agreement or the consummation of the Transaction.

**3.9 Registration Rights.** Other than the Registration Rights Agreement and any other registration rights agreement entered into in connection with the financing of the Acquisition, the Company has not granted or agreed to grant, and is not under any obligation to provide, any rights (including piggy-back registration rights) to register under the Securities Act any of its presently outstanding securities or any of its securities that may be issued subsequently.

**3.10 No Restriction on the Ability to Pay Cash Dividends.** Except as set forth in the Amended and Restated Charter, the Certificate of Designations and the Credit Agreement and any existing credit facilities of the Company or its subsidiaries that are being replaced by the Credit Agreement, neither the Company nor any of its subsidiaries is, or will be, immediately following the Closing, a party to any Contract, and is not, and will not be, immediately following the Closing, subject to any provisions in its Charter or Bylaws or other governing documents or resolutions of the

Board of Directors or other governing body, that restricts, limits, prohibits or prevents the payment of cash dividends with respect to any of its equity securities.

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3.11 **Credit Agreement.** True, correct and complete copies of the Credit Agreement and all ancillary agreements thereto that have been executed as of the date hereof have been provided to the Investor, and the Credit Agreement and each such ancillary agreement is in full force and effect.

## ARTICLE 4

### Representations and Warranties of the Investor

The Investor hereby represents and warrants to the Company, as of the date hereof and as of the Closing Date, as follows:

4.1 **Authorization.** The Investor has all necessary entity power and authority to execute and deliver this Agreement and the Ancillary Agreements to which it is a party, to perform its obligations hereunder and thereunder and to consummate the Transaction. This Agreement and the Ancillary Agreements to which the Investor is a party have been duly executed and delivered by the Investor and (assuming due authorization, execution and delivery by each other party thereto) each constitutes a valid and binding obligation of the Investor, enforceable against the Investor in accordance with its respective terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally or by general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law).

4.2 **Securities Act; Purchase for Investment Purposes.** The Investor (i) is acquiring the Purchased Common Shares solely for investment with no present intention to distribute them in violation of the Securities Act and the rules and regulations thereunder or any applicable U.S. state securities laws, (ii) has such knowledge and experience in financial and business matters and in investments of this type that it is capable of evaluating the merits and risks of making an informed investment decision to purchase the Purchased Common Shares, (iii) is an accredited investor (as that term is defined by Rule 501 promulgated under the Securities Act), and (iv) acknowledges and understands that the Purchased Common Shares have not been registered under the Securities Act, or any state securities laws, and agrees that it will not offer, sell, assign, transfer, pledge, encumber or otherwise dispose of such Purchased Common Shares absent registration under the Securities Act or unless such transaction is exempt from, or not subject to, registration under the Securities Act, and in each case, in accordance with all applicable state securities laws.

## ARTICLE 5

### Covenants

5.1 Upon the terms and subject to the conditions set forth in this Agreement, each of the parties hereto agrees to use its reasonable best efforts to take, or cause to be taken, all actions that are necessary, proper or advisable to consummate and make effective the Transaction, including using its reasonable best efforts to accomplish the following: (i) the satisfaction of the conditions precedent set forth in Article 6, (ii) the taking of all reasonable steps to provide any supplemental information requested by a Governmental Entity, including participating in meetings with officials of such entity in the course of its review of the Transaction, (iii) the defending of any lawsuits or other legal proceedings, whether judicial or administrative, that challenge this Agreement, the Transaction, the BDT Investment, the MPR Investment, the Markel Investment, the Credit Agreement or the consummation of the Acquisition or any

other transaction contemplated hereby, and (iv) the execution and delivery of any additional instruments necessary to consummate and make effective the Transaction.

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## ARTICLE 6

### Conditions

6.1 **Conditions to all Parties Obligations.** The respective obligations of the Company, on the one hand, and the Investor, on the other hand, to effect the Closing are subject to the satisfaction of the following conditions:

(a) Offer/Scheme of Arrangement. In the case of an Offer, the Offer shall have become or been declared unconditional by the Company in all respects. In the case of a Scheme of Arrangement, the High Court of Jersey shall have filed an order (and the Investor shall have received a copy thereof) sanctioning the Scheme of Arrangement on behalf of the Target with the Registrar of Companies in accordance with Part 18A of the Companies Act.

(b) Stockholder Approvals; Filing of Amended and Restated Charter and Certificate of Designations. All approvals of the Company's stockholders required in connection with the Transaction, including any such approvals required under applicable law and the applicable listing rules of the New York Stock Exchange, shall have been obtained on or before the Closing Date, and the Amended and Restated Charter and the Certificate of Designations, substantially in the forms attached hereto as **Exhibit A** and **Exhibit B**, respectively, shall have been properly filed with the office of the Secretary of State of the State of Delaware.

6.2 **Conditions to the Investor's Obligations.** The obligations of the Investor to effect the Closing are subject to the satisfaction, or written waiver by the Investor (given in accordance with Section 8.1), of each of the following conditions:

(a) Representations and Warranties. Each of the Major Representations of the Company contained in this Agreement shall be true and correct in all material respects on and as of the date of this Agreement and as of the Closing with the same force and effect as if made as of the Closing (except that representations and warranties which address matters only as of a particular date need only be true and correct as of such date).

(b) Debt Financing. As of the Closing Date, (i) the Credit Agreement shall be in full force and effect and (ii) all conditions precedent to the effectiveness of the Credit Agreement and to the extensions of credit thereunder (other than receipt of the proceeds of the Equity Financing (as defined in the Credit Agreement)) shall have been satisfied or waived.

## ARTICLE 7

### Termination

7.1 **Termination.** This Agreement may be terminated prior to the Closing as follows:

(a) At any time, by the mutual written consent of the Investor and the Company;

(b) By the Investor if the Company does not publish the Rule 2.5 Announcement by September 15, 2011 or, if the Rule 2.5 Announcement is published by such date, on such later date, if any, upon which the Scheme of Arrangement



or Offer, as applicable, lapses, terminates (other than in accordance with successful completion) or is withdrawn; or

(c) By written notice by either the Company or the Investor to the other party or parties, at any time after the date that is two hundred (200) calendar days after the Announcement Date (the Termination Date ) if the Closing shall not have occurred on or prior to the Termination Date; provided, that the right to terminate this Agreement under this Section 7.1(c) shall not be available to such party if the action or inaction of such party has been a principal cause of or resulted in the failure of the Closing to occur on or before the Termination Date and such action or failure to act constitutes a breach of this Agreement.

(d) By the Investor at any time prior to the Closing, if (i) the Company is in breach of a Major Representation (ii) such breach is not cured or capable of being cured by the earlier of the Termination Date and twenty (20) days following written notice of such breach from the Investor (to

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the extent such breach is curable) and (iii) such breach, if not cured, would render the conditions set forth in Section 6.2 incapable of being satisfied;

**7.2 Effect of Termination.** In the event of the termination of this Agreement as provided in Section 7.1, all obligations and agreements of the parties set forth in this Agreement shall become void and of no further force and effect whatsoever and there shall be no liability or obligation on the part of the parties hereto except (i) for any liability of the Company as a result of a breach of this Agreement prior to such termination, and (ii) that the provisions of this Section 7.2 and ARTICLE 8 (and all related definitions in ARTICLE 1) shall survive any such termination and shall be enforceable hereunder.

## ARTICLE 8

### General Provisions

**8.1 Amendments and Waivers.** This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties hereto. Except as otherwise provided in this Agreement, any failure of any party to comply with any obligation, covenant, agreement or condition herein may be waived by the party entitled to the benefits thereof only by a written instrument signed by the party granting such waiver, but such waiver shall not operate as a waiver of, or estoppel with respect to, any subsequent or other failure. The failure of any party to this Agreement to assert any of its rights under this Agreement or otherwise shall not constitute a waiver of such rights.

**8.2 Assignment.** This Agreement and the rights and obligations hereunder shall not be assignable or transferable by any party without the prior written consent of the other parties hereto.

**8.3 No Third-Party Beneficiaries.** This Agreement is for the sole benefit of the parties hereto and their permitted assigns and nothing herein expressed or implied shall give or be construed to give to any person, other than the parties hereto and such permitted assigns, any legal or equitable rights hereunder.

**8.4 Notices.** All notices or other communications required or permitted to be given hereunder shall be in writing and shall be delivered by hand or sent by a nationally recognized overnight courier service (with tracking capability), and shall be deemed given when received, as follows:

if to the Investor, to:

2200 Pennsylvania Avenue NW  
Suite 800W  
Washington DC 20037  
Attention: Michael G. Ryan

With a copy to:

DLA Piper LLP (US)  
6225 Smith Avenue  
Baltimore, Maryland 21209  
Attention: Jason C. Harmon, Esq.

if to the Company, to:

Colfax Corporation  
8170 Maple Lawn Blvd, Suite 180  
Fulton, MD 20759  
Attention: A. Lynne Puckett

**8.5 Counterparts.** This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement, and shall become effective when one or more such counterparts have been signed by each of the parties hereto and delivered to the other parties hereto.

**8.6 Entire Agreement.** This Agreement and the Ancillary Agreements, along with the Schedules and the Exhibits hereto and thereto, contain the entire agreement and understanding among the parties hereto with respect to the subject matter hereof and thereof and supersede all prior agreements and understandings relating

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to such subject matter. None of the parties shall be liable or bound to any other party in any manner by any representations, warranties or covenants relating to such subject matter except as specifically set forth herein or in the Ancillary Agreements.

**8.7 Interpretation; Exhibits and Schedules.** The headings contained in this Agreement, in any Exhibit or Schedule hereto and in the table of contents to this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. All Exhibits and Schedules annexed hereto or referred to herein are hereby incorporated in and made a part of this Agreement as if set forth in full herein. Any capitalized terms used in any Schedule or Exhibit but not otherwise defined therein shall have the meaning assigned to such term in this Agreement. When a reference is made in this Agreement to a Section, Exhibit or Schedule, such reference shall be to a Section of, or an Exhibit or Schedule to, this Agreement unless otherwise indicated.

**8.8 Severability.** If any provision of this Agreement (or any portion thereof) or the application of any such provision (or any portion thereof) to any person or circumstance shall be held invalid, illegal or unenforceable in any respect by a court of competent jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision hereof (or the remaining portion thereof) or the application of such provision to any other persons or circumstances, so long as the economic and legal substance of the Transaction is not affected in a manner materially adverse to any party hereto.

**8.9 Consent to Jurisdiction.** Each of the parties hereby consents to the exclusive jurisdiction of the state and federal courts sitting in the City of New York in any action on a claim arising out of, under or in connection with this Agreement or the Transaction.

**8.10 Governing Law.** This Agreement shall be governed and construed in accordance with the laws of the State of New York.

**8.11 Waiver of Jury Trial.** Each party hereby waives, to the fullest extent permitted by Applicable Law, any right it may have to a trial by jury in respect to any litigation directly or indirectly arising out of, under or in connection with this Agreement, any Ancillary Agreement or the Transaction. Each party (a) certifies that no representative, agent or attorney of any other party has represented, expressly or otherwise, that such other party would not, in the event of litigation, seek to enforce the foregoing waiver and (b) acknowledges that it and the other parties hereto have been induced to enter into this Agreement and the Ancillary Agreements, as applicable, by, among other things, the mutual waivers and certifications in this Section 8.11.

**8.12 Rights of Holders.** Each party to this Agreement shall have the absolute right to exercise or refrain from exercising any right or rights that such party may have by reason of this Agreement, including the right to consent to the waiver or modification of any obligation under this Agreement, and such party shall not incur any liability to any other party or other holder of any securities of the Company as a result of exercising or refraining from exercising any such right or rights.

**8.13 Adjustment in Share Numbers and Prices.** In the event of any (i) stock split, (ii) subdivision, (iii) dividend or distribution payable in shares of Common Stock (or other securities or rights convertible into or entitling the holder thereof to receive directly or indirectly shares of Common Stock), (iv) combination or (v) other similar recapitalization or event, in each case, occurring after the date hereof and prior to the Closing Date, each reference in this Agreement and the Ancillary Agreements to a number of shares or a price per share shall be amended to appropriately account for such event.

8.14 **Construction.** The parties acknowledge that each party and its counsel have participated in the negotiation and preparation of this Agreement. This Agreement shall be construed without regard to any presumption or other rule requiring construction against the party causing the Agreement to be drafted. Each covenant, term and provision of this Agreement shall be construed simply according to its fair meaning and not strictly for or against any party hereto.

*[Signature page follows.]*

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In Witness Whereof, the Company and the Investor have executed this Agreement as of the date first above written.

COMPANY  
COLFAX CORPORATION

By:

/s/ A. Lynne Pucket

tName: A. Lynne Puckett

Title: Senior Vice President,  
General Counsel and Secretary

INVESTOR

Steven M. Rales

/s/ Steven M. Rales

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**Exhibit A**

**AMENDED AND RESTATED CERTIFICATE OF  
INCORPORATION**

**OF**

**COLFAX CORPORATION**

Colfax Corporation (the **Corporation** ), a corporation organized and existing under the General Corporation Law of the State of Delaware (the **Delaware General Corporation Law** ), does hereby certify as follows:

1. The present name of the Corporation is Colfax Corporation. The Corporation was incorporated under the name Constellation Pumps Corporation by filing its original Certificate of Incorporation with the Secretary of State of the State of Delaware on February 25, 1998. An Amended and Restated Certificate of Incorporation was filed with and accepted by the Secretary of State of the State of Delaware on May 22, 2003 and amended by Certificates of Amendment on May 30, 2003, May 3, 2004, and April 21, 2008. An Amended and Restated Certificate of Incorporation was filed with and accepted by the Secretary of State of the State of Delaware on May 13, 2008.
2. This Amended and Restated Certificate of Incorporation was duly adopted by the Board of Directors of the Corporation (the **Board** ) and by the stockholders of the Corporation in accordance with Sections 228, 242, and 245 of the Delaware General Corporation Law.
3. Pursuant to Sections 242 and 245 of the Delaware General Corporation Law, this Amended and Restated Certificate of Incorporation restates and integrates and also further amends the provisions of the Certificate of Incorporation of the Corporation as heretofore amended or supplemented. The Certificate of Incorporation of the Corporation, as heretofore amended or supplemented, is superseded by this Amended and Restated Certificate of Incorporation.
4. This Amended and Restated Certificate of Incorporation shall become effective upon the time of filing of this Amended and Restated Certificate of Incorporation with the Secretary of State of the State of Delaware pursuant to Section 103 of the Delaware General Corporation Law.
5. The Certificate of Incorporation of the Corporation as heretofore amended or supplemented is hereby restated and further amended to read in its entirety as follows:

**Article 1. NAME**

The name of this corporation is Colfax Corporation.

## **Article 2. REGISTERED OFFICE AND AGENT**

The address of this Corporation's registered office in the State of Delaware is 2711 Centerville Road, Suite 400, in the City of Wilmington, Delaware 19808, in the County of New Castle. The name of this Corporation's registered agent at such address is Corporation Service Company.

## **Article 3. PURPOSE AND POWERS**

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the Delaware General Corporation Law. The Corporation shall have all power necessary or convenient to the conduct, promotion or attainment of such acts and activities.

## **Article 4. CAPITAL STOCK AND ISSUANCE OF SECURITIES**

### **4.1. Authorized Shares**

The total number of shares of all classes of stock that the Corporation shall have the authority to issue is 420,000,000 of which 400,000,000 of such shares shall be Common Stock having a par value of \$.001 per share (the **Common Stock**), and 20,000,000 of such shares shall be Preferred Stock, having a par value of \$.001 per share (the **Preferred Stock**).

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## **4.2. Common Stock**

### **4.2.1. Relative Rights**

The Common Stock shall be subject to all of the rights, privileges, preferences, priorities, and restrictions set forth in this Amended and Restated Certificate of Incorporation (including any certificate of designations relating to any series of the Preferred Stock). Each share of the Common Stock shall have the same relative rights as, and be identical in all respects to, all the other shares of the Common Stock.

### **4.2.2. Dividends**

Whenever there shall have been paid, or declared and set aside for payment, to the holders of shares of any class of stock having preference over the Common Stock as to the payment of dividends, the full amount of dividends and of sinking fund or retirement payments, if any, to which such holders are respectively entitled in preference to the Common Stock, then dividends may be paid on the Common Stock and on any class or series of stock entitled to participate therewith as to dividends, out of any assets legally available for the payment of dividends thereon, but only when and as declared by the Board and subject to the restrictions set forth in any certificate of designations relating to any series of Preferred Stock. Any dividends on the Common Stock will not be cumulative.

### **4.2.3. Dissolution, Liquidation, Winding Up**

In the event of any dissolution, liquidation, or winding up of the Corporation, whether voluntary or involuntary, the holders of the Common Stock, and holders of any class or series of stock entitled to participate therewith, in whole or in part, as to the distribution of assets in such event, shall be entitled to participate in the distribution of any assets of the Corporation remaining after the Corporation shall have paid, or provided for payment of, all debts and liabilities of the Corporation and after the Corporation shall have paid, or set aside for payment, to the holders of any class of stock having preference over the Common Stock in the event of dissolution, liquidation or winding up the full preferential amounts (if any) to which they are entitled.

### **4.2.4. Voting Rights**

Each holder of shares of the Common Stock shall be entitled to attend all special and annual meetings of the stockholders of the Company at which any action is to be taken as to which holders of Common Stock are entitled to vote pursuant to this Amended and Restated Certificate of Incorporation or applicable law. Except as may otherwise be required by law, and subject to the provisions of such resolution or resolutions as may be adopted by the Board pursuant to Section 4.3 of this Article 4 granting the holders of one or more series of the Preferred Stock exclusive or special voting powers with respect to any matter, each holder of the Common Stock shall have one vote with respect to each share of the Common Stock held on all matters voted upon by the stockholders, provided, however, that except as otherwise required by law, holders of the Common Stock, as such, shall not be entitled to vote on any amendment to this Amended and Restated Certificate of Incorporation (including a certificate of designations relating to any series of the Preferred Stock) that relates solely to the terms of one or more outstanding series of the Preferred Stock if the holders of such affected series are entitled, either voting separately or together with the holders of one or more other such series, to vote thereon pursuant to this Amended and Restated Certificate of Incorporation (including any certificate of designations relating to any series of the Preferred Stock) or pursuant to the Delaware General Corporation Law. Each holder of shares of the Common Stock may exercise its vote either in person or by proxy.

## **4.2.5 Stockholder Action**

Subject to the rights of any holders of the Preferred Stock, (i) only the chairman of the Board or a majority of the Board shall be permitted to call a special meeting of stockholders; (ii) the business permitted to be conducted at a special meeting of stockholders shall be limited to matters properly brought before the meeting by or at the direction of the 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.

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### 4.3. Preferred Stock

The Board is authorized, subject to limitations prescribed by the Delaware General Corporation Law and the provisions of this Amended and Restated Certificate of Incorporation, to provide, by resolution or resolutions from time to time and by filing certificates of designations pursuant to the Delaware General Corporation Law, for the issuance of shares of the Preferred Stock in one or more series, to establish from time to time the number of shares to be included in each such series, to fix the voting powers, designations, preferences and relative, participating, optional or other special rights of the shares of each such series of the Preferred Stock and to fix the qualifications, limitations or restrictions thereof.

