

Colfax CORP
Form 10-Q
May 08, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 30, 2012

OR

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

For the transition period from **to**

Commission file number - 001-34045

Colfax Corporation

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

Number)

8170 Maple Lawn Boulevard, Suite 180

20759

Fulton, Maryland

(Address of principal executive offices)

(Zip Code)

(301) 323-9000

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer

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

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

As of March 30, 2012, there were 93,788,045 shares of the registrant's common stock, par value \$.001 per share, outstanding.

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PART I – FINANCIAL INFORMATION**Item 1. Financial Statements****COLFAX CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****Dollars in thousands, except per share amounts****(Unaudited)**

	Three Months Ended	
	March 30, 2012	April 1, 2011
Net sales	\$886,366	\$ 158,558
Cost of sales	630,970	105,304
Gross profit	255,396	53,254
Selling, general and administrative expense	225,746	37,879
Charter acquisition-related expense	42,851	—
Restructuring and other related charges	8,643	1,977
Asbestos coverage litigation expense	2,287	2,066
Operating (loss) income	(24,131)	11,332
Interest expense	18,982	1,827
(Loss) income before income taxes	(43,113)	9,505
Provision for income taxes	57,348	2,950
Net (loss) income	(100,461)	6,555
Less: net income attributable to noncontrolling interest, net of taxes	5,137	—
Net (loss) income attributable to Colfax Corporation	(105,598)	6,555
Dividends on preferred stock	3,734	—
Net (loss) income available to Colfax Corporation common shareholders	\$(109,332)	\$ 6,555
Net (loss) income per share—basic and diluted	\$(1.33)	\$ 0.15

See Notes to Condensed Consolidated Financial Statements.

COLFAX CORPORATION**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****Dollars in thousands****(Unaudited)**

	Three Months Ended	
	March 30, 2012	April 1, 2011
Net (loss) income attributable to Colfax Corporation common shareholders	\$(109,332)	\$ 6,555
Other comprehensive income (loss):		
Foreign currency translation, net of tax of \$(76) and \$(5)	134,010	10,568
Unrealized loss on hedging activities, net of tax of \$271 and \$0	(7,987)	(100)
Amounts reclassified to net loss:		
Realized loss on hedging activities, net of tax of \$0 and \$0	471	485
Net pension and other postretirement benefit cost, net of tax of \$144 and \$631	2,025	1,062
Other comprehensive income	128,519	12,015
Less: other comprehensive income attributable to noncontrolling interest net of tax of \$0 and \$0	10,941	—
Other comprehensive income attributable to Colfax Corporation	117,578	12,015
Comprehensive income attributable to Colfax Corporation common shareholders	\$8,246	\$ 18,570

See Notes to Condensed Consolidated Financial Statements.

COLFAX CORPORATION**CONDENSED CONSOLIDATED BALANCE SHEETS****Dollars in thousands, except share amounts****(Unaudited)**

	March 30, 2012	December 31, 2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$579,930	\$ 75,108
Trade receivables, less allowance for doubtful accounts of \$3,606 and \$2,578	873,802	117,475
Inventories, net	555,386	56,136
Other current assets	329,434	102,489
Total current assets	2,338,552	351,208
Property, plant and equipment, net	681,630	90,939
Goodwill	1,870,437	204,844
Intangible assets, net	768,610	41,029
Other assets	470,852	400,523
Total assets	\$6,130,081	\$ 1,088,543
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$29,338	\$ 10,000
Accounts payable	635,807	54,035
Accrued liabilities	535,521	176,007
Total current liabilities	1,200,666	240,042
Long-term debt, less current portion	1,695,793	101,518
Other liabilities	1,013,944	557,708
Total liabilities	3,910,403	899,268
Equity:		
Preferred stock, \$0.001 par value; 20,000,000 and 10,000,000 shares authorized; 13,877,552 and none issued and outstanding	14	—
Common stock, \$0.001 par value; 400,000,000 and 200,000,000 shares authorized; 93,788,045 and 43,697,570 issued and outstanding	94	44
Additional paid-in capital	2,185,285	415,527
Accumulated deficit	(164,835)	(55,503)
Accumulated other comprehensive loss	(53,215)	(170,793)
Total Colfax Corporation equity	1,967,343	189,275
Noncontrolling interest	252,335	—
Total equity	2,219,678	189,275
Total liabilities and equity	\$6,130,081	\$ 1,088,543

See Notes to Condensed Consolidated Financial Statements.

COLFAX CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF EQUITY

Dollars in thousands, except share amounts and as noted

(Unaudited)

	Common Stock		Preferred Stock		Additional Paid-In	Accumulated	Other	Noncontrolling	
	Shares	\$ Amount	Shares	\$ Amount	Capital	Deficit	Loss	Interest	Total
Balance at January 1, 2012	43,697,570	\$44	—	\$—	\$415,527	\$(55,503)	\$(170,793)	\$—	\$189,275
Net (loss) income	—	—	—	—	—	(105,598)	—	5,137	(100,461)
Acquisition (Note 3)	—	—	—	—	—	—	—	236,257	236,257
Preferred stock dividend	—	—	—	—	—	(3,734)	—	—	(3,734)
Other comprehensive income	—	—	—	—	—	—	117,578	10,941	128,519
Common stock issuances, net of costs of \$20.1 million	49,917,786	50	—	—	1,433,030	—	—	—	1,433,080
Preferred stock issuance, net of costs of \$7.0 million	—	—	13,877,552	14	333,029	—	—	—	333,043
Common stock-based award activity	172,689	—	—	—	3,699	—	—	—	3,699
Balance at March 30, 2012	93,788,045	\$94	13,877,552	\$14	\$2,185,285	\$(164,835)	\$(53,215)	\$252,335	\$2,219,678

See Notes to Condensed Consolidated Financial Statements.

COLFAX CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Dollars in thousands

(Unaudited)

	Three Months Ended	
	March 30, 2012	April 1, 2011
Cash flows from operating activities:		
Net (loss) income	\$(100,461)	\$ 6,555
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation, amortization and fixed asset impairment charges	61,804	5,527
Stock-based compensation expense	1,195	1,716
Deferred income tax provision (benefit)	49,056	(1,250)
Changes in operating assets and liabilities, net of acquisitions:		
Trade receivables, net	(66,472)	(497)
Inventories, net	(56,062)	(7,760)
Changes in other operating assets and liabilities	1,662	421
Net cash (used in) provided by operating activities	(109,278)	4,712
Cash flows from investing activities:		
Purchases of fixed assets, net	(18,898)	(3,036)
Acquisitions, net of cash received	(1,653,756)	(22,299)
Net cash used in investing activities	(1,672,654)	(25,335)
Cash flows from financing activities:		
Borrowings under term credit facility	1,731,523	—
Payments under term credit facility	(490,349)	(2,500)
Proceeds from borrowings on revolving credit facilities	12,250	16,631
Repayments of borrowings on revolving credit facilities	(51,268)	(12,831)
Payments of deferred loan costs	(4,613)	—
Proceeds from issuance of common stock, net	753,235	1,125
Proceeds from issuance of preferred stock, net	333,029	—
Payment of dividend on preferred stock	(2,062)	—
Net cash provided by financing activities	2,281,745	2,425
Effect of foreign exchange rates on cash and cash equivalents	5,009	3,116
Increase (decrease) in cash and cash equivalents	504,822	(15,082)
Cash and cash equivalents, beginning of period	75,108	60,542
Cash and cash equivalents, end of period	\$579,930	\$ 45,460

See Notes to Condensed Consolidated Financial Statements.

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COLFAX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. General

Colfax Corporation (the “Company” or “Colfax”) is a diversified global industrial manufacturing and engineering company that provides gas- and fluid-handling and fabrication technology products and services to customers around the world under the Howden, ESAB and Colfax Fluid Handling brand names. With the closing of the acquisition of Charter International plc (“Charter”) by Colfax (the “Charter Acquisition”) during the three months ended March 30, 2012, Colfax has transformed from a fluid-handling business into a multi-platform enterprise with a global footprint. See Note 3, “Acquisition” for additional information regarding the Charter Acquisition.

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, 2011 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, 2011 (the “2011 Form 10-K”), filed with the SEC on February 23, 2012. Given the impact of the Charter Acquisition on the Condensed Consolidated Financial Statements, certain prior period amounts have been reclassified to conform to current year presentation.