The authority of the Board with respect to each series shall include, but not be limited to, determination of the following: (1) the number of shares constituting that series and the distinctive designation of that series; (2) the dividend rate on the shares of that series, whether dividends shall be cumulative, and, if so, from which date or dates, and the relative rights of priority, if any, of payment of dividends on shares of that series; (3) whether that series shall have voting rights, in addition to the voting rights provided by law, and, if so, the terms of such voting rights; (4) whether that series shall have conversion privileges, and, if so, the terms and conditions of such conversion, including provision for adjustment of the conversion rate in such events as the Board shall determine; (5) whether or not the shares of that series shall be redeemable, and, if so, the terms and conditions of such redemption, including the dates upon or after which they shall be redeemable, and the amount per share payable in case of redemption, which amount may vary under different conditions and at different redemption dates; (6) whether that series shall have a sinking fund for the redemption or purchase of shares of that series, and, if so, the terms and amount of such sinking fund; (7) the rights of the shares of that series in the event of voluntary or involuntary liquidation, dissolution or winding up of the Corporation, and the relative rights of priority, if any, of payment of shares of that series; and (8) any other relative powers, preferences, and rights of that series, and qualifications, limitations or restrictions on that series as the Board shall determine.

### 4.4 Rights of Certain Holders

So long as the Investor and its Permitted Transferees collectively Beneficially Own, in the aggregate, at least fifty percent (50%) of the Purchased Preferred Shares, the written consent of the Investor will be required in order for the Corporation to take any of the following actions:

1. The incurrence of Senior Net Indebtedness, excluding
  - (i) Permitted Indebtedness, and
  - (ii) the issuance of Preferred Stock,

if, after giving effect to such incurrence, the ratio of Senior Net Indebtedness to Adjusted EBITDA would exceed 3.75 : 1 measured by reference to the last twelve-month period for which financial information of the Corporation is reported by the Corporation (the **LTM Period**), pro forma for any acquisition in the LTM Period; *provided, however*, that the consent of the Investor will not be required pursuant to this Section 4.4(1) as to the incurrence of Indebtedness, the net proceeds of which are used for Refinancing of Indebtedness that existed on the Closing Date (including any Indebtedness incurred on the Closing Date);

2. The incurrence of Total Net Indebtedness, excluding:
  - (i) Permitted Indebtedness,

(ii) the issuance of Preferred Stock,

if, after giving effect to such incurrence, the ratio of Total Net Indebtedness to Adjusted EBITDA would exceed 4.25 : 1 measured by reference to the LTM Period, pro forma for any acquisition in the LTM Period; *provided, however*, that the consent of the Investor will not be required pursuant to this Section 4.4(2) as to the incurrence of Indebtedness, the net proceeds of which are used for the Refinancing of Indebtedness that existed on the Closing Date (including any Indebtedness incurred on the Closing Date);

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3. The issuance by the Corporation of any shares of Preferred Stock;  
Any change to the Corporation's dividend policy, or the declaration or payment of any dividend or distribution on any Junior Stock, unless the ratio of the Corporation's Total Net Indebtedness, excluding Permitted Indebtedness and any Preferred Stock, to Adjusted EBITDA is less than 2:1 measured by reference to the LTM Period, pro forma for any acquisition in the LTM period;
4. Any voluntary liquidation, dissolution or winding up of the Corporation;
5. Any change in the Corporation's independent auditor;
6. The election of anyone other than Mr. Mitchell P. Rales as the Corporation's Chairman of the Board;  
Any acquisition by the Corporation or any of its subsidiaries, in any transaction or series of related transactions, of another entity or assets for a purchase price exceeding thirty percent (30%) of the Corporation's equity market capitalization at the time the applicable acquisition agreement is signed;  
Any merger, consolidation, reclassification, joint venture or strategic partnership, or any similar transaction, any sale, lease, transfer or other disposition of any assets of the Corporation or any subsidiary of the Corporation (excluding sale/leaseback transactions and other financing transactions, in each case, entered into in the ordinary course of the Corporation's or such subsidiary's business or any sales among the Company and its subsidiaries), or any voluntary liquidation, dissolution or winding up of any subsidiary of the Corporation if (i) the value of the entity resulting from any such merger, consolidation, reclassification or similar transaction, (ii) the level of investment in any such joint venture, strategic partnership or similar transaction by the Corporation or such subsidiary, (iii) the value of the assets being sold, leased, transferred or disposed of, or (iv) the value of the subsidiary being liquidated, dissolved, or wound up (including the value of any subsidiary or subsidiaries thereof), as applicable, exceeds thirty percent (30%) of the Corporation's equity market capitalization at the time the applicable transaction agreement or other transaction documentation is signed;
7. Any amendments to the Corporation's Certificate of Incorporation or bylaws or other organizational or governing documents, as applicable; or
8. Any change to the size of the Board.
- 9.
- 10.
- 11.

## **Article 5. BOARD OF DIRECTORS**

### **5.1. Number; Election; Nomination Right of Certain Holders**

- So long as the Investor and its Permitted Transferees collectively Beneficially Own, in the aggregate, more than twenty percent (20%) of the outstanding Common Stock, calculated on a fully-diluted basis, assuming conversion of all outstanding convertible securities (including the Series A Preferred Stock) and exercise of all existing warrants at the then-existing conversion or exercise price, but excluding any Unexercised Options and RSUs: (A) (1) the authorized number of directors of the Corporation shall be eleven (11); (B) the Investor shall be entitled to exclusively nominate two (2) members of the Board; and (C) the Investor shall be entitled to select one of its nominees, once elected to the Board, to serve on the audit committee of the Board, and one of its nominees, once elected to the Board, to serve on the compensation committee of the Board, subject to applicable law and New York Stock Exchange listing requirements.
- So long as the Investor and its Permitted Transferees collectively Beneficially Own, in the aggregate, equal to or less than twenty percent (20%) but more than ten percent (10%) of the outstanding Common Stock, calculated on a fully-diluted basis, assuming conversion of all outstanding convertible securities (including the Series A Preferred Stock) and exercise of all existing warrants at the then-existing conversion or exercise price, but excluding any (2) Unexercised Options and RSUs: (A) the authorized number of directors of the Corporation shall be ten (10); (B) the Investor shall be entitled to exclusively nominate one (1) member of the Board; and (C) the Investor shall be entitled to select its nominee, once elected to the Board, to serve on the audit committee and compensation committee of the Board, subject to applicable law and New York Stock Exchange listing requirements.



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From the time the Investor and its Permitted Transferees collectively cease to Beneficially Own, in the aggregate, at least ten percent (10%) of the outstanding Common Stock, calculated on a fully-diluted basis, assuming conversion of all outstanding convertible securities (including the Series A Preferred Stock) and exercise of all (3) existing warrants at the then-existing conversion or exercise price, but excluding any Unexercised Options and RSUs, the Investor shall have no right under this Section 5.1 to nominate any members of the Board, and the authorized number of directors of the Corporation shall be such number as from time to time shall be fixed by, or in the manner provided in, the bylaws of the Corporation.

Unless and except to the extent that the bylaws of the Corporation shall otherwise require, the election of directors (4) of the Corporation need not be by written ballot. Each director of the Corporation shall be entitled to one vote per director on all matters voted or acted upon by the Board.

For purposes of calculating Beneficial Ownership percentages in this Section 5.1, the Investor and any Permitted Transferees shall not be deemed to Beneficially Own any shares of preferred stock other than the Purchased (5) Preferred Shares and any shares of Common Stock other than shares of Common Stock acquired (i) on the Closing Date, (ii) upon conversion of Preferred Stock or (iii) pursuant to anti-dilution provisions or pre-emption rights set forth in the Certificate of Designations.

### **5.2. Management of Business and Affairs of the Corporation**

The business and affairs of the Corporation shall be managed by, or under the direction of, the Board.

### **5.3. Limitation of Liability**

No director of the Corporation shall be liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, provided that this provision shall not eliminate or limit the liability of a director (a) for any breach of the director's duty of loyalty to the Corporation 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 Delaware General Corporation Law; or (d) for any transaction from which the director derived an improper personal benefit.

Any repeal or modification of this Article 5.3 shall be prospective only and shall not adversely affect any right or protection of, or any limitation of the liability of, a director of the Corporation existing at, or arising out of facts or incidents occurring prior to, the effective date of such repeal or modification.

## **Article 6. AMENDMENT OF BYLAWS**

In furtherance and not in limitation of the powers conferred by the Delaware General Corporation Law, the Board is expressly authorized and empowered to adopt, amend and repeal the bylaws of the Corporation.

## **Article 7. RESERVATION OF RIGHT TO AMEND CERTIFICATE OF INCORPORATION**

The Corporation reserves the right at any time, and from time to time, to amend, alter, change, or repeal any provision contained in this Amended and Restated Certificate of Incorporation, and other provisions authorized by the laws of the State of Delaware at the time in force may be added or inserted, in the manner now or hereafter prescribed by law; and all rights, preferences, and privileges of any nature conferred upon stockholders, directors, or any other persons by and pursuant to this Amended and Restated Certificate of Incorporation in its present form or as hereafter amended are granted subject to the rights reserved in this Article 7. Notwithstanding the foregoing, or any provision of law which might otherwise permit a lesser vote or no vote, but in addition to any affirmative vote of the holders of any particular

class or series of stock required by law or this Amended and Restated Certificate of Incorporation, until such time as the Investor and its Permitted Transferees collectively cease to Beneficially Own, in the aggregate, at least ten percent (10%) of the outstanding Common Stock, calculated on a fully-diluted basis, assuming conversion of all outstanding convertible securities (including the Series A Preferred Stock) and exercise of all existing warrants at the then-existing conversion or exercise price, but excluding any Unexercised Options and RSUs, the written consent of the Investor shall be required to alter, amend or repeal any provision of Section 5.1 of Article 5, this Article 7 or Article 8, including by merger, consolidation or otherwise.

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**Article 8. DEFINITIONS**

Capitalized terms not otherwise defined in this Amended and Restated Certificate of Incorporation shall have the following meanings:

**Adjusted EBITDA** means EBITDA, as such term is defined in that certain credit agreement, dated as of September 12, 2011, between and among the Company, Deutsche Bank A.G. New York Branch, a syndicate of other financial institutions as lenders and Deutsche Bank Securities Inc., as in effect as of September 12, 2011.

**Beneficial Ownership** and **Beneficially Own** and similar terms have the meaning set forth in Rule 13d-3 under the Securities and Exchange Act of 1934. For the avoidance of doubt, the Investor and its Permitted Transferees will be deemed to Beneficially Own all of the Common Stock issuable upon conversion of the Series A Preferred Stock held by the Investor and its Permitted Transferees at the time of determination.

**Closing Date** has the meaning set forth in the Securities Purchase Agreement.

**Indebtedness** means the principal of, accrued but unpaid interest on, and premium (if any, to the extent such premium is determinable) in respect of, indebtedness of such person for borrowed money, but excluding any indebtedness among the Corporation and its subsidiaries.

**Investor** means BDT CF Acquisition Vehicle, LLC.

**Junior Stock** means the Common Stock and any other class or series of stock of the Corporation, other than Parity Stock and Senior Stock, not expressly ranking senior to the Series A Preferred Stock with respect to the payment of dividends and distributions.

**Parity Stock** means any class or series of stock of the Corporation that may be authorized that expressly ranks equal to the Series A Preferred Stock with respect to the payment of dividends and distributions.

**Permitted Transferee** shall have the meaning assigned to such term in the Securities Purchase Agreement.

**Permitted Indebtedness** means Indebtedness under the Corporation's revolving line of credit as in existence on the Closing Date, leases and letters of credit, performance guarantees, bid bonds, surety bonds and similar instruments.

**Purchased Preferred Shares** shall have the meaning assigned to such term in the Securities Purchase Agreement.

**Refinance** or **Refinancing** means to refund, refinance, replace, renew, repay, or extend (including pursuant to any defeasance or discharge mechanism).

**Securities Purchase Agreement** means that certain Securities Purchase Agreement, dated as of September 12, 2011, by and between the Corporation and the Investor.

**Senior Net Indebtedness** means, as of any date, all Senior Indebtedness of the Corporation outstanding on such date minus all cash and cash equivalents of the Corporation as of such date.

**Senior Indebtedness** means Indebtedness that is not Subordinated Indebtedness.

**Senior Stock** means any class or series of stock of the Corporation that may be authorized that expressly ranks senior to the Series A Preferred Stock with respect to the payment of dividends and distributions.

**Subordinated Indebtedness** means Indebtedness which is subordinate or junior in right of payment to any other Indebtedness pursuant to a written agreement.

**Total Net Indebtedness** means, as of any date, all Indebtedness of the Corporation and its subsidiaries minus all cash and cash equivalents of the Corporation and its subsidiaries as of such date.

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**Unexercised Options and RSUs** means (i) any convertible securities outstanding as of the Closing Date (as such term is defined in the Securities Purchase Agreement), or (ii) any options, restricted stock units or similar awards issued to officers, employees, consultants or directors of the Corporation or its subsidiaries, in each case, in the form of Common Stock or entitling the holder thereof to receive shares of Common Stock upon the exercise or conversion thereof.

**IN WITNESS WHEREOF**, this Amended and Restated Certificate of Incorporation has been executed by the President and Chief Executive Officer of the Corporation on this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_.

**COLFAX CORPORATION**

By:  
Name:  
Title:

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**Exhibit B**

**CERTIFICATE OF DESIGNATIONS OF  
SERIES A PERPETUAL CONVERTIBLE PREFERRED  
STOCK**

**(PAR VALUE \$0.001)**

**OF**

**COLFAX CORPORATION**

Pursuant to Section 151 of the

General Corporation Law of the State of Delaware

Colfax Corporation, a corporation organized and existing under the General Corporation Law of the State of Delaware (the Corporation ), in accordance with the provisions of Section 151 thereof, DOES HEREBY CERTIFY:

That pursuant to the authority conferred upon the Board of Directors of the Corporation (the Board ) in accordance with the Second Amended and Restated Certificate of Incorporation of the Corporation (the Certificate of Incorporation ) and the Amended and Restated Bylaws of the Corporation (the Bylaws ), the Board on September 10, 2011 adopted the following resolution, creating a series of 13,877,552 shares of Preferred Stock, par value \$0.001 per share, of the Corporation designated as Series A Perpetual Convertible Preferred Stock, which is subject to shareholder approval of certain amendments to the Certificate of Incorporation including amendments that will increase the authorized number of shares of preferred stock:

RESOLVED, that pursuant to the authority vested in the Board by Article IV of the Certificate of Incorporation and out of the Preferred Stock, par value \$0.001 per share, authorized therein, the Board hereby authorizes, designates and creates a series of Preferred Stock, and states that the designation and amount thereof and the voting powers, preferences and relative, participating, optional and other special rights of the shares of such series, and the qualifications, limitations or restrictions thereof be, and hereby are, as follows:

**Section 1. Number of Shares and Designation.**

The designation of the series of Preferred Stock created by this resolution shall be Series A Perpetual Convertible Preferred Stock (the Series ), and the number of shares constituting the Series shall be Thirteen Million Eight Hundred

Seventy-Seven Thousand Five Hundred Fifty-Two (13,877,552) (the Series A Preferred Stock ). Each share of Series A Preferred Stock shall have a liquidation preference of \$24.50 (the Liquidation Preference ).

**Section 2. Dividends.**

(1) Holders of Series A Preferred Stock shall be entitled to receive, on each share of Series A Preferred Stock, out of funds legally available for the payment of dividends under Delaware law, cumulative cash dividends with respect to each Dividend Period (as defined below) at a per annum rate of 6% (as such may be adjusted pursuant to this Section 2(1), the Dividend Rate ) on (i) the Liquidation Preference per share and (ii) to the extent unpaid on the Dividend Payment Date (as defined below), the amount of any accrued and unpaid dividends, if any, on such share of Series A Preferred Stock; *provided* that if, on any Dividend Payment Date, the Corporation shall not have paid in cash the full amount of any dividend required to be paid on such share (such amount being Unpaid Dividends ) on such Dividend Payment Date pursuant to this Section 2(1), then from such Dividend Payment Date, the Dividend Rate shall automatically be at a per annum rate of 8% for such share until the date on which all Unpaid Dividends have been declared and paid in full in cash. Dividends shall begin to accrue and be cumulative from the Issue Date (whether or not declared), shall compound on each Dividend Payment Date, and shall be payable in arrears (as provided below in this Section 2(1)), but only when, as and if declared by the Board (or a duly authorized committee of the Board) on each March 1, June 1, September 1 and December 1, and each Mandatory Conversion Date, Redemption Date and Liquidation Date (each, a Dividend Payment Date ); *provided* that if any such Dividend Payment Date would

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otherwise occur on a day that is not a Business Day, such Dividend Payment Date shall instead be (and any dividend payable on Series A Preferred Stock on such Dividend Payment Date shall instead be payable on) the immediately succeeding Business Day with no additional dividends payable as a result of such payment being made on such succeeding Business Day. Dividends that are payable on Series A Preferred Stock on any Dividend Payment Date will be payable to holders of record of Series A Preferred Stock as they appear on the stock register of the Corporation on the applicable record date, which shall be the fifteenth (15<sup>th</sup>) calendar day before such Dividend Payment Date (as originally scheduled) or such other record date fixed by the Board (or a duly authorized committee of the Board) that is not more than 60 nor less than 10 days prior to such Dividend Payment Date (each, a Dividend Record Date ). Any such day that is a Dividend Record Date shall be a Dividend Record Date whether or not such day is a Business Day. Each dividend period (a Dividend Period ) shall commence on and include the calendar day immediately following a Dividend Payment Date (other than the initial Dividend Period, which shall commence on and include the Issue Date) and shall end on and include the next Dividend Payment Date. Dividends payable in respect of a Dividend Period shall be payable in arrears on the first Dividend Payment Date after such Dividend Period.

(2) The Corporation (including its subsidiaries) shall not declare, pay or set apart funds for any dividends or other distributions with respect to any Junior Stock of the Corporation or repurchase, redeem or otherwise acquire, or set apart funds for repurchase, redemption or other acquisition of, any Junior Stock, or make any guarantee payment with respect thereto, unless all accrued but unpaid dividends on the Series A Preferred Stock for all Dividend Periods through and including the date of such declaration, payment, repurchase, redemption or acquisition (including, if applicable as provided in Section 2(1) above, dividends on such amount) have been declared and paid in full in cash (or declared and a sum sufficient for the payment thereof set apart for such payment). Without limitation of the foregoing, any such dividend or other distributions on the Junior Stock shall be subject to Section 2(3).

(3) In the event that any dividend is declared and paid on, or any distribution is made with respect to, any Junior Stock (including, without limitation, in connection with a recapitalization of the Corporation), the Series A Preferred Stock shall share proportionately with such Junior Stock in any such dividend or distribution, (a) if such Junior Stock is Common Stock or is convertible into Common Stock, in accordance with the number of shares of Common Stock issuable upon conversion of the Series A Preferred Stock calculated as of the record date for such dividend or distribution, or (b) if such Junior Stock is not Common Stock or convertible into Common Stock, in such manner and at such time as the Board may determine in good faith to be equitable in the circumstances.

(4) Any reference to dividends or distributions in this Section 2 shall not be deemed to include any distribution made in connection with any voluntary or involuntary dissolution, liquidation or winding up of the Corporation.