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 months ended March 30, 2012 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 gas- and 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. General economic conditions as well as backlog levels may, however, impact future seasonal variations.

COLFAX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Unaudited)

2. Accounting Policies

During the three months ended March 30, 2012, the Company's significant accounting policies, as reflected in the 2011 Form 10-K, were updated to include the following as a result of the Charter Acquisition:

Revenue Recognition - Construction Contracts

The Company recognizes revenue and cost of sales on gas-handling construction projects using the "percentage of completion method" in accordance with GAAP. Under this method, contract revenues are recognized over the performance period of the contract in direct proportion to the costs incurred as a percentage of total estimated costs for the entirety of the contract. Any recognized revenues that have not been billed to a customer are recorded as a component of Trade receivables and any billings of customers in excess of recognized revenues are recorded as a component of Accounts payable. As of March 30, 2012, there were \$147.7 million of expenses in excess of billings and of \$105.6 million of billings in excess of expenses on construction contracts in the Condensed Consolidated Balance Sheet.

The Company has contracts in various stages of completion. Such contracts require estimates to determine the appropriate cost and revenue recognition. Significant management judgments and estimates, including estimated costs to complete projects, must be made and used in connection with revenue recognized during each period. Current estimates may be revised as additional information becomes available. See Note 15, "Segment Information" for sales by major product group.

Noncontrolling Interests

The Company's Condensed Consolidated Financial Statements include the accounts of the Company and its subsidiaries. Less than wholly owned subsidiaries, including joint ventures, are consolidated when it is determined that the Company has a controlling financial interest, which is generally determined when the Company holds a majority voting interest. When protective rights, substantive rights or other factors exist, further analysis is performed in order to determine whether or not there is a controlling financial interest. The Condensed Consolidated Financial Statements reflect the assets, liabilities, revenues and expenses of consolidated subsidiaries and the noncontrolling parties' ownership share is presented as a noncontrolling interest.

Derivatives

The Company is subject to foreign currency risk associated with the retranslation of the net assets of foreign subsidiaries to U.S. dollars on a periodic basis. The Company's Deutsche Bank Credit Agreement (as defined and further discussed in Note 9, "Debt") includes a €157.6 million term A-3 facility, which has been designated as a net investment hedge in order to mitigate a portion of this risk.

Derivative instruments are generally recognized on a gross basis in the Condensed Consolidated Balance Sheets in either Other current assets, Other assets, Accrued liabilities or Other liabilities depending upon their respective fair values and maturity dates. The Company designates a portion of its foreign exchange contracts as fair value hedges. For all instruments designated as hedges, including net investment hedges, cash flow hedges and fair value hedges, the Company formally documents 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. The Company assesses whether the relationship between the hedging instrument and the hedged item is highly effective at offsetting changes in the fair value both at inception of the hedging relationship and on an ongoing basis. For cash flow hedges and net investment hedges, unrealized gains and losses are recognized as a component of Accumulated other comprehensive loss in the Condensed Consolidated Balance Sheets to the extent that it is effective at offsetting the change in the fair value of the hedged item and realized gains and losses are recognized in Selling, general and administrative expense in the Condensed Consolidated Statements of Operations. Gains and losses related to fair value hedges are recorded as an offset to the fair value of the underlying asset or liability, primarily Trade receivables and Accounts payable in the Condensed Consolidated Statements of Operations.

COLFAX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Unaudited)

See Note 13, “Financial Instruments and Fair Value Measurements” for additional information regarding the Company’s derivative instruments.

Equity Method Investments

Investments in joint ventures, where the Company has a significant influence but not a controlling interest, are accounted for using the equity method of accounting. Investments accounted for under the equity method are initially recorded at the amount of the Company’s initial investment and adjusted each period for the Company’s share of the investee’s income or loss and dividends paid. All equity investments are reviewed periodically for indications of other than temporary impairment, including, but not limited to, significant and sustained decreases in quoted market prices or a series of historic and projected operating losses by investees. If the decline in fair value is considered to be other than temporary, an impairment loss is recorded and the investment is written down to a new carrying value. Investments in joint ventures acquired in the Charter Acquisition were recognized in the opening balance sheet at fair value. See Note 3, “Acquisition” for additional information regarding the assets acquired in the Charter Acquisition.

3. Acquisition

On January 13, 2012, Colfax completed the Charter Acquisition for a total purchase price of approximately \$2.6 billion. Under the terms of the Charter Acquisition, Charter shareholders received 730 pence in cash and 0.1241 newly issued shares of Colfax Common stock in exchange for each share of Charter’s ordinary stock. Charter is a global industrial manufacturing company focused on welding, cutting and automation and air and gas handling. The acquisition is expected to:

• enhance the Company’s business profile by providing a meaningful recurring revenue stream and considerable exposure to emerging markets;

• enable Colfax to benefit from strong secular growth drivers, with a balance of short- and long-cycle businesses; and

- provide an additional growth platform in the fragmented fabrication technology industry.

See Note 9, “Debt” and Note 10, “Equity” for a discussion of the respective financing components of the Charter Acquisition.

During the three months ended March 30, 2012, the Company incurred \$42.9 million of advisory, legal, audit, valuation and other professional service fees, termination payments to Charter executives and realized losses on acquisition-related foreign exchange derivatives in connection with the Charter Acquisition, which are included in Charter acquisition-related expense in the Condensed Consolidated Statement of Operations. As of March 30, 2012, \$10.1 million related to these expenses were included in Accrued liabilities in the Condensed Consolidated Balance Sheet. See Note 13, "Financial Instruments and Fair Value Measurements" for additional information regarding the Company's derivative instruments.

COLFAX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Unaudited)

The Charter Acquisition was accounted for using the acquisition method of accounting and accordingly, the Condensed Consolidated Financial Statements include the financial position and results of operations from the date of acquisition. The following unaudited proforma financial information presents Colfax's consolidated financial information assuming the acquisition had taken place on January 1, 2011. These amounts are presented in accordance with GAAP, consistent with the Company's accounting policies.

	Three Months Ended	
	March 30, 2012	April 1, 2011 ⁽¹⁾
	(Unaudited, in thousands)	
Net sales	\$955,791	\$854,216
Net income (loss) available to Colfax common shareholders	14,204	(49,430)

-
- (1) Proforma net loss available to Colfax common shareholders for the three months ended April 1, 2011 reflects the impact of certain expenses included in the Condensed Consolidated Statement of Operations for the three months ended March 30, 2012, but excluded from the calculation of proforma net income for that period. These expenses include increased acquisition-related amortization expense of \$33.7 million, \$42.9 million of Charter acquisition-related expense, discussed above, and \$50.3 million of increased valuation allowance related to the Company's deferred tax assets in the U.S., discussed further in Note 6, "Income Taxes."

The following table summarizes the Company's best estimate of the aggregate fair value of the assets acquired and liabilities assumed at the date of acquisition. These amounts are determined based upon certain valuations and studies that have yet to be finalized, and accordingly, the assets acquired and liabilities assumed, as detailed below, are subject to adjustment once the detailed analyses are completed. In addition, certain assets and obligations related to contracts existing at the acquisition date are valued based on incomplete data as some regulatory matters are unresolved. There is also a required change of control payment related to a defined benefit pension plan which is based on plan provisions which must be interpreted by an actuary. Such interpretation and the related financial statement impact has not yet been received. Substantially all of the Goodwill recognized is not expected to be deductible for income tax purposes.

	January 13, 2012 (In thousands)
Trade receivables	\$ 687,962
Inventories	464,621
Property, plant and equipment	565,111
Goodwill	1,595,458

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Intangible assets	715,643	
Accounts payable	(372,241)
Debt	(398,705)
Other assets and liabilities, net	(469,541)
	2,788,308	
Less: net assets attributable to noncontrolling interest	(236,257)
Net consideration	\$ 2,552,051	

COLFAX CORPORATION
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
 (Unaudited)

The following table summarizes Intangible assets acquired, excluding Goodwill, as of January 13, 2012:

	Intangible Asset (In thousands)	Weighted-Average Amortization Period (Years)
Trade names – indefinite life	\$363,628	n/a
Customer relationships	215,310	7.10
Acquired technology	77,485	10.33
Backlog	54,805	1.00
Trademarks	4,415	5.00
Intangible assets	\$715,643	6.84

4. Goodwill and Intangible Assets

The following table summarizes the activity in Goodwill, by segment, during the three months ended March 30, 2012:

	Gas and Fluid Handling	Fabrication Technology (In thousands)	Total
Balance, January 1, 2012	\$ 204,844	\$ —	\$204,844
Goodwill attributable to Charter Acquisition	927,918	667,540	1,595,458
Impact of foreign currency translation	41,940	28,195	70,135
Balance, March 30, 2012	\$ 1,174,702	\$ 695,735	\$ 1,870,437

The following table summarizes the Intangible assets, excluding Goodwill:

	March 30, 2012		December 31, 2011	
	Gross Carrying Amount (In thousands)	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Trade names – indefinite life	\$254,556	\$ —	\$6,803	\$ —
Acquired customer relationships	390,505	(16,983)	29,798	(12,987)
Acquired technology	99,182	(4,893)	17,961	(2,791)

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Acquired backlog	60,686	(14,927)	3,451	(2,033)
Other intangible assets	5,020	(4,536)	4,962	(4,135)
	\$809,949	\$ (41,339)	\$62,975	\$ (21,946)

See Note 3, “Acquisition” for additional information regarding the activity in Goodwill and intangible assets associated with the Charter Acquisition.

Amortization expense of \$18.9 million and \$1.8 million related to amortizable intangible assets was included in Selling, general and administrative expense in the Condensed Consolidated Statements of Operations for the three months ended March 30, 2012 and April 1, 2011, respectively.

COLFAX CORPORATION
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
 (Unaudited)

5. Net (Loss) Income Per Share

Net (loss) income per share available to Colfax Corporation common shareholders was computed under the two-class method as follows:

	Three Months Ended	
	March 30, 2012	April 1, 2011
	(In thousands, except share data)	
Net (loss) income available to Colfax Corporation common shareholders	\$ (109,332) \$ 6,555
Less: net loss attributable to participating securities ⁽¹⁾	—	—
	\$ (109,332) \$ 6,555
Weighted-average shares of Common stock outstanding—basic	81,927,738	43,497,642
Net effect of potentially dilutive securities ⁽²⁾	—	607,478
Weighted-average shares of Common stock outstanding—diluted	81,927,738	44,105,120
Net (loss) income per share—basic and diluted	\$ (1.33) \$ 0.15

⁽¹⁾ Net (loss) income per share was calculated consistent with the two-class method in accordance with GAAP as the shares of the Company's Series A Preferred Stock are considered participating securities.

⁽²⁾ Potentially dilutive securities consist of stock options and restricted stock units.

The weighted-average computation of the dilutive effect of potentially issuable shares of Common stock under the treasury stock method for the three months ended March 30, 2012 and April 1, 2011 excludes approximately 1.4 million and 0.5 million outstanding stock-based compensation awards, respectively, as their inclusion would be anti-dilutive.

6. Income Taxes

During the three months ended March 30, 2012, Loss before income taxes was \$43.1 million and the Provision for income taxes was \$57.3 million. The provision was impacted by two significant items. Upon completion of the Charter Acquisition, certain deferred tax assets existing at that date were reassessed in light of the impact of the acquired businesses on expected future income or loss by country and future tax planning, including the impact of the

post-acquisition capital structure. This assessment resulted in an increase in the Company's valuation allowance to provide full valuation allowances against U.S. deferred tax assets. The increased valuation allowances resulted in an increase to the income tax provision for the three months ended March 30, 2012 of \$50.3 million. In addition, \$42.9 million of Charter acquisition-related expense reflected in the Condensed Consolidated Statement of Operations are either non-deductible or were incurred in jurisdictions where no tax benefit can be recognized. These two items are the principal cause of tax provision rather than the tax benefit which would result from the application of the U.S. federal statutory rate to the reported net loss.

During the three months ended April 1, 2011, Income before income taxes was approximately \$9.5 million and the Provision for income taxes was \$3.0 million. The effective tax rate of 31.0% represents the estimated annual tax rate for the year applied to the current period Income before income tax plus the tax effect of any significant unusual items, discrete items or changes in tax law. This effective tax rate of 31.0% differs from the U.S. federal statutory tax rate primarily due to international tax rates which are lower than the U.S. tax rate.