**Section 3. Mandatory Conversion; Optional Conversion; Redemption.**

(1) Mandatory Conversion at the Option of the Corporation.

(a) Mandatory Conversion. On or after the third anniversary of the Issue Date, the Corporation shall have the right, at its option, at any time or from time to time, to cause some or all of the outstanding shares of Series A Preferred Stock to be mandatorily converted (a Mandatory Conversion ) into fully paid and nonassessable shares of Common Stock at the Conversion Rate in effect as of the applicable Mandatory Conversion Date (as defined below) in accordance with the provisions of this Section 3(1), subject to satisfaction of the following conditions:

(i) the closing price of the Common Stock on the New York Stock Exchange (or, if the shares of Common Stock are not listed or admitted for trading on the New York Stock Exchange, as reported on the principal consolidated transaction reporting system on the principal national securities exchange on which the shares of Common Stock are listed or admitted for trading) shall exceed one-hundred and thirty-three percent (133%) of the



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Conversion Price for a period of thirty (30) consecutive trading days ending on the trading day immediately preceding the date that the Corporation delivers a Mandatory Conversion Notice (as defined below); and

(ii) the Corporation shall have declared and paid in full in cash, or shall have declared and set apart for payment in cash, all accrued but unpaid dividends (including, if applicable as provided in Section 2(1) above, dividends on such amount) on the Series A Preferred Stock for all Dividend Periods through and including the effective date of such Mandatory Conversion (the Mandatory Conversion Date ).

(b) Mechanics of Mandatory Conversion. In order to effect a Mandatory Conversion, the Corporation shall provide written notice (a Mandatory Conversion Notice ) to each holder of outstanding shares of Series A Preferred Stock by first class mail, postage prepaid, to such holder's address as it shall appear in the records of the Corporation or such other address as such holder shall specify to the Corporation in writing from time to time. The Mandatory Conversion Notice shall specify (i) the applicable Mandatory Conversion Date, and (ii) the number of shares of Common Stock that each holder shall be entitled to receive in connection with such Mandatory Conversion. Upon receipt of the Mandatory Conversion Notice, each holder of shares of Series A Preferred Stock shall surrender his, her, or its certificate or certificates for all such shares (or, if applicable, a pro rata portion thereof determined in accordance with the penultimate sentence of this Section 3(1)(b)) (or, if such certificate or certificates have been lost, stolen, or destroyed, a lost certificate affidavit and indemnity in form and substance reasonably acceptable to the Corporation) to the Corporation at its principal office or at the office of the agency which may be maintained for the purpose of administering conversions and redemptions of the shares of Common Stock (the Conversion Agent ), in each case, as specified in the applicable Mandatory Conversion Notice. All rights with respect to the shares of Series A Preferred Stock that are converted pursuant to a Mandatory Conversion shall terminate on the Mandatory Conversion Date, subject to the rights of the holders thereof to receive the items provided for in the following sentence. As soon as practicable after the Mandatory Conversion Date, but in no event later than ten (10) days after the Mandatory Conversion Date, the Corporation shall issue and deliver to each holder that has surrendered shares of Series A Preferred Stock in connection therewith, (i) a certificate or certificates (or if the holder shall so elect, and if permitted by applicable law, including without limitation the Securities Act of 1933, uncertificated book-entry shares) representing the number of fully paid and nonassessable shares of Common Stock issuable upon such conversion, with no personal liability attaching to the ownership thereof, free of all taxes with respect to the issuance thereof, liens, charges and security interests and not subject to any preemptive rights, into which such shares of Series A Preferred Stock have been converted in connection with such Mandatory Conversion, and (ii) any cash payable in respect of fractional shares as provided in Section 3(4). The converted shares of Series A Preferred Stock shall be retired and cancelled and may not be reissued. In the case of Mandatory Conversion of fewer than all of the shares of Series A Preferred Stock at the time outstanding, the shares of Series A Preferred Stock to be redeemed shall be selected, and allocated among the holders of outstanding shares of Series A Preferred Stock on a *pro rata* basis in accordance with the number of shares of Series A Preferred Stock then held by each such holder. In the event that fewer than all of the shares of Series A Preferred Stock represented by a certificate are converted in connection with a Mandatory Conversion, then a new certificate representing the unconverted shares of Series A Preferred Stock shall be issued to the holder of such certificate.



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(2) Redemption at the Option of the Corporation.

(a) Redemption. On or after the fifth anniversary of the Issue Date, the Corporation shall have the right, at its option, at any time to redeem (a Redemption ) all (but not less than all) of the outstanding shares of Series A Preferred Stock in return for a payment in cash (the Call Payment ) equal, on a per share basis, to the greater of (i) the Conversion Price, and (ii) the Liquidation Preference, in each case, as of the applicable Redemption Date (as defined below) in accordance with the provisions of this Section 3(2), subject to satisfaction of the following conditions:

(i) on the trading date preceding the date of the Redemption Notice (as defined below) the closing price of the Common Stock on the New York Stock Exchange (or, if the shares of Common Stock are not listed or admitted for trading on the New York Stock Exchange, as reported on the principal consolidated transaction reporting system on the principal national securities exchange on which the shares of Common Stock are listed or admitted for trading) shall be less than the Conversion Price; and

(ii) the Corporation shall have declared and paid in full in cash, or shall have declared and set apart for payment in cash, all accrued but unpaid dividends (including, if applicable as provided in Section 2(1) above, dividends on such amount) on the Series A Preferred Stock for all Dividend Periods through and including the Redemption Date (as defined below).

(b) Mechanics of Redemption. In order to effect a Redemption, the Corporation shall provide written notice (a Redemption Notice ) of such Redemption to each holder of outstanding shares of Series A Preferred Stock by first class mail, postage prepaid, to such holder at such holder's address as it shall appear in the records of the Corporation or such other address as such holder shall specify to the Corporation in writing from time to time. Subject to the satisfaction of the conditions set forth in Section 3(2)(a)(i) and Section 3(2)(a)(ii), the Redemption shall become effective on the ninetieth (90<sup>th</sup>) day after delivery of the Redemption Notice, or if such date is not a Business Day, then on the next Business Day (such date, the Redemption Date ). The Redemption Notice shall specify (i) the applicable Redemption Date (determined in accordance with the preceding sentence), and (ii) the Call Payment to which each holder of outstanding shares of Series A Preferred Stock shall be entitled in connection with such Redemption. On or before the applicable Redemption Date, each holder of outstanding shares of Series A Preferred Stock to be redeemed shall surrender the certificate or certificates representing such shares (or, if such certificate or certificates have been lost, stolen, or destroyed, a lost certificate affidavit and indemnity in form and substance reasonably acceptable to the Corporation) to the Corporation at its principal office or to the Conversion Agent, in each case, as may be specified in the Redemption Notice, and upon receipt thereof by the Corporation or the Conversion Agent, as the case may be, the Call Payment for such redeemed shares shall be immediately due and payable in cash to the order of the record holder of the shares of Series A Preferred Stock being redeemed. From and after the Redemption Date, all dividends on shares of Series A Preferred Stock that are redeemed on such Redemption Date shall cease to accumulate and all rights of the holders thereof as holders of Series A Preferred Stock shall cease and terminate, so long as the Call Payment is received on the Redemption Date and the conditions to the effectiveness of such redemption set forth in Section 3(2)(a) are satisfied.

(3) Right of Holders to Optionally Convert.

(a) Each share of Series A Preferred Stock shall be convertible, in whole or in part, at the option of the holder thereof (an Optional Conversion ), at any time after the Issue Date, and from time to time, and without payment of any additional consideration by the holder of such share, into fully paid and nonassessable shares of Common Stock at the Conversion Rate in effect as of the applicable Optional Conversion Date (as defined below) in accordance with the procedures set forth in this Section 3(3).



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- (b) In order to effect an Optional Conversion, the holder of shares of Series A Preferred Stock to be converted shall (i) deliver a properly completed and duly executed written notice of election to convert (an Optional Conversion Notice ) to the Corporation at its principal office or to the Conversion Agent, and (ii) surrender the certificate or certificates for the shares of Series A Preferred Stock that are to be converted, accompanied, if so required by the Corporation or the Conversion Agent, by a written instrument or instruments of transfer in form reasonably satisfactory to the Corporation or the Conversion Agent, duly executed by the holder or its attorney duly authorized in writing. The Optional Conversion Notice shall specify: (i) the number (in whole shares) of shares of Series A Preferred Stock to be converted, and (ii) the name or names in which the converting holder wishes the certificate or certificates for shares of Common Stock in connection with such conversion to be issued.
- (c) The Optional Conversion shall become effective at the close of business on the date (such date, the Optional Conversion Date ) of receipt by the Corporation or the Conversion Agent of the Optional Conversion Notice and the other items referred to in Section 3(3)(b). Promptly following the Optional Conversion Date (and in no event more than ten (10) days after the Optional Conversion Date), the Corporation shall deliver or cause to be delivered at the office or agency of the Conversion Agent, to or upon the written order of the holders of the surrendered shares of Series A Preferred Stock, (i) a certificate or certificates (or if the converting holder shall so elect, and if permitted by applicable law, including without limitation the Securities Act of 1933, uncertificated book-entry shares) representing the number of fully paid and nonassessable shares of Common Stock issuable upon such conversion, with no personal liability attaching to the ownership thereof, free of all taxes with respect to the issuance thereof, liens, charges and security interests and not subject to any preemptive rights, into which such shares of Series A Preferred Stock have been converted in connection with such Optional Conversion, (ii) a cash payment equal to the amount of all accrued but unpaid dividends (including, if applicable as provided in Section 2(1) above, dividends on such amount) for all Dividend Periods through and including the most recent Dividend Payment Date (the Cash Payment ), provided, that, if on such Optional Conversion Date, the Corporation has not declared all or any portion of the accrued but unpaid dividends (including, if applicable as provided in Section 2(1) above, dividends on such amount) for all Dividend Periods through and including the most recent Dividend Payment Date, the converting holder shall receive (instead of and in full satisfaction of the Corporation's obligation to make the Cash Payment) such number of shares of Common Stock equal to the amount of accrued but unpaid dividends (including, if applicable as provided in Section 2(1) above, dividends on such amount), divided by the current market price per share of Common Stock, and (iii) any cash payable in respect of fractional shares as provided in Section 3(4). Except as described above, upon any Optional Conversion, the Corporation shall make no payment or allowance for unpaid dividends on the shares of Series A Preferred Stock that are converted in connection with such Optional Conversion. In the case of an Optional Conversion Date that occurs after a Dividend Record Date and before a Dividend Payment Date, the Cash Payment shall be reduced in an amount equal to any dividends declared with respect to such Dividend Record Date on any shares of Series A Preferred Stock that are converted on such Optional Conversion Date, provided that such dividends are actually received by the record holder of such shares on such Dividend Payment Date; or, to the extent that such reduction in the Cash Payment is less than the amount of such dividends to be received with respect to such Dividend Record Date, the excess amount thereof will be repaid to the Corporation.
- (d) Upon the surrender of a certificate representing shares of Series A Preferred Stock that is converted in part, the Corporation shall issue or cause to be issued to the surrendering holder a new certificate representing shares of Series A Preferred Stock equal in number to the unconverted portion of the shares of Series A Preferred Stock represented by the certificate so surrendered.

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(e) On the Optional Conversion Date, upon the delivery to the converting holder of the shares Common Stock issuable in connection with such conversion and the payments referred to in Section 3(3)(c)(ii) and (iii), the rights of the holders of the shares of converted Series A Preferred Stock and the person entitled to receive the shares of Common Stock upon the conversion of such shares of Series A Preferred Stock shall be treated for all purposes as having become the Beneficial Owner of such shares of Common Stock.

(4) Fractional Shares.

(a) No fractional shares or scrip representing fractional shares of Common Stock shall be issued upon the conversion of any shares of Series A Preferred Stock in connection with a Mandatory Conversion or Optional Conversion. Instead of any fractional interest in a share of Common Stock which would otherwise be deliverable upon the conversion of a share of Series A Preferred Stock in connection with a Mandatory Conversion or Optional Conversion, the Corporation shall pay to the holder of such share of Series A Preferred Stock an amount in cash (computed to the nearest cent) equal to the product of (A) such fraction and (B) the current market price (as defined below) of a share of Common Stock on the Business Day next preceding the day of conversion. If more than one share of Series A Preferred Stock shall be surrendered for conversion at one time by the same holder, the number of full shares of Common Stock issuable upon conversion thereof shall be computed on the basis of the aggregate Liquidation Preference of the shares of Series A Preferred Stock so surrendered.

(b) For the purposes of this Section 3, the current market price per share of Common Stock at any date shall be deemed to be the average of the daily closing prices on the New York Stock Exchange (or if the shares of Common Stock are not listed or admitted for trading on the New York Stock Exchange as reported on the principal consolidated transaction reporting system on the principal national securities exchange on which the shares of Common Stock are listed or admitted for trading) for the ten consecutive trading days immediately prior to the date in question or in the event that no trading price is available for the shares of Common Stock, the fair market value thereof, as determined in good faith by the Board.

(5) Reservation of Shares. The Corporation shall at all times when the Series A Preferred Stock shall be outstanding, reserve and keep available out of its authorized but unissued Common Stock, for the purpose of effecting the conversion of the Series A Preferred Stock pursuant to Section 3(1) and Section 3(3), such number of its duly authorized shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding Series A Preferred Stock.

**Section 4. Voting Rights.**

(1) Each share of Series A Preferred Stock shall entitle the holder thereof to vote on all matters voted on by holders of the Common Stock, voting together as a single class with the shares of Common Stock entitled to vote, at all meetings of the stockholders of the Corporation and in connection with any actions of the stockholders of the Corporation taken by written consent. With respect to any such vote, the holder of each share of Series A Preferred Stock shall be entitled to cast the number of votes equal to the number of votes which could be cast in such vote by a holder of the shares of Common Stock of the Corporation into which such holder's shares of Series A Preferred Stock are convertible as of the record date for such vote.

(2) The affirmative vote or consent of more than fifty percent (50%) of the shares of Series A Preferred Stock, voting separately as a class, shall be necessary for authorizing, approving, effecting or validating:

(a) the amendment, alteration or repeal of any of the provisions of the Certificate of Incorporation or Bylaws or any document amendatory or supplemental thereto (including this Certificate of Designations), whether by merger,

consolidation or otherwise, that would adversely affect or cause to be terminated the powers, designations, preferences and other rights of the Series; or

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(b) any other action for which a vote of the Series A Preferred Stock, voting separately as a class, is required by law.

Other than as specifically set forth in this Section 4 or to the extent of applicable law, the Series A Preferred Stock shall not be entitled to a separate vote on any matter.

**Section 5. Liquidation Rights.**

(1) Upon any voluntary or involuntary liquidation, dissolution or winding-up of the Corporation, each holder of shares of the Preferred Stock shall be entitled to payment out of the assets of the Corporation legally available for distribution of an amount per share of Series A Preferred Stock (the Liquidation Amount ) held by such holder equal to the greater of (i) the Liquidation Preference per share of Series A Preferred Stock held by such holder, plus any accrued but unpaid dividends (including, if applicable as provided in Section 2(1) above, dividends on such amount) in respect of such shares, whether or not declared paid in cash, calculated to the date fixed for liquidation, dissolution or winding-up (the Liquidation Date ), and (ii) the amount that the holders of Series A Preferred Stock would have received in connection with such liquidation, dissolution or winding up had each share of Series A Preferred Stock

been converted into shares of Common Stock pursuant to Section 3(3) immediately prior to such liquidation, dissolution or winding up of the Corporation, before any distribution is made on any Junior Stock of the Corporation.

After payment in full of the Liquidation Amount to which holders of Series A Preferred Stock are entitled, such holders shall not be entitled to any further participation in any distribution of assets of the Corporation in respect of their shares of Series A Preferred Stock. If, upon any voluntary or involuntary liquidation, dissolution or winding-up of the Corporation, the amounts payable with respect to the Series A Preferred Stock are not paid in full, the holders of the Series A Preferred Stock will share in any distribution of assets of the Corporation on a *pro rata* basis in proportion to the number of shares of Series A Preferred Stock held by each such holder.

(2) Neither the voluntary sale, conveyance, exchange or transfer (for cash, shares of stock, securities or other consideration) of all or substantially all of the property or assets of the Corporation nor the consolidation or merger of the Corporation with or into one or more Persons will be deemed to be a voluntary or involuntary liquidation, dissolution or winding-up of the Corporation for purposes of this Section 5.

**Section 6. Pre-emptive Rights**

(1) Except for (i) (A) the issuance of any shares of Common Stock or options or rights to purchase those shares pursuant to any present or future employee, director or consultant benefit plan, program or practice of or assumed by the Corporation or any of its subsidiaries or (B) the issuance of any shares of Common Stock pursuant to any option, warrant, right or exercisable, exchangeable or convertible security outstanding as of the Issue Date, (ii) a subdivision (including by way of a stock dividend) of the outstanding shares of Common Stock into a larger number of shares of Common Stock, and (iii) the issuance of capital stock as full or partial consideration for a merger, acquisition, joint venture, strategic alliance, or other similar non-financing transaction, if, from the Issue Date until the date that is twenty-four (24) months after the Issue Date, the Corporation wishes to issue any shares of capital stock or any other securities convertible into or exchangeable for capital stock of the Corporation (collectively, New Securities ) at a price per share less than the Liquidation Preference (a Dilutive Issuance ) to any person (the Proposed Purchaser ), then the Corporation shall send written notice (the New Issuance Notice ) to the holders of the Series A Preferred Stock, which New Issuance Notice shall state (x) the number of New Securities proposed to be issued and (y) the proposed purchase price per share of the New Securities (the Proposed Price ).

(2) For a period of fifteen (15) Business Days after the giving of the New Issuance Notice, each holder of the Series A Preferred Stock shall have the right to purchase (a) if the Dilutive Issuance occurs during the period from the Issue Date until the date that is two hundred seventy (270) days after the Issue Date, up to its Proportionate Share (as

defined below) of the New Securities, or (b) if the Dilutive Issuance occurs after such two-hundred-seventy-(270)-day period, up to its Double Proportionate Share (as defined below) of the New Securities, in each case at a purchase price per share equal to the

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Proposed Price and upon the terms and conditions set forth in the New Issuance Notice. As used herein, the term Proportionate Share means, as to each holder of Series A Preferred Stock as of a given date, the fraction, expressed as a percentage, determined by dividing (i) a number of shares of Common Stock Beneficially Owned by such holder and (without duplication) its Permitted Transferees (other than any other holder of shares of Series A Preferred Stock) plus the number of shares of Common Stock into which the shares of Series A Preferred Stock then Beneficially Owned by such holder are convertible as of such date, by (ii) the number of shares of Common Stock of the Corporation issued and outstanding as of such date, calculated on a fully-diluted basis, assuming conversion of all outstanding convertible securities (including the Series A Preferred Stock) and the exercise in full of all existing warrants at the then-existing conversion or exercise price, but excluding any Unexercised Options and RSUs. As used herein, the term Double Proportionate Share means, as to each holder of Series A Preferred Stock as of a given date, such holder's Proportionate Share as of such date multiplied by two (2).

- (3) The right of each holder of Series A Preferred Stock to purchase the New Securities shall be exercisable by delivering written notice of its exercise, prior to the expiration of the fifteen (15) Business Day period referred to in Section 6(2) above, to the Corporation, which notice shall state the amount of New Securities that the holder elects to purchase. The failure of such holder to respond within the fifteen (15) Business Day period or to pay for such New Securities when such payment is due shall be deemed to be a waiver of such holder's rights under this Section 6 only with respect to the Dilutive Issuance described in the applicable New Issuance Notice.
- (4) Except for the foregoing and to the extent arising under applicable law, there are no pre-emptive rights associated with the Series A Preferred Stock.

### **Section 7. Ranking and Issuance of Parity Stock or Senior Stock Prior to Conversion**

The Series A Preferred Stock shall rank senior to any series of Junior Stock with respect to the payment of dividends and distributions and rights upon liquidation, dissolution or winding up of the Corporation. Prior to the conversion or redemption or retirement and cancellation of all shares of the Series A Preferred Stock in accordance with this Certificate of Designations, the Corporation shall not issue an Parity Stock or Senior Stock, or authorize any additional shares of Series A Preferred Stock.

### **Section 8. Retirement.**

If any share of the Series A Preferred Stock is purchased or otherwise acquired by the Corporation in any manner whatsoever, then such share shall be retired and promptly cancelled. Upon the retirement or cancellation of a share of Series A Preferred Stock, such share shall not for any reason be reissued as shares of the Series.

### **Section 9. Definitions.**

Capitalized terms not otherwise defined in this Certificate of Designations shall have the following meanings:

Beneficial Ownership and Beneficially Own and similar terms shall have the meaning set forth in Rule 13d-3 under the Securities Exchange Act of 1934.

Board shall have the meaning set forth in the Preamble.

Business Day means a day other than Saturday, Sunday or a day on which banking institutions in any of London, UK, St. Helier, Jersey and New York, New York, USA are authorized or obligated to close.



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Bylaws shall have the meaning set forth in the Preamble.

Call Date shall have the meaning set forth in Section 3(2).

Call Payment shall have the meaning set forth in Section 3(2).

Certificate of Incorporation shall have the meaning set forth in the Preamble.

Common Stock means the Corporation's common stock, par value \$0.001 per share.

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Conversion Agent shall have the meaning set forth in Section 3(1)(b).

Conversion Price means, for each share of Series A Preferred Stock, the U.S. dollar amount equal to the Liquidation Preference divided by the then-applicable Conversion Rate.

Conversion Rate means the Liquidation Preference divided by 114% of the Liquidation Preference, subject to the following adjustments:

- (i) If the Corporation shall (1) declare or pay a dividend on its outstanding Common Stock in shares of Common Stock or make a distribution to holders of its Common Stock in shares of Common Stock, (2) subdivide its outstanding shares of Common Stock into a greater number of shares of Common Stock, (3) combine its outstanding shares of Common Stock into a smaller number of shares of Common Stock or (4) issue by reclassification of its shares of Common Stock other securities of the Corporation, then the Conversion Rate in effect immediately prior thereto shall be adjusted so that a holder of any shares of Series A Preferred Stock thereafter converted shall be entitled to receive the number and kind of shares of Common Stock or other securities that such holder of Series A Preferred Stock would have owned or been entitled to receive after the happening of any of the events described above had such shares of Series A Preferred Stock been converted immediately prior to the happening of such event or any record date with respect thereto. An adjustment so made shall become effective on the date of the dividend payment, subdivision, combination or issuance retroactive to the record date with respect thereto, if any, for such event. Such adjustment shall be made successively.
- (ii) If the Corporation shall be a party to any transaction, including without limitation a merger, consolidation, sale of all or substantially all of the Corporation's assets, reorganization, liquidation or recapitalization of the Common Stock (each of the foregoing being referred to as a Transaction), in each case as a result of which shares of Common Stock shall be converted into the right to receive stock, securities or other property (including cash or any combination thereof), each share of Series A Preferred Stock shall, upon consummation of the Transaction, be convertible into the kind and amount of shares of stock and other securities and property receivable (including cash) upon the consummation of such Transaction by a holder of that number of shares of Common Stock into which one share of Series A Preferred Stock was convertible immediately prior to such Transaction.

Corporation shall have the meaning set forth in the Preamble.

Dilutive Issuance shall have the meaning set forth in Section 6.

Dividend Payment Date shall have the meaning set forth in Section 2(1).

Dividend Period shall have the meaning set forth in Section 2(1).

Dividend Rate shall have the meaning set forth in Section 2(1).

Dividend Records Date shall have the meaning set forth in Section 2(1).

Double Proportionate Percentage shall have the meaning set forth in Section 6.

Issue Date means the date on which any shares of Series A Preferred Stock are first issued by the Corporation.

Junior Stock means the Common Stock and any other class or series of stock of the Corporation, other than Series A Preferred Stock and Senior Stock not expressly ranking senior to the Series A Preferred Stock with respect to the

payment of dividends and distributions.

Liquidation Date shall have the meaning set forth in Section 5.

Liquidation Amount shall have the meaning set forth in Section 5.

Liquidation Preference shall have the meaning set forth Section 1, subject to the adjustments set forth in the definition of Conversion Rate .

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Mandatory Conversion shall have the meaning set forth in Section 3(1).

Mandatory Conversion Date means the effective date of a mandatory conversion of the shares of Series A Preferred Stock pursuant to Section 3(1).

Mandatory Conversion Notice shall have the meaning set forth in Section 3(1).

New Issuance Notice shall have the meaning set forth in Section 6.

New Securities shall have the meaning set forth in Section 6.

Optional Conversion shall have the meaning set forth in Section 3(3).

Optional Conversion Date means the effective date of an optional conversion of the shares of Series A Preferred Stock pursuant to Section 3(3).

Optional Conversion Notice shall have the meaning set forth in Section 3(3).

Parity Stock means any class or series of stock of the Corporation that would expressly rank equal to the Series A Preferred Stock with respect to the payment of dividends and distributions.

Permitted Transferee shall have the meaning set forth in the Certificate of Incorporation.

Person means an individual, a partnership, a joint venture, a corporation, a limited liability company, a trust, an unincorporated organization and a government or any department or agency thereof.

Preferred Stock means the Corporation's preferred stock, par value \$0.001 per share.

Proportionate Percentage shall have the meaning set forth in Section 6.

Proposed Purchase shall have the meaning set forth in Section 6.

Redemption shall have the meaning set forth in Section 3(2).

Redemption Date means the effective date of a redemption of the shares of Series A Preferred Stock pursuant to Section 3(2).

Redemption Notice shall have the meaning set forth in Section 3(2).

Senior Stock means any class or series of stock of the Corporation that would expressly rank senior to the Series A Preferred Stock with respect to the payment of dividends and distributions and/or rights upon liquidation or winding up of the Corporation.

Series shall have the meaning set forth in Section 1.

Series A Preferred Stock shall have the meaning set forth in Section 1.

Unexercised Options and RSUs means (i) any convertible securities outstanding as of the Issue Date, or (ii) any options, restricted stock units or similar awards issued to officers, employees, consultants or directors of the Corporation or its subsidiaries, in each case, in the form of Common Stock or entitling the holder thereof to receive shares of Common Stock upon the exercise or conversion thereof.

Unpaid Dividends shall have the meaning set forth in Section 2(1).

**Section 10. Descriptive Headings and Governing Law.**

The descriptive headings of the several Sections and paragraphs of this Certificate of Designations are inserted for convenience only and do not constitute a part of this Certificate of Designations. The General Corporation Law of the State of Delaware shall govern all issues concerning this Certificate of Designations.

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**IN WITNESS WHEREOF**, Colfax Corporation has caused this Certificate to be duly executed in its corporate name  
this \_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_\_.

**COLFAX CORPORATION**

By:

Name:

Title:

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**Annex V**

**EXECUTION VERSION**

**SECURITIES PURCHASE AGREEMENT  
BY AND BETWEEN  
MARKEL CORPORATION  
AND  
COLFAX CORPORATION  
DATED AS OF SEPTEMBER 12, 2011**

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SECURITIES PURCHASE AGREEMENT, dated as of September 12, 2011 (together with the schedules and exhibits hereto, the Agreement ), by and between Colfax Corporation, a Delaware corporation (the Company ) and Markel Corporation, a Virginia corporation (the Investor ).

**RECITALS**

A. The Investor desires to purchase from the Company, and the Company desires to issue and sell to the Investor, against payment of the Common Share Investment Amount (as defined below) and pursuant to the terms and conditions set forth in this Agreement, certain shares of the Company's common stock, par value \$0.001 per share (Common Stock ). The shares of Common Stock to be purchased by the Investor pursuant to this Agreement are referred to herein as the Purchased Common Shares . The sale and purchase of the Purchased Common Shares and the other transactions contemplated by this Agreement and the Ancillary Agreements are referred to herein collectively as the Transaction .

B. Concurrent with the execution and delivery of this Agreement, and in connection with the Acquisition (as defined below), the Company is entering into a credit agreement (the Credit Agreement ) with Deutsche Bank AG New York Branch (Deutsche Bank ), a syndicate of other financial institutions as lenders (the Lenders ) and Deutsche Bank Securities, Inc., with respect to credit facilities to be provided to the Company and certain of its subsidiaries by Deutsche Bank and the Lenders.

C. Concurrent with the execution and delivery of this Agreement, and in connection with the Acquisition, the Company is entering into a purchase agreement (the BDT Purchase Agreement ) with BDT CF Acquisition Vehicle LLC (the BDT Investor ), pursuant to which the BDT Investor shall agree to invest an aggregate amount of \$340,000,000 in newly issued shares of Common Stock and \$340,000,000 in newly issued shares of the Company's preferred stock, par value \$0.001 per share, designated as Series A Perpetual Convertible Preferred Stock (the BDT Investment ).

D. Concurrent with the execution and delivery of this Agreement, and in connection with the Acquisition, the Company is entering into a purchase agreement (the Designated Stockholder Purchase Agreements ) with each of Mitchell P. Rales and Steven M. Rales (together the Designated Stockholders ), pursuant to which each such stockholder shall agree to invest \$50,000,000 for an aggregate amount of \$100,000,000 in newly issued shares of Common Stock (the Designated Stockholder Investment ).

E. In accordance with the BDT Purchase Agreement, the Designated Stockholder Purchase Agreements and the Credit Agreement, the Company shall use the proceeds of the Transaction, the BDT Investment, the Designated Stockholder Investment and a portion of the proceeds of the Company's borrowings under the Credit Agreement to finance the acquisition (the Acquisition ) by the Company of Charter International plc (the Target ) pursuant to an Offer or a Scheme of Arrangement (each as defined below). The material terms and provisions of the Acquisition are set forth in the form of announcement attached hereto as **Exhibit C** (the Rule 2.5 Announcement ), to be published by the Company in accordance with this Agreement pursuant to Rule 2.5 of the City Code.

NOW, THEREFORE, in consideration of the foregoing and the promises and representations, warranties, covenants and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound hereby, the parties hereto hereby agree as follows:





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**ARTICLE 1**

**Defined Terms**

As used in this Agreement, the following terms shall have the following meanings:

Acquisition has the meaning assigned to such term in Recital E.

Agreement has the meaning assigned to such term in the Preamble.

Amended and Restated Charter the Amended and Restated Certificate of Incorporation of the Company to be adopted on or before the Closing Date, substantially in the form attached hereto as Exhibit A.

Ancillary Agreements means the Registration Rights Agreement.

Announcement Date has the meaning assigned to such term in Section 2.3.2(a).

Announcement Price has the meaning assigned to such term in Section 2.3.2(b).

BDT Investor means BDT CF Acquisition Vehicle LLC.

BDT Purchase Agreement has the meaning assigned to such term in Recital C.

Business Day means any day except Saturday, Sunday or a day that is a public holiday in England, Jersey or in the United States of America.

Bylaws means the Amended and Restated Bylaws of the Company, adopted effective as of May 13, 2008.

Certificate of Designations the certificate of designation establishing the Company's preferred stock, par value \$0.001 per share, designated as 6.0% Series A Perpetual Convertible Preferred Stock, substantially in the form attached hereto as Exhibit B.

Charter means the Amended and Restated Certificate of Incorporation of the Company, as filed with the Secretary of State of the State of Delaware on May 13, 2008.

City Code means the City Code on Takeovers and Mergers.

Closing has the meaning assigned to such term in Section 2.4.

Closing Date has the meaning assigned to such term in Section 2.4.

Code means the Internal Revenue Code of 1986, as amended.

Common Share Investment Amount has the meaning assigned to such term in Section 2.2.

Common Share Purchase Price has the meaning assigned to such term in Section 2.3.2(c).

Common Stock has the meaning assigned to such term in Recital A.

Companies Act means the Companies (Jersey) Law 1991 as amended from time to time.

Contract means any contract, agreement, lease, purchase order, license, mortgage, indenture, supplemental indenture, line of credit, note, bond, loan, credit agreement, capital lease, sale/leaseback arrangement, concession agreement, franchise agreement or other instrument, including all amendments, supplements, exhibits and attachments thereto.

Credit Agreement has the meaning assigned to such term in Recital B.

Designated Stockholders has the meaning assigned to such term in Recital D.

Designated Stockholder Investment has the meaning assigned to such term in Recital D.

Designated Stockholder Purchase Agreement has the meaning assigned to such term in Recital D.

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Encumbrance means any lien, encumbrance, security interest, pledge, mortgage, hypothecation, charge, restriction on transfer of title, adverse claim, title retention agreement of any nature or kind, or similar claim or right. Encumbrance shall not include any restrictions on transfer under applicable securities laws.

GAAP means generally accepted accounting principles in the United States of America as in effect from time to time.

Governmental Authorizations means, collectively, all applicable consents, approvals, permits, orders, authorizations, licenses and registrations, given or otherwise made available by or under the authority of Governmental Entities or pursuant to the requirements of any Applicable Law.

Governmental Entity means any domestic or foreign, transnational, national, Federal, state, municipal or local government, or any other domestic or foreign governmental, regulatory or administrative authority, or any agency, board, department, commission, court, tribunal or instrumentality thereof.

including means including, without limitation.

Major Representation means each representation and warranty set forth in Sections 3.1, 3.2 and 3.3 of this Agreement.

Material Adverse Effect means any material adverse effect on (i) the business, results of operations or financial condition of the Company and its subsidiaries, taken as a whole (other than (a) any change, event, occurrence or development that generally affects the industry in which the Company and its subsidiaries operate and does not disproportionately affect (relative to other industry participants) the Company and its subsidiaries, (b) any change, event, occurrence or development to the extent attributable to conditions generally affecting (I) the industries in which the Company participates that does not have a materially disproportionate effect (relative to other industry participants) on the Company and its subsidiaries, (II) the U.S. economy as a whole, or (III) the equity capital markets generally, and (c) any change, event, occurrence or development that results from any action taken by the Company at the request of the Investor or as required by the terms of this Agreement) or (ii) the ability of the Company to perform its obligations hereunder or under the Ancillary Agreements.

Material Contract means any Contract of a type described in Item 6.01 of Regulation S-K.

Offer means a public offer by the Company in accordance with the City Code and the provisions of the Companies Act to acquire all of the Target Shares not owned, held, or agreed to be acquired by the Company.

person means any individual, firm, corporation, partnership, limited liability company, trust, joint venture, incorporated or unincorporated association, Governmental Entity or other entity.

Purchased Common Shares has the meaning assigned to such term in Recital A.

Registration Rights Agreement means the Registration Rights Agreement, to be executed on the Closing Date by and among, the Company, the Investor, and the other parties specified therein.

Rule 2.5 Announcement has the meaning assigned to such term in Recital E.

Scheme of Arrangement means a scheme of arrangement effected pursuant to Part 18A of the Companies Act under which the Target Shares will be cancelled (or transferred) and the Purchaser will become the holder of new shares issued in place of such cancelled Target Shares (or, as the case may be, the holder of such transferred Target Shares).

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SEC means the Securities and Exchange Commission.

Securities Act means the Securities Act of 1933.

SOX means the Sarbanes-Oxley Act of 2002.

Investor has the meaning assigned to such term in the Preamble.

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Target has the meaning assigned to such term in Recital E.

Target Shares means the ordinary shares of the Target subject of an Offer, or as the case may be, a Scheme of Arrangement.

Tax means any foreign, Federal, state or local income, sales and use, excise, franchise, real and personal property, gross receipt, capital stock, license, stamp, premium, windfall profit, environmental, transfer, alternative or add-on minimum, production, business and occupation, disability, estimated, employment, payroll, severance or withholding tax, value-added tax or other tax, duty, fee, impost, levy, assessment or charge imposed by any taxing authority, and any interest or penalties and other additions to tax related thereto.

Tax Returns means any return, report, claim for refund, declaration, information return or other document required to be filed with any Tax authority with respect to Taxes, including any schedule or attachment thereto, and including any amendments thereof.

Third Party means any person other than the Company, the Investor, or any of their respective subsidiaries or Affiliates.

Transaction has the meaning assigned to such term in Recital A.

Voting Debt means bonds, debentures, notes or other debt securities having the right to vote (or convertible into, or exchangeable for, securities having the right to vote) as to matters on which holders of the Company's Common Stock may vote.

## ARTICLE 2

### Issuance and Sale of Purchased Common Shares

**2.1 Issuance and Sale of the Purchased Common Shares.** On the terms and subject to the conditions set forth in this Agreement, at the Closing (as defined below), the Company shall issue, sell and deliver to the Investor, and the Investor shall purchase from the Company, the Purchased Common Shares to be acquired by such Investor pursuant to this Agreement, free and clear of all Encumbrances. The number of shares of Common Stock comprising the Purchased Common Shares to be issued and delivered to the Investor at the Closing shall be determined in accordance with Section 2.3.

**2.2 Consideration.** In full consideration for the purchase of the Purchased Common Shares to be acquired by such Investor pursuant to this Agreement, the Investor shall pay to the Company at the Closing cash in the aggregate amount of \$25,000,000 (the Common Share Investment Amount ). The Common Share Purchase Price shall be the same price paid by the Designated Stockholders for the Common Stock to be purchased by the Designated Stockholders pursuant to the Designated Stockholder Purchase Agreements.

#### **2.3 Determination of Purchased Share Amounts.**

**2.3.1 Purchased Common Shares.** The number of shares of Common Stock comprising the Purchased Common Shares to be issued and delivered to the Investor at the Closing pursuant to Section 2.1 shall be equal to the quotient of

(a) the Common Share Investment Amount, *divided by* (b) the Common Share Purchase Price (as defined in Section 2.3.2), rounded up to the nearest whole number of shares of Common Stock.

2.3.2 Certain Definitions. As used in this Section 2.3, the following terms shall have the following meanings:

(a) Announcement Date means the date that the Rule 2.5 Announcement is published.

(b) Announcement Price shall equal \$23.04.

(c) Common Share Purchase Price means the Announcement Price.

2.4 **Closing**. Subject to the satisfaction of the conditions set forth in Article 6, the closing of the sale and purchase of the Purchased Common Shares (the Closing ) shall take place on the date falling six (6) Business Days after the date on which an Offer becomes unconditional in all respects or, as the case may

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be, the date on which a Scheme of Arrangement becomes effective in accordance with its terms, at the offices of the Company unless another date or place is agreed to in writing by the Investor and the Company. The date on which the Closing occurs is referred to in this Agreement as the Closing Date .

### **2.5 Deliveries.**

- (a) At the Closing, the Company shall issue to the Investor the Purchased Common Shares to be acquired by such Investor pursuant to this Agreement, validly issued and free and clear of Encumbrances, evidenced by certificates registered in the name of the Investor and duly authorized, executed and delivered on behalf of the Company, bearing a legend evidencing restrictions on transfer under the Securities Act, or if the Investor shall so elect, and if permitted by law, including, without limitation the Securities Act, uncertificated book-entry shares;
- (b) At the Closing, the Investor shall deliver to the Company the Common Share Investment Amount in immediately available funds by wire transfer to such account as the Company shall specify in writing not later than three (3) Business Days prior to the Closing Date.
- (c) On or before the Closing, each of the parties shall execute and deliver the Registration Rights Agreement.

## **ARTICLE 3**

### **Representations and Warranties of the Company**

Subject to the qualifications set forth in the corresponding sections of the disclosure schedules delivered by the Company to the BDT Investor concurrently with the execution and delivery of this BDT Purchase Agreement (the Company Disclosure Schedules to the BDT Purchase Agreement ), the Company hereby represents and warrants to the Investor, as of the date hereof and as of the Closing Date, as follows:

**3.1 Entity Status.** Each of the Company and its subsidiaries is duly incorporated or otherwise organized, validly existing and in good standing under the applicable laws of its governing jurisdiction and each has all requisite corporate or other power and authority to carry on its business as it is now being conducted and is duly qualified to do business in each of the jurisdictions in which the ownership, operation or leasing of its assets or the conduct of its business requires it to be so qualified, and no proceeding has been instituted in any such jurisdiction revoking, limiting or curtailing, or seeking to revoke, limit or curtail, such power, authority or qualification, in each case, except as has not had and would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.

#### **3.2 Authorization; Noncontravention.**

(a) Authorization. The execution, delivery and performance of this Agreement and the Ancillary Agreements and the consummation by the Company of the Transaction (including the issuance (or reservation for issuance), sale and delivery of the Purchased Common Shares and the Acquisition have been duly and validly authorized by all necessary corporate action (except the stockholder actions contemplated by Section 5.1 of the BDT Purchase Agreement), and no other corporate proceedings on the part of the Company or its subsidiaries or (except the stockholder actions contemplated by Section 5.1 of the BDT Purchase Agreement) vote of holders of any class or series of capital stock of



the Company or its subsidiaries is necessary to authorize this Agreement or the Ancillary Agreements or to consummate the Transaction or the Acquisition. This Agreement and the Ancillary Agreements have been, or, as to Ancillary Agreements to be executed after the date hereof, will be, duly executed and delivered by the Company and (assuming due authorization, execution and delivery by each other party thereto) each constitutes, a valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally or by general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law).

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(b) Preemptive Rights; Rights of First Offer. None of the sale and issuance of the Purchased Common Shares pursuant to this Agreement is or will be subject to any preemptive rights, rights of first offer or similar rights of any person (except as set forth in the Certificate of Designations or the Amended and Restated Charter).

(c) No Conflict. The Company is not in violation or default in any material respect of any provision of its Charter or Bylaws. The execution, delivery and performance by the Company of this Agreement and the Ancillary Agreements do not, and the consummation of the Transaction and compliance with the provisions hereof and thereof will not, result in a change of control (or similar event) under, or conflict with, or result in any default under, or give rise to an increase in, or right of termination, cancellation, acceleration or mandatory prepayment of, any obligation or to the loss of a benefit under, or result in the suspension, revocation, impairment, forfeiture or amendment of any term or provision of or the creation of any Encumbrance upon any of the properties or assets of the Company or any of its subsidiaries under, or require any consent or waiver under, any provision of (i) the Charter, the Bylaws or the comparable organizational documents of any of the Company's subsidiaries (other than the requirement to obtain stockholder approval as contemplated by Section 5.1 of the BDT Purchase Agreement), (ii) save in relation to the execution of the Credit Agreement, any Material Contract, or (iii) any applicable law, Judgment or Governmental Authorization, in each case applicable to the Company and its subsidiaries or their respective assets. Neither the execution and delivery of this Agreement, nor the consummation of the Transaction or the Acquisition, either alone or in combination with another event (whether contingent or otherwise) will (1) result in any payment of any excess parachute payment under Section 280G of the Code, (2) entitle any current or former employee, consultant or director of the Company or any of its subsidiaries to any payment, (3) increase the amount of compensation or benefits due to any such employee, consultant or director, or (4) accelerate the vesting, funding or time of payment of any compensation, equity award or other benefit.

(d) No Governmental Authorization. Except as contemplated by Section 5.7 of the BDT Purchase Agreement, no Governmental Authorization, order or authorization of, or registration, qualification, declaration or filing with, or notice to, any Governmental Entity is required to be obtained or made by or with respect to the Company or any of its subsidiaries in connection with the execution, delivery and performance of this Agreement or any of the Ancillary Agreements or the Transaction, including the issuance of the Purchased Common Shares, except for such Governmental Authorizations, orders, authorizations, registrations, qualifications, declarations, filings and notices, the failure of which to be obtained or made would not (i) materially impair the Company's and/or the Investor's ability to perform its obligations under this Agreement or the Ancillary Agreements or consummate the Transaction or (ii) have a Material Adverse Effect.

**3.3 Capital Structure.**

(a) As of the date of this Agreement, the authorized capital stock of the Company consists solely of (i) 200,000,000 shares of Common Stock, of which 43,590,915 shares are issued and outstanding and 6,500,000 shares are reserved for issuance pursuant to the Company's 2008 Omnibus Incentive Plan, and (ii) 10,000,000 shares of preferred stock, of which zero (0) shares are issued and outstanding and zero (0) shares are reserved for issuance. As of the Closing, and after giving effect to the Transaction, the authorized capital stock of the Company shall consist solely of 400,000,000 shares of Common Stock and up to 20,000,000 shares of preferred stock, and the number of shares issued, outstanding and reserved for issuance shall consist solely of (w) the shares of Common Stock and preferred stock referred to in the foregoing sentence, (x) the Purchased Common Shares, (y) a number of shares of Common Stock to be issued to each of the Designated Stockholders in connection with the Designated Stockholder Investment at the Common Share Purchase Price and (z) the Shares of Common Stock and 6.0% Series A Perpetual Convertible Preferred Stock to be issued in connection with the BDT Investment and (xx) shares of Common Stock issued or reserved for issuance under the Company's 2008 Omnibus Incentive Plan, as outstanding in the SEC Report for the three months ended June 30, 2011 and any awards under the



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plan granted in the ordinary course of business since such SEC Report. No other shares of capital stock of the company are authorized, issued and outstanding or reserved for issuance.

(b) Subject to the Company obtaining shareholder approval as contemplated in Section 5.1 of the BDT Purchase Agreement, the Purchased Common Shares have been duly authorized and upon the Closing shall be (i) validly issued, fully paid and nonassessable, (ii) not issued in violation of any purchase option, call option, right of first refusal, preemptive right, subscription right or any similar right under any provision of the Charter or Bylaws of the Company or any Contract to which the Company or any of its subsidiaries is a party or by which any of its or their respective assets are bound, and (iii) free and clear of all Encumbrances.

(c) The Company has not issued any Voting Debt that is outstanding. Except as set forth in the SEC Reports or in Schedule 3.3(c) of the Company Disclosure Schedules to the BDT Purchase Agreement, there are no (A) outstanding obligations, options, warrants, convertible securities, exchangeable securities, securities or rights that are linked to the value of the Common Stock or other rights, agreements or commitments relating to the capital stock of the Company or that obligate the Company to issue or sell or otherwise transfer shares of capital stock of the Company or any securities convertible into or exchangeable for any shares of capital stock of the Company or any Voting Debt of the Company, (B) outstanding obligations of the Company to repurchase, redeem or otherwise acquire shares of capital stock of the Company, (C) voting trusts, stockholder agreements, proxies or other agreements or understandings in effect with respect to the voting or transfer of shares of capital stock of the Company (but only to the Company's knowledge with respect to any such agreements to which neither the Company nor any subsidiary of the Company is a party), or (D) rights of first refusal, preemptive rights, subscription rights or any similar rights with respect to the capital stock of the Company under the Charter or Bylaws or any Contract to which the Company or any subsidiary of the Company is a party or by which any of its assets are bound. True, correct, and complete copies of the Charter and the Bylaws have been filed as exhibits to the Company's SEC Reports. Neither the Company, nor any of its subsidiaries has any stockholder rights plan, poison pill or any similar arrangement in effect.

(d) The shares of outstanding capital stock of the Company's subsidiaries are duly authorized, validly issued, fully paid and nonassessable, and are held of record and beneficially owned by the Company or a subsidiary of the Company. There is no Voting Debt of any subsidiary of the Company that is outstanding. Except as set forth in the SEC Reports or in Schedule 3.3(d) of the Company Disclosure Schedules to the BDT Purchase Agreement, there are no (i) outstanding obligations, options, warrants, convertible securities, exchangeable securities, securities or rights that are linked to the value of the Common Stock or other rights, agreements or commitments, in each case, relating to the capital stock or equity interests of the subsidiaries of the Company or that obligate the Company or its subsidiaries to issue or sell or otherwise transfer shares of the capital stock or any securities convertible into or exchangeable for any shares of capital stock or any Voting Debt of any subsidiary of the Company, (ii) outstanding obligations of the subsidiaries of the Company to repurchase, redeem or otherwise acquire shares of their respective capital stock or equity interests, (iii) voting trusts, stockholder agreements, proxies or other agreements or understandings in effect with respect to the voting or transfer of shares of capital stock of the subsidiaries of the Company (but only to the Company's knowledge with respect to any such agreements to which neither the Company nor any subsidiary of the Company is a party), or (iv) rights of first refusal, preemptive rights, subscription rights or any similar rights under any provision of the governing documents of any material subsidiary or any non-wholly owned subsidiary of the Company.

**3.4 Taxes.**

(a) Except as disclosed in the SEC Reports or except as would not reasonably be expected, individually or in the aggregate, to be material to the Company: (i) the Company and each of its subsidiaries have filed all Tax Returns required to be filed by them; (ii) all such Tax Returns are true, correct and complete; (iii) all Taxes due and owed by



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(whether or not shown on any Tax Return) have been paid; (iv) neither the Company nor any of its subsidiaries currently is the beneficiary of any extension of time within which to file any material Tax Return; (v) no claim has ever been made by a Governmental Entity in a jurisdiction where the Company or any of its subsidiaries does not file Tax Returns that the Company or any such subsidiary is or may be subject to taxation by that jurisdiction; (vi) there are no liens on any of the assets or properties of the Company or any of its subsidiaries that arose in connection with any failure (or alleged failure) to pay any Tax; (vii) there are no ongoing, pending or, to the Company's knowledge, threatened audits, assessments, or other proceedings for or relating to any liability in respect of Taxes of the Company or any of its subsidiaries; (viii) neither the Company nor any of its subsidiaries has waived any statute of limitations in respect of Taxes or agreed to any extension of time with respect to a Tax assessment or deficiency; and (ix) the Company and each of its subsidiaries have timely withheld and paid all Taxes required to have been withheld and paid in connection with amounts paid or owing to any employee, independent contractor, creditor, stockholder or other third party.

(b) Neither the Company nor any of its subsidiaries has been a member of any affiliated group filing a consolidated Federal income Tax Return other than a group the common parent of which is the Company.

### **3.5 Compliance with Laws.**

(a) The Company and each of its subsidiaries and the conduct and operation of their respective businesses are and have been, since January 1, 2010, in compliance in all material respects with each applicable law that is applicable to the Company or its subsidiaries or their respective businesses, including any laws relating to employment practices, except, in each case, as has not had and would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.

(b) Neither the Company nor any of its subsidiaries has received any written notice or other written communication from any Governmental Entity or any other person regarding (1) any actual, alleged, possible or potential violation of or failure to comply with any material term or requirement of any Governmental Authorization, or (2) any actual, proposed, possible or potential revocation, withdrawal, suspension, cancellation, termination of or modification to any Governmental Authorization, except, in each case, as has not had and would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.

### **3.6 SEC Reports and Company Financial Statements.**

(a) Since January 1, 2009, except as disclosed in Schedule 3.6(a) of the Company Disclosure Schedules to the BDT Purchase Agreement, the Company has filed all reports, schedules, forms, statements and other documents required to be filed by it with the SEC pursuant to the reporting requirements of the Exchange Act (all the foregoing and all exhibits included or incorporated by reference therein and financial statements and schedules thereto and documents included or incorporated by reference therein being sometimes hereinafter collectively referred to as the SEC Reports ). As of their respective filing dates, the SEC Reports complied with the requirements of the Exchange Act applicable to the SEC Reports (as amended or supplemented), and none of the SEC Reports, at the time they were filed with the SEC, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. No subsidiary of the Company is, or is required to be, a registrant with the SEC.

(b) As of their respective dates, except as set forth therein or in the notes thereto, the financial statements contained in the SEC Reports and the related notes (the Financial Statements ) complied as to form with all applicable accounting requirements and the published rules and regulations of the SEC with respect thereto. The Financial Statements (i) were prepared in accordance with GAAP, consistently applied during the periods involved (except (x) as may be

otherwise indicated in the notes thereto or (y) in the case of unaudited interim statements, to the

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extent that they may not include footnotes or may be condensed or summary statements), (ii) fairly present in all material respects the consolidated financial position of the Company and its consolidated subsidiaries as of the dates thereof and the consolidated results of their operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal year-end audit adjustments), and (iii) are in all material respects in accordance with the books of account and records of the Company and its consolidated subsidiaries.

(c) Neither the Company nor any of its subsidiaries is a party to, or has any commitment to become a party to, any joint venture, off-balance sheet partnership or any similar Contract or arrangement (including any Contract relating to any transaction or relationship between or among the Company and any of its subsidiaries, on the one hand, and any unconsolidated affiliate of the Company or any of its subsidiaries, including any structured finance, special purpose or limited purpose entity or person, on the other hand, or any off-balance sheet arrangements (as defined in Item 303(a) of Regulation S-K of the SEC)), where the result, purpose or effect of such Contract is to avoid disclosure of any material transaction involving, or material liabilities of, the Company or any of its subsidiaries in the Company's or such subsidiary's audited financial statements or other SEC Reports.

(d) To the Company's knowledge, there is no reason that its outside auditors and its chief executive officer and chief financial officer will not be able to give the attestations and certifications, as applicable, required pursuant to the rules and regulations adopted pursuant to Section 404 of SOX, without qualification, when next due.

(e) Except as set forth in SEC Reports and the transactions contemplated by this Agreement and the Designated Stockholder Investment, none of the executive officers, directors or related persons (as defined in Regulation S-K Item 404) of the Company is presently a party to any transaction with the Company or any of its subsidiaries that would be required to be reported on Form 10-K by Item 13 thereof pursuant to Regulation S-K Item 404.

**3.7 Private Placement.** Assuming that the representations of the Investor set forth in Section 4.3 are true and correct, the offer, sale, and issuance of the Purchased Common Shares, in conformity with the terms of this Agreement, are exempt from the registration requirements of Section 5 of the Securities Act.

**3.8 Brokers.** The Company and its subsidiaries have incurred no obligation or liability, contingent or otherwise, in connection with this Agreement or the Transaction that would result in the obligation of the Investor to pay any finder's fees, brokerage or agent's commissions or other like payments in connection with the negotiations leading to this Agreement or the consummation of the Transaction.

**3.9 Registration Rights.** Other than the Registration Rights Agreement and any other registration rights agreement entered into in connection with the financing of the Acquisition, the Company has not granted or agreed to grant, and is not under any obligation to provide, any rights (including piggy-back registration rights) to register under the Securities Act any of its presently outstanding securities or any of its securities that may be issued subsequently.

**3.10 No Restriction on the Ability to Pay Cash Dividends.** Except as set forth in the Amended and Restated Charter, the Certificate of Designations and the Credit Agreement and any existing credit facilities of the Company or its subsidiaries that are being replaced by the Credit Agreement, neither the Company nor any of its subsidiaries is, or will be, immediately following the Closing, a party to any Contract, and is not, and will not be, immediately following the Closing, subject to any provisions in its Charter or Bylaws or other governing documents or resolutions of the Board of Directors or other governing body, that restricts, limits, prohibits or prevents the payment of cash dividends with respect to any of its equity securities.

**3.11 Credit Agreement.** True, correct and complete copies of the Credit Agreement and all ancillary agreements thereto that have been executed as of the date hereof have been provided to the Investor, and the Credit Agreement



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and each such ancillary agreement is in full force and effect.

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**ARTICLE 4**

**Representations and Warranties of the Investor**

The Investor hereby represents and warrants to the Company, as of the date hereof and as of the Closing Date, as follows:

**4.1 Entity Status.** The Investor is duly incorporated or otherwise organized, validly existing and in good standing under the applicable laws of its governing jurisdiction and has all requisite corporate or other power and authority to carry on its business as it is now being conducted, and no proceeding has been instituted in any such jurisdiction revoking, limiting or curtailing, or seeking to revoke, limit or curtail, such power, authority or qualification.

**4.2 Authorization; Noncontravention.**

(a) **Authorization.** The Investor has all necessary entity power and authority to execute and deliver this Agreement and the Ancillary Agreements to which it is a party, to perform its obligations hereunder and thereunder and to consummate the Transaction. The execution, delivery and performance of this Agreement and the Ancillary Agreements to which it is a party and the consummation by the Investor of the Transaction have been duly and validly authorized by all necessary entity action, and no other entity proceedings on the part of the Investor or vote of holders of any class or series of capital stock or equity interests of the Investor is necessary to authorize this Agreement and the Ancillary Agreements to which the Investor is a party or to consummate the Transaction. This Agreement and the Ancillary Agreements to which the Investor is a party have been duly executed and delivered by the Investor and (assuming due authorization, execution and delivery by each other party thereto) each constitutes a valid and binding obligation of the Investor, enforceable against the Investor in accordance with its respective terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally or by general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(b) **No Conflict.** The Investor is not in violation or default of any provision of its organizational documents. The execution, delivery and performance by the Investor of this Agreement and the Ancillary Agreements to which it is a party do not, and the consummation of the Transaction and compliance with the provisions of this Agreement and the Ancillary Agreements to which it is a party will not, conflict with, or result in any default under, any provision of (i) the organizational documents of the Investor, (ii) any material Contract to which the Investor is a party or by which any of the Investor's assets are bound, or (iii) any applicable law, Governmental Authorization or Judgment, in each case applicable to the Investor, other than, in the case of clauses (ii) and (iii), any such conflicts or defaults that would not reasonably be expected to materially impair or delay the ability of the Investor to perform its obligations under this Agreement or the Ancillary Agreements to which it is a party or carry out the Transaction in accordance with the terms hereof or thereof. Except as contemplated by Section 5.7 of the BDT Purchase Agreement, no Governmental Authorization, order or authorization of, or registration, qualification, declaration or filing with, or notice to, any Governmental Entity is required to be obtained or made by or with respect to the Investor in connection with the execution, delivery and performance of this Agreement or any of the Ancillary Agreements to which the Investor is a party or the other Transaction, except for such Governmental Authorizations, orders, authorizations, registrations, declarations, filings and notices, the failure of which to be obtained or made would not materially impair the Investor's ability to perform its obligations under this Agreement or the Ancillary Agreements or consummate the Transaction.

**4.3 Securities Act; Purchase for Investment Purposes.** The Investor (i) is acquiring the Purchased Common Shares solely for investment with no present intention to distribute them in violation of the Securities Act and the rules and regulations thereunder or any applicable U.S. state securities laws, (ii) has such knowledge and experience in financial and business matters and in investments of this type that it is capable of evaluating the merits and risks of making an informed investment decision to purchase the

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Purchased Common Shares, (iii) is an accredited investor (as that term is defined by Rule 501 promulgated under the Securities Act), and (iv) acknowledges and understands that the Purchased Common Shares have not been registered under the Securities Act, or any state securities laws, and agrees that it will not offer, sell, assign, transfer, pledge, encumber or otherwise dispose of such Purchased Common Shares absent registration under the Securities Act or unless such transaction is exempt from, or not subject to, registration under the Securities Act, and in each case, in accordance with all applicable state securities laws.

## **ARTICLE 5**

### **Covenants**

5.1 Upon the terms and subject to the conditions set forth in this Agreement, each of the parties hereto agrees to use its reasonable best efforts to take, or cause to be taken, all actions that are necessary, proper or advisable to consummate and make effective the Transaction, including using its reasonable best efforts to accomplish the following: (i) the satisfaction of the conditions precedent set forth in Article 6, (ii) the taking of all reasonable steps to provide any supplemental information requested by a Governmental Entity, including participating in meetings with officials of such entity in the course of its review of the Transaction, (iii) the defending of any lawsuits or other legal proceedings, whether judicial or administrative, that challenge this Agreement, the Transaction, the BDT Investment, the Designated Stockholder Investment, the Credit Agreement or the consummation of the Acquisition or any other transaction contemplated hereby, and (iv) the execution and delivery of any additional instruments necessary to consummate and make effective the Transaction.

## **ARTICLE 6**

### **Conditions**

6.1 **Conditions to all Parties Obligations.** The respective obligations of the Company, on the one hand, and the Investor, on the other hand, to effect the Closing are subject to the satisfaction of the following conditions:

(a) **Offer/Scheme of Arrangement.** In the case of an Offer, the Offer shall have become or been declared unconditional by the Company in all respects. In the case of a Scheme of Arrangement, the High Court of Jersey shall have filed an order (and the Investor shall have received a copy thereof) sanctioning the Scheme of Arrangement on behalf of the Target with the Registrar of Companies in accordance with Part 18A of the Companies Act.

(b) **Stockholder Approvals; Filing of Amended and Restated Charter and Certificate of Designations.** All approvals of the Company's stockholders required in connection with the Transaction, including any such approvals required under applicable law and the applicable listing rules of the New York Stock Exchange, shall have been obtained on or before the Closing Date, and the Amended and Restated Charter and the Certificate of Designations, substantially in the forms attached hereto as **Exhibit A** and **Exhibit B**, respectively, shall have been properly filed with the office of the Secretary of State of the State of Delaware.

6.2 **Conditions to the Investor's Obligations.** The obligations of the Investor to effect the Closing are subject to the satisfaction, or written waiver by the Investor (given in accordance with Section 8.1), of each of the following

conditions:

(a) Representations and Warranties. Each of the Major Representations of the Company contained in this Agreement shall be true and correct in all material respects on and as of the date of this Agreement and as of the Closing with the same force and effect as if made as of the Closing (except that representations and warranties which address matters only as of a particular date need only be true and correct as of such date).

(b) Debt Financing. As of the Closing Date, (i) the Credit Agreement shall be in full force and effect, and (ii) all conditions precedent to the effectiveness of the Credit Agreement and to the extensions of credit thereunder (other than receipt of the proceeds of the Equity Financing (as defined in the Credit Agreement)) shall have been satisfied or waived.

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## ARTICLE 7

### Termination

7.1 **Termination.** This Agreement may be terminated prior to the Closing as follows:

(a) At any time, by the mutual written consent of the Investor and the Company;

(b) By the Investor if the Company does not publish the Rule 2.5 Announcement by September 15, 2011 or, if the Rule 2.5 Announcement is published by such date, on such later date, if any, upon which the Scheme of Arrangement or Offer, as applicable, lapses, terminates or is withdrawn; or

(c) By written notice by either the Company or the Investor to the other party or parties, at any time after the date that is two hundred (200) calendar days after the Announcement Date (the Termination Date ) if the Closing shall not have occurred on or prior to the Termination Date; provided, that the right to terminate this Agreement under this Section 7.1(c) shall not be available to such party if the action or inaction of such party has been a principal cause of or resulted in the failure of the Closing to occur on or before the Termination Date and such action or failure to act constitutes a breach of this Agreement.

(d) By the Investor at any time prior to the Closing, if (i) the Company is in breach of a Major Representation (ii) such breach is not cured or capable of being cured by the earlier of the Termination Date and twenty (20) days following written notice of such breach from the Investor (to the extent such breach is curable) and (iii) such breach, if not cured, would render the conditions set forth in Section 6.2 incapable of being satisfied;

7.2 **Effect of Termination.** In the event of the termination of this Agreement as provided in Section 7.1, all obligations and agreements of the parties set forth in this Agreement shall become void and of no further force and effect whatsoever and there shall be no liability or obligation on the part of the parties hereto except (i) for any liability of the Company as a result of a breach of this Agreement prior to such termination, and (ii) that the provisions of this Section 7.2 and ARTICLE 8 (and all related definitions in ARTICLE 1) shall survive any such termination and shall be enforceable hereunder.

## ARTICLE 8

### General Provisions

8.1 **Amendments and Waivers.** This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties hereto. Except as otherwise provided in this Agreement, any failure of any party to comply with any obligation, covenant, agreement or condition herein may be waived by the party entitled to the benefits thereof only by a written instrument signed by the party granting such waiver, but such waiver shall not operate as a waiver of, or estoppel with respect to, any subsequent or other failure. The failure of any party to this Agreement to assert any of its rights under this Agreement or otherwise shall not constitute a waiver of such rights.

8.2 **Assignment.** This Agreement and the rights and obligations hereunder shall not be assignable or transferable by any party without the prior written consent of the other parties hereto.

8.3 **No Third-Party Beneficiaries.** This Agreement is for the sole benefit of the parties hereto and their permitted assigns and nothing herein expressed or implied shall give or be construed to give to any person, other than the parties hereto and such permitted assigns, any legal or equitable rights hereunder.

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8.4 **Notices.** All notices or other communications required or permitted to be given hereunder shall be in writing and shall be delivered by hand or sent by a nationally recognized overnight courier service (with tracking capability), and shall be deemed given when received, as follows:

if to the Investor, to:

Markel Corporation  
4251 Highwoods Parkway  
Glen Allen, Virginia  
Attention: Corporate Secretary

if to the Company, to:

Colfax Corporation  
8170 Maple Lawn Blvd, Suite 180  
Fulton, MD 20759  
Attention: A. Lynne Puckett

8.5 **Counterparts.** This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement, and shall become effective when one or more such counterparts have been signed by each of the parties hereto and delivered to the other parties hereto.

8.6 **Entire Agreement.** This Agreement and the Ancillary Agreements, along with the Schedules and the Exhibits hereto and thereto, contain the entire agreement and understanding among the parties hereto with respect to the subject matter hereof and thereof and supersede all prior agreements and understandings relating to such subject matter. None of the parties shall be liable or bound to any other party in any manner by any representations, warranties or covenants relating to such subject matter except as specifically set forth herein or in the Ancillary Agreements.

8.7 **Interpretation; Exhibits and Schedules.** The headings contained in this Agreement, in any Exhibit or Schedule hereto and in the table of contents to this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. All Exhibits and Schedules annexed hereto or referred to herein are hereby incorporated in and made a part of this Agreement as if set forth in full herein. Any capitalized terms used in any Schedule or Exhibit but not otherwise defined therein shall have the meaning assigned to such term in this Agreement. When a reference is made in this Agreement to a Section, Exhibit or Schedule, such reference shall be to a Section of, or an Exhibit or Schedule to, this Agreement unless otherwise indicated.

8.8 **Severability.** If any provision of this Agreement (or any portion thereof) or the application of any such provision (or any portion thereof) to any person or circumstance shall be held invalid, illegal or unenforceable in any respect by a court of competent jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision hereof (or the remaining portion thereof) or the application of such provision to any other persons or circumstances, so long as the economic and legal substance of the Transaction is not affected in a manner materially adverse to any party hereto.

8.9 **Consent to Jurisdiction.** Each of the parties hereby consents to the exclusive jurisdiction of the state and federal courts sitting in the City of New York in any action on a claim arising out of, under or in connection with this Agreement or the Transaction.



8.10 **Governing Law.** This Agreement shall be governed and construed in accordance with the laws of the State of New York.

8.11 **Waiver of Jury Trial.** Each party hereby waives, to the fullest extent permitted by Applicable Law, any right it may have to a trial by jury in respect to any litigation directly or indirectly arising out of, under or in connection with this Agreement, any Ancillary Agreement or the Transaction. Each party (a) certifies that no representative, agent or attorney of any other party has represented, expressly or otherwise, that such other party would not, in the event of litigation, seek to enforce the foregoing waiver and

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(b) acknowledges that it and the other parties hereto have been induced to enter into this Agreement and the Ancillary Agreements, as applicable, by, among other things, the mutual waivers and certifications in this Section 8.11.

8.12 **Rights of Holders.** Each party to this Agreement shall have the absolute right to exercise or refrain from exercising any right or rights that such party may have by reason of this Agreement, including the right to consent to the waiver or modification of any obligation under this Agreement, and such party shall not incur any liability to any other party or other holder of any securities of the Company as a result of exercising or refraining from exercising any such right or rights.

8.13 **Adjustment in Share Numbers and Prices.** In the event of any (i) stock split, (ii) subdivision, (iii) dividend or distribution payable in shares of Common Stock (or other securities or rights convertible into or entitling the holder thereof to receive directly or indirectly shares of Common Stock), (iv) combination or (v) other similar recapitalization or event, in each case, occurring after the date hereof and prior to the Closing Date, each reference in this Agreement and the Ancillary Agreements to a number of shares or a price per share shall be amended to appropriately account for such event.

8.14 **Construction.** The parties acknowledge that each party and its counsel have participated in the negotiation and preparation of this Agreement. This Agreement shall be construed without regard to any presumption or other rule requiring construction against the party causing the Agreement to be drafted. Each covenant, term and provision of this Agreement shall be construed simply according to its fair meaning and not strictly for or against any party hereto.

*[Signature page follows.]*

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In Witness Whereof, the Company and the Investor have executed this Agreement as of the date first above written.

COMPANY  
COLFAX CORPORATION

By:

/s/ A. Lynne Puckett

Name: A. Lynne Puckett

Title: Senior Vice President,  
General Counsel and Secretary

INVESTOR

MARKEL CORPORATION

/s/ D. Michael Jones

Name: D. Michael Jones

Title: General Counsel and Secretary

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**Exhibit A**

**AMENDED AND RESTATED CERTIFICATE OF  
INCORPORATION**

**OF**

**COLFAX CORPORATION**

Colfax Corporation (the **Corporation** ), a corporation organized and existing under the General Corporation Law of the State of Delaware (the **Delaware General Corporation Law** ), does hereby certify as follows:

1. The present name of the Corporation is Colfax Corporation. The Corporation was incorporated under the name Constellation Pumps Corporation by filing its original Certificate of Incorporation with the Secretary of State of the State of Delaware on February 25, 1998. An Amended and Restated Certificate of Incorporation was filed with and accepted by the Secretary of State of the State of Delaware on May 22, 2003 and amended by Certificates of Amendment on May 30, 2003, May 3, 2004, and April 21, 2008. An Amended and Restated Certificate of Incorporation was filed with and accepted by the Secretary of State of the State of Delaware on May 13, 2008.
2. This Amended and Restated Certificate of Incorporation was duly adopted by the Board of Directors of the Corporation (the **Board** ) and by the stockholders of the Corporation in accordance with Sections 228, 242, and 245 of the Delaware General Corporation Law.
3. Pursuant to Sections 242 and 245 of the Delaware General Corporation Law, this Amended and Restated Certificate of Incorporation restates and integrates and also further amends the provisions of the Certificate of Incorporation of the Corporation as heretofore amended or supplemented. The Certificate of Incorporation of the Corporation, as heretofore amended or supplemented, is superseded by this Amended and Restated Certificate of Incorporation.
4. This Amended and Restated Certificate of Incorporation shall become effective upon the time of filing of this Amended and Restated Certificate of Incorporation with the Secretary of State of the State of Delaware pursuant to Section 103 of the Delaware General Corporation Law.
5. The Certificate of Incorporation of the Corporation as heretofore amended or supplemented is hereby restated and further amended to read in its entirety as follows:

**Article 1. NAME**

The name of this corporation is Colfax Corporation.

## **Article 2. REGISTERED OFFICE AND AGENT**

The address of this Corporation's registered office in the State of Delaware is 2711 Centerville Road, Suite 400, in the City of Wilmington, Delaware 19808, in the County of New Castle. The name of this Corporation's registered agent at such address is Corporation Service Company.

## **Article 3. PURPOSE AND POWERS**

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the Delaware General Corporation Law. The Corporation shall have all power necessary or convenient to the conduct, promotion or attainment of such acts and activities.

## **Article 4. CAPITAL STOCK AND ISSUANCE OF SECURITIES**

### **4.1. Authorized Shares**

The total number of shares of all classes of stock that the Corporation shall have the authority to issue is 420,000,000 of which 400,000,000 of such shares shall be Common Stock having a par value of \$.001 per share (the **Common Stock**), and 20,000,000 of such shares shall be Preferred Stock, having a par value of \$.001 per share (the **Preferred Stock**).

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## **4.2. Common Stock**

### **4.2.1. Relative Rights**

The Common Stock shall be subject to all of the rights, privileges, preferences, priorities, and restrictions set forth in this Amended and Restated Certificate of Incorporation (including any certificate of designations relating to any series of the Preferred Stock). Each share of the Common Stock shall have the same relative rights as, and be identical in all respects to, all the other shares of the Common Stock.

### **4.2.2. Dividends**

Whenever there shall have been paid, or declared and set aside for payment, to the holders of shares of any class of stock having preference over the Common Stock as to the payment of dividends, the full amount of dividends and of sinking fund or retirement payments, if any, to which such holders are respectively entitled in preference to the Common Stock, then dividends may be paid on the Common Stock and on any class or series of stock entitled to participate therewith as to dividends, out of any assets legally available for the payment of dividends thereon, but only when and as declared by the Board and subject to the restrictions set forth in any certificate of designations relating to any series of Preferred Stock. Any dividends on the Common Stock will not be cumulative.

### **4.2.3. Dissolution, Liquidation, Winding Up**

In the event of any dissolution, liquidation, or winding up of the Corporation, whether voluntary or involuntary, the holders of the Common Stock, and holders of any class or series of stock entitled to participate therewith, in whole or in part, as to the distribution of assets in such event, shall be entitled to participate in the distribution of any assets of the Corporation remaining after the Corporation shall have paid, or provided for payment of, all debts and liabilities of the Corporation and after the Corporation shall have paid, or set aside for payment, to the holders of any class of stock having preference over the Common Stock in the event of dissolution, liquidation or winding up the full preferential amounts (if any) to which they are entitled.

### **4.2.4. Voting Rights**

Each holder of shares of the Common Stock shall be entitled to attend all special and annual meetings of the stockholders of the Company at which any action is to be taken as to which holders of Common Stock are entitled to vote pursuant to this Amended and Restated Certificate of Incorporation or applicable law. Except as may otherwise be required by law, and subject to the provisions of such resolution or resolutions as may be adopted by the Board pursuant to Section 4.3 of this Article 4 granting the holders of one or more series of the Preferred Stock exclusive or special voting powers with respect to any matter, each holder of the Common Stock shall have one vote with respect to each share of the Common Stock held on all matters voted upon by the stockholders, provided, however, that except as otherwise required by law, holders of the Common Stock, as such, shall not be entitled to vote on any amendment to this Amended and Restated Certificate of Incorporation (including a certificate of designations relating to any series of the Preferred Stock) that relates solely to the terms of one or more outstanding series of the Preferred Stock if the holders of such affected series are entitled, either voting separately or together with the holders of one or more other such series, to vote thereon pursuant to this Amended and Restated Certificate of Incorporation (including any certificate of designations relating to any series of the Preferred Stock) or pursuant to the Delaware General Corporation Law. Each holder of shares of the Common Stock may exercise its vote either in person or by proxy.

## **4.2.5 Stockholder Action**

Subject to the rights of any holders of the Preferred Stock, (i) only the chairman of the Board or a majority of the Board shall be permitted to call a special meeting of stockholders; (ii) the business permitted to be conducted at a special meeting of stockholders shall be limited to matters properly brought before the meeting by or at the direction of the 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.

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### 4.3. Preferred Stock

The Board is authorized, subject to limitations prescribed by the Delaware General Corporation Law and the provisions of this Amended and Restated Certificate of Incorporation, to provide, by resolution or resolutions from time to time and by filing certificates of designations pursuant to the Delaware General Corporation Law, for the issuance of shares of the Preferred Stock in one or more series, to establish from time to time the number of shares to be included in each such series, to fix the voting powers, designations, preferences and relative, participating, optional or other special rights of the shares of each such series of the Preferred Stock and to fix the qualifications, limitations or restrictions thereof.

The authority of the Board with respect to each series shall include, but not be limited to, determination of the following: (1) the number of shares constituting that series and the distinctive designation of that series; (2) the dividend rate on the shares of that series, whether dividends shall be cumulative, and, if so, from which date or dates, and the relative rights of priority, if any, of payment of dividends on shares of that series; (3) whether that series shall have voting rights, in addition to the voting rights provided by law, and, if so, the terms of such voting rights; (4) whether that series shall have conversion privileges, and, if so, the terms and conditions of such conversion, including provision for adjustment of the conversion rate in such events as the Board shall determine; (5) whether or not the shares of that series shall be redeemable, and, if so, the terms and conditions of such redemption, including the dates upon or after which they shall be redeemable, and the amount per share payable in case of redemption, which amount may vary under different conditions and at different redemption dates; (6) whether that series shall have a sinking fund for the redemption or purchase of shares of that series, and, if so, the terms and amount of such sinking fund; (7) the rights of the shares of that series in the event of voluntary or involuntary liquidation, dissolution or winding up of the Corporation, and the relative rights of priority, if any, of payment of shares of that series; and (8) any other relative powers, preferences, and rights of that series, and qualifications, limitations or restrictions on that series as the Board shall determine.

### 4.4 Rights of Certain Holders

So long as the Investor and its Permitted Transferees collectively Beneficially Own, in the aggregate, at least fifty percent (50%) of the Purchased Preferred Shares, the written consent of the Investor will be required in order for the Corporation to take any of the following actions:

1. The incurrence of Senior Net Indebtedness, excluding
  - (i) Permitted Indebtedness, and
  - (ii) the issuance of Preferred Stock,if, after giving effect to such incurrence, the ratio of Senior Net Indebtedness to Adjusted EBITDA would exceed 3.75:1 measured by reference to the last twelve-month period for which financial information of the Corporation is reported by the Corporation (the **LTM Period**), pro forma for any acquisition in the LTM Period; *provided, however*, that the consent of the Investor will not be required pursuant to this Section 4.4(1) as to the incurrence of Indebtedness, the net proceeds of which are used for Refinancing of Indebtedness that existed on the Closing Date (including any Indebtedness incurred on the Closing Date);
2. The incurrence of Total Net Indebtedness, excluding:
  - (i) Permitted Indebtedness,
  - (ii) the issuance of Preferred Stock,if, after giving effect to such incurrence, the ratio of Total Net Indebtedness to Adjusted EBITDA would exceed 4.25:1 measured by reference to the LTM Period, pro forma for any acquisition in the LTM Period; *provided*,



*however*, that the consent of the Investor will not be required pursuant to this Section 4.4(2) as to the incurrence of Indebtedness, the net proceeds of which are used for the Refinancing of Indebtedness that existed on the Closing Date (including any Indebtedness incurred on the Closing Date);

3. The issuance by the Corporation of any shares of Preferred Stock;

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- Any change to the Corporation's dividend policy, or the declaration or payment of any dividend or distribution on any Junior Stock, unless the ratio of the Corporation's Total Net Indebtedness, excluding Permitted Indebtedness and any Preferred Stock, to Adjusted EBITDA is less than 2:1 measured by reference to the LTM Period, pro forma for any acquisition in the LTM period;
5. Any voluntary liquidation, dissolution or winding up of the Corporation;
6. Any change in the Corporation's independent auditor;
7. The election of anyone other than Mr. Mitchell P. Rales as the Corporation's Chairman of the Board;
8. Any acquisition by the Corporation or any of its subsidiaries, in any transaction or series of related transactions, of another entity or assets for a purchase price exceeding thirty percent (30%) of the Corporation's equity market capitalization at the time the applicable acquisition agreement is signed;
9. Any merger, consolidation, reclassification, joint venture or strategic partnership, or any similar transaction, any sale, lease, transfer or other disposition of any assets of the Corporation or any subsidiary of the Corporation (excluding sale/leaseback transactions and other financing transactions, in each case, entered into in the ordinary course of the Corporation's or such subsidiary's business or any sales among the Company and its subsidiaries), or any voluntary liquidation, dissolution or winding up of any subsidiary of the Corporation if (i) the value of the entity resulting from any such merger, consolidation, reclassification or similar transaction, (ii) the level of investment in any such joint venture, strategic partnership or similar transaction by the Corporation or such subsidiary, (iii) the value of the assets being sold, leased, transferred or disposed of, or (iv) the value of the subsidiary being liquidated, dissolved, or wound up (including the value of any subsidiary or subsidiaries thereof), as applicable, exceeds thirty percent (30%) of the Corporation's equity market capitalization at the time the applicable transaction agreement or other transaction documentation is signed;
10. Any amendments to the Corporation's Certificate of Incorporation or bylaws or other organizational or governing documents, as applicable; or
11. Any change to the size of the Board.

## **Article 5. BOARD OF DIRECTORS**

### **5.1. Number; Election; Nomination Right of Certain Holders**

- So long as the Investor and its Permitted Transferees collectively Beneficially Own, in the aggregate, more than twenty percent (20%) of the outstanding Common Stock, calculated on a fully-diluted basis, assuming conversion of all outstanding convertible securities (including the Series A Preferred Stock) and exercise of all existing warrants at the then-existing conversion or exercise price, but excluding any Unexercised Options and RSUs: (A) (1) the authorized number of directors of the Corporation shall be eleven (11); (B) the Investor shall be entitled to exclusively nominate two (2) members of the Board; and (C) the Investor shall be entitled to select one of its nominees, once elected to the Board, to serve on the audit committee of the Board, and one of its nominees, once elected to the Board, to serve on the compensation committee of the Board, subject to applicable law and New York Stock Exchange listing requirements.
- So long as the Investor and its Permitted Transferees collectively Beneficially Own, in the aggregate, equal to or less than twenty percent (20%) but more than ten percent (10%) of the outstanding Common Stock, calculated on a fully-diluted basis, assuming conversion of all outstanding convertible securities (including the Series A Preferred Stock) and exercise of all existing warrants at the then-existing conversion or exercise price, but excluding any (2) Unexercised Options and RSUs: (A) the authorized number of directors of the Corporation shall be ten (10); (B) the Investor shall be entitled to exclusively nominate one (1) member of the Board; and (C) the Investor shall be entitled to select its nominee, once elected to the Board, to serve on the audit committee and compensation committee of the Board, subject to applicable law and New York Stock Exchange listing requirements.



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From the time the Investor and its Permitted Transferees collectively cease to Beneficially Own, in the aggregate, at least ten percent (10%) of the outstanding Common Stock, calculated on a fully-diluted basis, assuming conversion of all outstanding convertible securities (including the Series A Preferred Stock) and exercise of all (3) existing warrants at the then-existing conversion or exercise price, but excluding any Unexercised Options and RSUs, the Investor shall have no right under this Section 5.1 to nominate any members of the Board, and the authorized number of directors of the Corporation shall be such number as from time to time shall be fixed by, or in the manner provided in, the bylaws of the Corporation.

Unless and except to the extent that the bylaws of the Corporation shall otherwise require, the election of directors (4) of the Corporation need not be by written ballot. Each director of the Corporation shall be entitled to one vote per director on all matters voted or acted upon by the Board.

For purposes of calculating Beneficial Ownership percentages in this Section 5.1, the Investor and any Permitted Transferees shall not be deemed to Beneficially Own any shares of preferred stock other than the Purchased (5) Preferred Shares and any shares of Common Stock other than shares of Common Stock acquired (i) on the Closing Date, (ii) upon conversion of Preferred Stock or (iii) pursuant to anti-dilution provisions or pre-emption rights set forth in the Certificate of Designations.

### **5.2. Management of Business and Affairs of the Corporation**

The business and affairs of the Corporation shall be managed by, or under the direction of, the Board.

### **5.3. Limitation of Liability**

No director of the Corporation shall be liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, provided that this provision shall not eliminate or limit the liability of a director (a) for any breach of the director's duty of loyalty to the Corporation 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 Delaware General Corporation Law; or (d) for any transaction from which the director derived an improper personal benefit.

Any repeal or modification of this Article 5.3 shall be prospective only and shall not adversely affect any right or protection of, or any limitation of the liability of, a director of the Corporation existing at, or arising out of facts or incidents occurring prior to, the effective date of such repeal or modification.

## **Article 6. AMENDMENT OF BYLAWS**

In furtherance and not in limitation of the powers conferred by the Delaware General Corporation Law, the Board is expressly authorized and empowered to adopt, amend and repeal the bylaws of the Corporation.

## **Article 7. RESERVATION OF RIGHT TO AMEND CERTIFICATE OF INCORPORATION**

The Corporation reserves the right at any time, and from time to time, to amend, alter, change, or repeal any provision contained in this Amended and Restated Certificate of Incorporation, and other provisions authorized by the laws of the State of Delaware at the time in force may be added or inserted, in the manner now or hereafter prescribed by law; and all rights, preferences, and privileges of any nature conferred upon stockholders, directors, or any other persons by and pursuant to this Amended and Restated Certificate of Incorporation in its present form or as hereafter amended are granted subject to the rights reserved in this Article 7. Notwithstanding the foregoing, or any provision of law which might otherwise permit a lesser vote or no vote, but in addition to any affirmative vote of the holders of any particular

class or series of stock required by law or this Amended and Restated Certificate of Incorporation, until such time as the Investor and its Permitted Transferees collectively cease to Beneficially Own, in the aggregate, at least ten percent (10%) of the outstanding Common Stock, calculated on a fully-diluted basis, assuming conversion of all outstanding convertible securities (including the Series A Preferred Stock) and exercise of all existing warrants at the then-existing conversion or exercise price, but excluding any Unexercised Options and RSUs, the written consent of the Investor shall be required to alter, amend or repeal any provision of Section 5.1 of Article 5, this Article 7 or Article 8, including by merger, consolidation or otherwise.

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**Article 8. DEFINITIONS**

Capitalized terms not otherwise defined in this Amended and Restated Certificate of Incorporation shall have the following meanings:

**Adjusted EBITDA** means EBITDA, as such term is defined in that certain credit agreement, dated as of September 12, 2011, between and among the Company, Deutsche Bank A.G. New York Branch, a syndicate of other financial institutions as lenders and Deutsche Bank Securities Inc., as in effect as of September 12, 2011.

**Beneficial Ownership** and **Beneficially Own** and similar terms have the meaning set forth in Rule 13d-3 under the Securities and Exchange Act of 1934. For the avoidance of doubt, the Investor and its Permitted Transferees will be deemed to Beneficially Own all of the Common Stock issuable upon conversion of the Series A Preferred Stock held by the Investor and its Permitted Transferees at the time of determination.

**Closing Date** has the meaning set forth in the Securities Purchase Agreement.

**Indebtedness** means the principal of, accrued but unpaid interest on, and premium (if any, to the extent such premium is determinable) in respect of, indebtedness of such person for borrowed money, but excluding any indebtedness among the Corporation and its subsidiaries.

**Investor** means BDT CF Acquisition Vehicle, LLC.

**Junior Stock** means the Common Stock and any other class or series of stock of the Corporation, other than Parity Stock and Senior Stock, not expressly ranking senior to the Series A Preferred Stock with respect to the payment of dividends and distributions.

**Parity Stock** means any class or series of stock of the Corporation that may be authorized that expressly ranks equal to the Series A Preferred Stock with respect to the payment of dividends and distributions.

**Permitted Transferee** shall have the meaning assigned to such term in the Securities Purchase Agreement.

**Permitted Indebtedness** means Indebtedness under the Corporation's revolving line of credit as in existence on the Closing Date, leases and letters of credit, performance guarantees, bid bonds, surety bonds and similar instruments.

**Purchased Preferred Shares** shall have the meaning assigned to such term in the Securities Purchase Agreement.

**Refinance** or **Refinancing** means to refund, refinance, replace, renew, repay, or extend (including pursuant to any defeasance or discharge mechanism).

**Securities Purchase Agreement** means that certain Securities Purchase Agreement, dated as of September 12, 2011, by and between the Corporation and the Investor.

**Senior Net Indebtedness** means, as of any date, all Senior Indebtedness of the Corporation outstanding on such date minus all cash and cash equivalents of the Corporation as of such date.

**Senior Indebtedness** means Indebtedness that is not Subordinated Indebtedness.

**Senior Stock** means any class or series of stock of the Corporation that may be authorized that expressly ranks senior to the Series A Preferred Stock with respect to the payment of dividends and distributions.

**Subordinated Indebtedness** means Indebtedness which is subordinate or junior in right of payment to any other Indebtedness pursuant to a written agreement.

**Total Net Indebtedness** means, as of any date, all Indebtedness of the Corporation and its subsidiaries minus all cash and cash equivalents of the Corporation and its subsidiaries as of such date.

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**Unexercised Options and RSUs** means (i) any convertible securities outstanding as of the Closing Date (as such term is defined in the Securities Purchase Agreement), or (ii) any options, restricted stock units or similar awards issued to officers, employees, consultants or directors of the Corporation or its subsidiaries, in each case, in the form of Common Stock or entitling the holder thereof to receive shares of Common Stock upon the exercise or conversion thereof.

**IN WITNESS WHEREOF**, this Amended and Restated Certificate of Incorporation has been executed by the President and Chief Executive Officer of the Corporation on this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_.

**COLFAX CORPORATION**

By:

Name:

Title:

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**Exhibit B**

**CERTIFICATE OF DESIGNATIONS OF  
SERIES A PERPETUAL CONVERTIBLE PREFERRED  
STOCK**

**(PAR VALUE \$0.001)**

**OF**

**COLFAX CORPORATION**

Pursuant to Section 151 of the

General Corporation Law of the State of Delaware

Colfax Corporation, a corporation organized and existing under the General Corporation Law of the State of Delaware (the Corporation ), in accordance with the provisions of Section 151 thereof, DOES HEREBY CERTIFY:

That pursuant to the authority conferred upon the Board of Directors of the Corporation (the Board ) in accordance with the Second Amended and Restated Certificate of Incorporation of the Corporation (the Certificate of Incorporation ) and the Amended and Restated Bylaws of the Corporation (the Bylaws ), the Board on September 10, 2011 adopted the following resolution, creating a series of 13,877,552 shares of Preferred Stock, par value \$0.001 per share, of the Corporation designated as Series A Perpetual Convertible Preferred Stock, which is subject to shareholder approval of certain amendments to the Certificate of Incorporation including amendments that will increase the authorized number of shares of preferred stock:

RESOLVED, that pursuant to the authority vested in the Board by Article IV of the Certificate of Incorporation and out of the Preferred Stock, par value \$0.001 per share, authorized therein, the Board hereby authorizes, designates and creates a series of Preferred Stock, and states that the designation and amount thereof and the voting powers, preferences and relative, participating, optional and other special rights of the shares of such series, and the qualifications, limitations or restrictions thereof be, and hereby are, as follows:

**Section 1. Number of Shares and Designation.**

The designation of the series of Preferred Stock created by this resolution shall be Series A Perpetual Convertible Preferred Stock (the Series ), and the number of shares constituting the Series shall be Thirteen Million Eight Hundred

Seventy-Seven Thousand Five Hundred Fifty-Two (13,877,552) (the Series A Preferred Stock ). Each share of Series A Preferred Stock shall have a liquidation preference of \$24.50 (the Liquidation Preference ).

**Section 2. Dividends.**

(1) Holders of Series A Preferred Stock shall be entitled to receive, on each share of Series A Preferred Stock, out of funds legally available for the payment of dividends under Delaware law, cumulative cash dividends with respect to each Dividend Period (as defined below) at a per annum rate of 6% (as such may be adjusted pursuant to this Section 2(1), the Dividend Rate ) on (i) the Liquidation Preference per share and (ii) to the extent unpaid on the Dividend Payment Date (as defined below), the amount of any accrued and unpaid dividends, if any, on such share of Series A Preferred Stock; *provided* that if, on any Dividend Payment Date, the Corporation shall not have paid in cash the full amount of any dividend required to be paid on such share (such amount being Unpaid Dividends ) on such Dividend Payment Date pursuant to this Section 2(1), then from such Dividend Payment Date, the Dividend Rate shall automatically be at a per annum rate of 8% for such share until the date on which all Unpaid Dividends have been declared and paid in full in cash. Dividends shall begin to accrue and be cumulative from the Issue Date (whether or not declared), shall compound on each Dividend Payment Date, and shall be payable in arrears (as provided below in this Section 2(1)), but only when, as and if declared by the Board (or a duly authorized committee of the Board) on each March 1, June 1, September 1 and December 1, and each Mandatory Conversion Date, Redemption

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Date and Liquidation Date (each, a Dividend Payment Date ); *provided* that if any such Dividend Payment Date would otherwise occur on a day that is not a Business Day, such Dividend Payment Date shall instead be (and any dividend payable on Series A Preferred Stock on such Dividend Payment Date shall instead be payable on) the immediately succeeding Business Day with no additional dividends payable as a result of such payment being made on such succeeding Business Day. Dividends that are payable on Series A Preferred Stock on any Dividend Payment Date will be payable to holders of record of Series A Preferred Stock as they appear on the stock register of the Corporation on the applicable record date, which shall be the fifteenth (15<sup>th</sup>) calendar day before such Dividend Payment Date (as originally scheduled) or such other record date fixed by the Board (or a duly authorized committee of the Board) that is not more than 60 nor less than 10 days prior to such Dividend Payment Date (each, a Dividend Record Date ). Any such day that is a Dividend Record Date shall be a Dividend Record Date whether or not such day is a Business Day. Each dividend period (a Dividend Period ) shall commence on and include the calendar day immediately following a Dividend Payment Date (other than the initial Dividend Period, which shall commence on and include the Issue Date) and shall end on and include the next Dividend Payment Date. Dividends payable in respect of a Dividend Period shall be payable in arrears on the first Dividend Payment Date after such Dividend Period.

(2) The Corporation (including its subsidiaries) shall not declare, pay or set apart funds for any dividends or other distributions with respect to any Junior Stock of the Corporation or repurchase, redeem or otherwise acquire, or set apart funds for repurchase, redemption or other acquisition of, any Junior Stock, or make any guarantee payment with respect thereto, unless all accrued but unpaid dividends on the Series A Preferred Stock for all Dividend Periods through and including the date of such declaration, payment, repurchase, redemption or acquisition (including, if applicable as provided in Section 2(1) above, dividends on such amount) have been declared and paid in full in cash (or declared and a sum sufficient for the payment thereof set apart for such payment). Without limitation of the foregoing, any such dividend or other distributions on the Junior Stock shall be subject to Section 2(3).

(3) In the event that any dividend is declared and paid on, or any distribution is made with respect to, any Junior Stock (including, without limitation, in connection with a recapitalization of the Corporation), the Series A Preferred Stock shall share proportionately with such Junior Stock in any such dividend or distribution, (a) if such Junior Stock is Common Stock or is convertible into Common Stock, in accordance with the number of shares of Common Stock issuable upon conversion of the Series A Preferred Stock calculated as of the record date for such dividend or distribution, or (b) if such Junior Stock is not Common Stock or convertible into Common Stock, in such manner and at such time as the Board may determine in good faith to be equitable in the circumstances.

(4) Any reference to dividends or distributions in this Section 2 shall not be deemed to include any distribution made in connection with any voluntary or involuntary dissolution, liquidation or winding up of the Corporation.

**Section 3. Mandatory Conversion; Optional Conversion; Redemption.**

(1) Mandatory Conversion at the Option of the Corporation.

(a) Mandatory Conversion. On or after the third anniversary of the Issue Date, the Corporation shall have the right, at its option, at any time or from time to time, to cause some or all of the outstanding shares of Series A Preferred Stock to be mandatorily converted (a Mandatory Conversion ) into fully paid and nonassessable shares of Common Stock at the Conversion Rate in effect as of the applicable Mandatory Conversion Date (as defined below) in accordance with the provisions of this Section 3(1), subject to satisfaction of the following conditions:

(i) the closing price of the Common Stock on the New York Stock Exchange (or, if the shares of Common Stock are not listed or admitted for trading on the New York Stock Exchange, as reported on the principal consolidated transaction reporting system on the principal national securities exchange on which the shares of Common Stock are

listed or admitted for trading) shall exceed one-hundred and thirty-three percent (133%) of the Conversion Price for a period of

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thirty (30) consecutive trading days ending on the trading day immediately preceding the date that the Corporation delivers a Mandatory Conversion Notice (as defined below); and

(ii) the Corporation shall have declared and paid in full in cash, or shall have declared and set apart for payment in cash, all accrued but unpaid dividends (including, if applicable as provided in Section 2(1) above, dividends on such amount) on the Series A Preferred Stock for all Dividend Periods through and including the effective date of such Mandatory Conversion (the Mandatory Conversion Date ).

(b) Mechanics of Mandatory Conversion. In order to effect a Mandatory Conversion, the Corporation shall provide written notice (a Mandatory Conversion Notice ) to each holder of outstanding shares of Series A Preferred Stock by first class mail, postage prepaid, to such holder's address as it shall appear in the records of the Corporation or such other address as such holder shall specify to the Corporation in writing from time to time. The Mandatory Conversion Notice shall specify (i) the applicable Mandatory Conversion Date, and (ii) the number of shares of Common Stock that each holder shall be entitled to receive in connection with such Mandatory Conversion. Upon receipt of the Mandatory Conversion Notice, each holder of shares of Series A Preferred Stock shall surrender his, her, or its certificate or certificates for all such shares (or, if applicable, a pro rata portion thereof determined in accordance with the penultimate sentence of this Section 3(1)(b)) (or, if such certificate or certificates have been lost, stolen, or destroyed, a lost certificate affidavit and indemnity in form and substance reasonably acceptable to the Corporation) to the Corporation at its principal office or at the office of the agency which may be maintained for the purpose of administering conversions and redemptions of the shares of Common Stock (the Conversion Agent ), in each case, as specified in the applicable Mandatory Conversion Notice. All rights with respect to the shares of Series A Preferred Stock that are converted pursuant to a Mandatory Conversion shall terminate on the Mandatory Conversion Date, subject to the rights of the holders thereof to receive the items provided for in the following sentence. As soon as practicable after the Mandatory Conversion Date, but in no event later than ten (10) days after the Mandatory Conversion Date, the Corporation shall issue and deliver to each holder that has surrendered shares of Series A Preferred Stock in connection therewith, (i) a certificate or certificates (or if the holder shall so elect, and if permitted by applicable law, including without limitation the Securities Act of 1933, uncertificated book-entry shares) representing the number of fully paid and nonassessable shares of Common Stock issuable upon such conversion, with no personal liability attaching to the ownership thereof, free of all taxes with respect to the issuance thereof, liens, charges and security interests and not subject to any preemptive rights, into which such shares of Series A Preferred Stock have been converted in connection with such Mandatory Conversion, and (ii) any cash payable in respect of fractional shares as provided in Section 3(4). The converted shares of Series A Preferred Stock shall be retired and cancelled and may not be reissued. In the case of Mandatory Conversion of fewer than all of the shares of Series A Preferred Stock at the time outstanding, the shares of Series A Preferred Stock to be redeemed shall be selected, and allocated among the holders of outstanding shares of Series A Preferred Stock on a *pro rata* basis in accordance with the number of shares of Series A Preferred Stock then held by each such holder. In the event that fewer than all of the shares of Series A Preferred Stock represented by a certificate are converted in connection with a Mandatory Conversion, then a new certificate representing the unconverted shares of Series A Preferred Stock shall be issued to the holder of such certificate.

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(2) Redemption at the Option of the Corporation.

(a) Redemption. On or after the fifth anniversary of the Issue Date, the Corporation shall have the right, at its option, at any time to redeem (a Redemption ) all (but not less than all) of the outstanding shares of Series A Preferred Stock in return for a payment in cash (the Call Payment ) equal, on a per share basis, to the greater of (i) the Conversion Price, and (ii) the Liquidation Preference, in each case, as of the applicable Redemption Date (as defined below) in accordance with the provisions of this Section 3(2), subject to satisfaction of the following conditions:

(i) on the trading date preceding the date of the Redemption Notice (as defined below) the closing price of the Common Stock on the New York Stock Exchange (or, if the shares of Common Stock are not listed or admitted for trading on the New York Stock Exchange, as reported on the principal consolidated transaction reporting system on the principal national securities exchange on which the shares of Common Stock are listed or admitted for trading) shall be less than the Conversion Price; and

(ii) the Corporation shall have declared and paid in full in cash, or shall have declared and set apart for payment in cash, all accrued but unpaid dividends (including, if applicable as provided in Section 2(1) above, dividends on such amount) on the Series A Preferred Stock for all Dividend Periods through and including the Redemption Date (as defined below).

(b) Mechanics of Redemption. In order to effect a Redemption, the Corporation shall provide written notice (a Redemption Notice ) of such Redemption to each holder of outstanding shares of Series A Preferred Stock by first class mail, postage prepaid, to such holder at such holder's address as it shall appear in the records of the Corporation or such other address as such holder shall specify to the Corporation in writing from time to time. Subject to the satisfaction of the conditions set forth in Section 3(2)(a)(i) and Section 3(2)(a)(ii), the Redemption shall become effective on the ninetieth (90<sup>th</sup>) day after delivery of the Redemption Notice, or if such date is not a Business Day, then on the next Business Day (such date, the Redemption Date ). The Redemption Notice shall specify (i) the applicable Redemption Date (determined in accordance with the preceding sentence), and (ii) the Call Payment to which each holder of outstanding shares of Series A Preferred Stock shall be entitled in connection with such Redemption. On or before the applicable Redemption Date, each holder of outstanding shares of Series A Preferred Stock to be redeemed shall surrender the certificate or certificates representing such shares (or, if such certificate or certificates have been lost, stolen, or destroyed, a lost certificate affidavit and indemnity in form and substance reasonably acceptable to the Corporation) to the Corporation at its principal office or to the Conversion Agent, in each case, as may be specified in the Redemption Notice, and upon receipt thereof by the Corporation or the Conversion Agent, as the case may be, the Call Payment for such redeemed shares shall be immediately due and payable in cash to the order of the record holder of the shares of Series A Preferred Stock being redeemed. From and after the Redemption Date, all dividends on shares of Series A Preferred Stock that are redeemed on such Redemption Date shall cease to accumulate and all rights of the holders thereof as holders of Series A Preferred Stock shall cease and terminate, so long as the Call Payment is received on the Redemption Date and the conditions to the effectiveness of such redemption set forth in Section 3(2)(a) are satisfied.

(3) Right of Holders to Optionally Convert.

(a) Each share of Series A Preferred Stock shall be convertible, in whole or in part, at the option of the holder thereof (an Optional Conversion ), at any time after the Issue Date, and from time to time, and without payment of any additional consideration by the holder of such share, into fully paid and nonassessable shares of Common Stock at the Conversion Rate in effect as of the applicable Optional Conversion Date (as defined below) in accordance with the procedures set forth in this Section 3(3).

- (b) In order to effect an Optional Conversion, the holder of shares of Series A Preferred Stock to be converted shall
- (i) deliver a properly completed and duly executed written notice of election to convert (an Optional Conversion Notice ) to the Corporation at its principal office or to the Conversion Agent, and
  - (ii) surrender the certificate or certificates for the shares of Series A Preferred Stock that are

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to be converted, accompanied, if so required by the Corporation or the Conversion Agent, by a written instrument or instruments of transfer in form reasonably satisfactory to the Corporation or the Conversion Agent, duly executed by the holder or its attorney duly authorized in writing. The Optional Conversion Notice shall specify: (i) the number (in whole shares) of shares of Series A Preferred Stock to be converted, and (ii) the name or names in which the converting holder wishes the certificate or certificates for shares of Common Stock in connection with such conversion to be issued.

(c) The Optional Conversion shall become effective at the close of business on the date (such date, the Optional Conversion Date ) of receipt by the Corporation or the Conversion Agent of the Optional Conversion Notice and the other items referred to in Section 3(3)(b). Promptly following the Optional Conversion Date (and in no event more than ten (10) days after the Optional Conversion Date), the Corporation shall deliver or cause to be delivered at the office or agency of the Conversion Agent, to or upon the written order of the holders of the surrendered shares of Series A Preferred Stock, (i) a certificate or certificates (or if the converting holder shall so elect, and if permitted by applicable law, including without limitation the Securities Act of 1933, uncertificated book-entry shares) representing the number of fully paid and nonassessable shares of Common Stock issuable upon such conversion, with no personal liability attaching to the ownership thereof, free of all taxes with respect to the issuance thereof, liens, charges and security interests and not subject to any preemptive rights, into which such shares of Series A Preferred Stock have been converted in connection with such Optional Conversion, (ii) a cash payment equal to the amount of all accrued but unpaid dividends (including, if applicable as provided in Section 2(1) above, dividends on such amount) for all Dividend Periods through and including the most recent Dividend Payment Date (the Cash Payment ), provided, that, if on such Optional Conversion Date, the Corporation has not declared all or any portion of the accrued but unpaid dividends (including, if applicable as provided in Section 2(1) above, dividends on such amount) for all Dividend Periods through and including the most recent Dividend Payment Date, the converting holder shall receive (instead of and in full satisfaction of the Corporation's obligation to make the Cash Payment) such number of shares of Common Stock equal to the amount of accrued but unpaid dividends (including, if applicable as provided in Section 2(1) above, dividends on such amount), divided by the current market price per share of Common Stock, and (iii) any cash payable in respect of fractional shares as provided in Section 3(4). Except as described above, upon any Optional Conversion, the Corporation shall make no payment or allowance for unpaid dividends on the shares of Series A Preferred Stock that are converted in connection with such Optional Conversion. In the case of an Optional Conversion Date that occurs after a Dividend Record Date and before a Dividend Payment Date, the Cash Payment shall be reduced in an amount equal to any dividends declared with respect to such Dividend Record Date on any shares of Series A Preferred Stock that are converted on such Optional Conversion Date, provided that such dividends are actually received by the record holder of such shares on such Dividend Payment Date; or, to the extent that such reduction in the Cash Payment is less than the amount of such dividends to be received with respect to such Dividend Record Date, the excess amount thereof will be repaid to the Corporation.

(d) Upon the surrender of a certificate representing shares of Series A Preferred Stock that is converted in part, the Corporation shall issue or cause to be issued to the surrendering holder a new certificate representing shares of Series A Preferred Stock equal in number to the unconverted portion of the shares of Series A Preferred Stock represented by the certificate so surrendered.

(e) On the Optional Conversion Date, upon the delivery to the converting holder of the shares Common Stock issuable in connection with such conversion and the payments referred to in Section 3(3)(c)(ii) and (iii), the rights of the holders of the shares of converted Series A Preferred Stock and the person entitled to receive the shares of Common Stock upon the conversion of such shares of Series A Preferred Stock shall be treated for all purposes as having become the Beneficial Owner of such shares of Common Stock.





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(4) Fractional Shares.

(a) No fractional shares or scrip representing fractional shares of Common Stock shall be issued upon the conversion of any shares of Series A Preferred Stock in connection with a Mandatory Conversion or Optional Conversion. Instead of any fractional interest in a share of Common Stock which would otherwise be deliverable upon the conversion of a share of Series A Preferred Stock in connection with a Mandatory Conversion or Optional Conversion, the Corporation shall pay to the holder of such share of Series A Preferred Stock an amount in cash (computed to the nearest cent) equal to the product of (A) such fraction and (B) the current market price (as defined below) of a share of Common Stock on the Business Day next preceding the day of conversion. If more than one share of Series A Preferred Stock shall be surrendered for conversion at one time by the same holder, the number of full shares of Common Stock issuable upon conversion thereof shall be computed on the basis of the aggregate Liquidation Preference of the shares of Series A Preferred Stock so surrendered.

(b) For the purposes of this Section 3, the current market price per share of Common Stock at any date shall be deemed to be the average of the daily closing prices on the New York Stock Exchange (or if the shares of Common Stock are not listed or admitted for trading on the New York Stock Exchange as reported on the principal consolidated transaction reporting system on the principal national securities exchange on which the shares of Common Stock are listed or admitted for trading) for the ten consecutive trading days immediately prior to the date in question or in the event that no trading price is available for the shares of Common Stock, the fair market value thereof, as determined in good faith by the Board.

(5) Reservation of Shares. The Corporation shall at all times when the Series A Preferred Stock shall be outstanding, reserve and keep available out of its authorized but unissued Common Stock, for the purpose of effecting the conversion of the Series A Preferred Stock pursuant to Section 3(1) and Section 3(3), such number of its duly authorized shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding Series A Preferred Stock.

**Section 4. Voting Rights.**

(1) Each share of Series A Preferred Stock shall entitle the holder thereof to vote on all matters voted on by holders of the Common Stock, voting together as a single class with the shares of Common Stock entitled to vote, at all meetings of the stockholders of the Corporation and in connection with any actions of the stockholders of the Corporation taken by written consent. With respect to any such vote, the holder of each share of Series A Preferred Stock shall be entitled to cast the number of votes equal to the number of votes which could be cast in such vote by a holder of the shares of Common Stock of the Corporation into which such holder's shares of Series A Preferred Stock are convertible as of the record date for such vote.

(2) The affirmative vote or consent of more than fifty percent (50%) of the shares of Series A Preferred Stock, voting separately as a class, shall be necessary for authorizing, approving, effecting or validating:

(a) the amendment, alteration or repeal of any of the provisions of the Certificate of Incorporation or Bylaws or any document amendatory or supplemental thereto (including this Certificate of Designations), whether by merger, consolidation or otherwise, that would adversely affect or cause to be terminated the powers, designations, preferences and other rights of the Series; or

(b) any other action for which a vote of the Series A Preferred Stock, voting separately as a class, is required by law.

Other than as specifically set forth in this Section 4 or to the extent of applicable law, the Series A Preferred Stock shall not be entitled to a separate vote on any matter.

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**Section 5. Liquidation Rights.**

(1) Upon any voluntary or involuntary liquidation, dissolution or winding-up of the Corporation, each holder of shares of the Preferred Stock shall be entitled to payment out of the assets of the Corporation legally available for distribution of an amount per share of Series A Preferred Stock (the Liquidation Amount ) held by such holder equal to the greater of (i) the Liquidation Preference per share of Series A Preferred Stock held by such holder, plus any accrued but unpaid dividends (including, if applicable as provided in Section 2(1) above, dividends on such amount) in respect of such shares, whether or not declared paid in cash, calculated to the date fixed for liquidation, dissolution or winding-up (the Liquidation Date ), and (ii) the amount that the holders of Series A Preferred Stock would have received in connection with such liquidation, dissolution or winding up had each share of Series A Preferred Stock been converted into shares of Common Stock pursuant to Section 3(3) immediately prior to such liquidation, dissolution or winding up of the Corporation, before any distribution is made on any Junior Stock of the Corporation. After payment in full of the Liquidation Amount to which holders of Series A Preferred Stock are entitled, such holders shall not be entitled to any further participation in any distribution of assets of the Corporation in respect of their shares of Series A Preferred Stock. If, upon any voluntary or involuntary liquidation, dissolution or winding-up of the Corporation, the amounts payable with respect to the Series A Preferred Stock are not paid in full, the holders of the Series A Preferred Stock will share in any distribution of assets of the Corporation on a *pro rata* basis in proportion to the number of shares of Series A Preferred Stock held by each such holder.

(2) Neither the voluntary sale, conveyance, exchange or transfer (for cash, shares of stock, securities or other consideration) of all or substantially all of the property or assets of the Corporation nor the consolidation or merger of the Corporation with or into one or more Persons will be deemed to be a voluntary or involuntary liquidation, dissolution or winding-up of the Corporation for purposes of this Section 5.

**Section 6. Pre-emptive Rights**

(1) Except for (i) (A) the issuance of any shares of Common Stock or options or rights to purchase those shares pursuant to any present or future employee, director or consultant benefit plan, program or practice of or assumed by the Corporation or any of its subsidiaries or (B) the issuance of any shares of Common Stock pursuant to any option, warrant, right or exercisable, exchangeable or convertible security outstanding as of the Issue Date, (ii) a subdivision (including by way of a stock dividend) of the outstanding shares of Common Stock into a larger number of shares of Common Stock, and (iii) the issuance of capital stock as full or partial consideration for a merger, acquisition, joint venture, strategic alliance, or other similar non-financing transaction, if, from the Issue Date until the date that is twenty-four (24) months after the Issue Date, the Corporation wishes to issue any shares of capital stock or any other securities convertible into or exchangeable for capital stock of the Corporation (collectively, New Securities ) at a price per share less than the Liquidation Preference (a Dilutive Issuance ) to any person (the Proposed Purchaser ), then the Corporation shall send written notice (the New Issuance Notice ) to the holders of the Series A Preferred Stock, which New Issuance Notice shall state (x) the number of New Securities proposed to be issued and (y) the proposed purchase price per share of the New Securities (the Proposed Price ).

(2) For a period of fifteen (15) Business Days after the giving of the New Issuance Notice, each holder of the Series A Preferred Stock shall have the right to purchase (a) if the Dilutive Issuance occurs during the period from the Issue Date until the date that is two hundred seventy (270) days after the Issue Date, up to its Proportionate Share (as defined below) of the New Securities, or (b) if the Dilutive Issuance occurs after such two-hundred-seventy-(270)-day period, up to its Double Proportionate Share (as defined below) of the New Securities, in each case at a purchase price per share equal to the Proposed Price and upon the terms and conditions set forth in the New Issuance Notice. As used herein, the term Proportionate Share means, as to each holder of Series A Preferred Stock as of a given date, the fraction, expressed as a percentage, determined by dividing (i) a number of shares of Common Stock Beneficially

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Owned by such holder and (without duplication) its Permitted Transferees (other than any other holder of shares of Series A Preferred Stock) plus the number of shares of Common Stock into which the shares of Series A Preferred Stock then Beneficially Owned by such holder are convertible as of such date, by (ii) the number of shares of Common Stock of the Corporation issued and outstanding as of such date, calculated on a fully-diluted basis, assuming conversion of all outstanding convertible securities (including the Series A Preferred Stock) and the exercise in full of all

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existing warrants at the then-existing conversion or exercise price, but excluding any Unexercised Options and RSUs. As used herein, the term Double Proportionate Share means, as to each holder of Series A Preferred Stock as of a given date, such holder's Proportionate Share as of such date multiplied by two (2).

(3) The right of each holder of Series A Preferred Stock to purchase the New Securities shall be exercisable by delivering written notice of its exercise, prior to the expiration of the fifteen (15) Business Day period referred to in Section 6(2) above, to the Corporation, which notice shall state the amount of New Securities that the holder elects to purchase. The failure of such holder to respond within the fifteen (15) Business Day period or to pay for such New Securities when such payment is due shall be deemed to be a waiver of such holder's rights under this Section 6 only with respect to the Dilutive Issuance described in the applicable New Issuance Notice.

(4) Except for the foregoing and to the extent arising under applicable law, there are no pre-emptive rights associated with the Series A Preferred Stock.

**Section 7. Ranking and Issuance of Parity Stock or Senior Stock Prior to Conversion**

The Series A Preferred Stock shall rank senior to any series of Junior Stock with respect to the payment of dividends and distributions and rights upon liquidation, dissolution or winding up of the Corporation. Prior to the conversion or redemption or retirement and cancellation of all shares of the Series A Preferred Stock in accordance with this Certificate of Designations, the Corporation shall not issue an Parity Stock or Senior Stock, or authorize any additional shares of Series A Preferred Stock.

**Section 8. Retirement.**

If any share of the Series A Preferred Stock is purchased or otherwise acquired by the Corporation in any manner whatsoever, then such share shall be retired and promptly cancelled. Upon the retirement or cancellation of a share of Series A Preferred Stock, such share shall not for any reason be reissued as shares of the Series.

**Section 9. Definitions.**

Capitalized terms not otherwise defined in this Certificate of Designations shall have the following meanings:

Beneficial Ownership and Beneficially Own and similar terms shall have the meaning set forth in Rule 13d-3 under the Securities Exchange Act of 1934.