COLFAX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Unaudited)

In accordance with GAAP, the Company records a liability for unrecognized income tax benefits for the amount of benefit included in its previously filed income tax returns and in its financial results expected to be included in income tax returns to be filed for periods through the date of its Condensed Consolidated Financial Statements for income tax positions for which it is more likely than not that a tax position will not be sustained upon examination by the respective taxing authority. A reconciliation of the beginning and ending amount of gross unrecognized tax benefits is as follows:

	(In thousands)
Balance, January 1, 2012	4,077
Addition for tax positions taken in prior periods	451
Addition for tax positions taken in the current period	265
Addition related to acquired entities	71,285
Other, including the impact of foreign currency translation	1,908
Balance, March 30, 2012	\$ 77,986

The Company is now subject to income tax in more than 100 countries and is routinely examined by tax authorities around the world. Tax examinations for years dating back to 1999 remain in process in multiple countries.

The Company's total unrecognized tax benefits were \$78.0 million and \$4.1 million as of March 30, 2012 and December 31, 2011, respectively, inclusive of \$15.5 million and \$0.4 million, respectively, of interest and penalties. These amounts were offset in part by tax benefits of \$0.5 million as of both March 30, 2012 and December 31, 2011. The net liabilities for uncertain tax positions as of March 30, 2012 and December 31, 2011 were \$77.5 million and \$3.6 million, respectively, and if recognized, would favorably impact the effective tax rate. The Company records interest and penalties on uncertain tax positions as a component of Provision for income taxes, which was \$0.5 million and \$0.1 million for the three months ended March 30, 2012 and April 1, 2011, respectively.

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 up to \$2.5 million.

COLFAX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Unaudited)

The Charter Acquisition materially impacted the Company's deferred tax assets, liabilities and valuation allowances. Significant components of the deferred tax assets and liabilities as of January 13, 2012 are estimated as follows:

	January 13, 2012	
	Current	Non-Current
	(In thousands)	
Deferred tax assets:		
Post-retirement benefit obligation	\$ 1,474	\$ 106,948
Expenses currently not deductible	39,872	70,672
Net operating loss carryover	20,220	130,476
Tax credit carryover	—	15,482
Other	9,340	27,005
Total deferred tax assets	70,906	350,583
Valuation allowance	(19,635)	(240,199)
Deferred tax assets, net	\$ 51,271	\$ 110,384
Deferred tax liabilities:		
Depreciation and amortization	\$ —	\$ 58,495
Pension	—	22,022
Intangible assets	6,699	197,753
Other	1,721	27,038
Total deferred tax liabilities	\$ 8,420	\$ 305,308
Total deferred tax assets (liabilities), net	\$ 42,851	\$ (194,924)

Acquired subsidiaries with significant noncontrolling interests in India and China as well as a wholly owned Russian subsidiary are expected to remit dividends. Consequently, a liability of \$11.8 million has been established at March 30, 2012. All other undistributed earnings of the Company's controlled international subsidiaries are considered to be permanently reinvested and no tax expense in the U.S. has been recognized under the applicable accounting standard for these reinvested earnings. The amount of deferred tax liability that would have been recognized had such earnings not been permanently reinvested is not reasonably determinable.

7. Property, Plant and Equipment, Net

	Depreciable Life	March 30, 2012	December 31, 2011
	(In years)	(In thousands)	
Land	n/a	\$ 32,145	\$ 14,786

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Buildings and improvements	5-40	303,315	38,642
Machinery and equipment	3-15	419,963	134,548
Software	3-5	59,805	16,948
		815,228	204,924
Accumulated depreciation		(133,598)	(113,985)
Property, plant and equipment, net		\$681,630	\$ 90,939

Depreciation expense, including the amortization of assets recorded under capital leases, of \$17.2 million and \$3.1 million for the three months ended March 30, 2012 and April 1, 2011, respectively, was included in the Condensed Consolidated Statements of Operations and included \$2.3 million and \$0.4 million, respectively, of depreciation expense related to software.

COLFAX CORPORATION
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
 (Unaudited)

8. Inventories, Net

Inventories, net consisted of the following:

	March 30, 2012	December 31, 2011
	(In thousands)	
Raw materials	\$ 175,232	\$ 25,241
Work in process	112,941	26,376
Finished goods	284,952	20,378
	573,125	71,995
Less: customer progress billings	(11,929)	(9,124)
Less: allowance for excess, slow-moving and obsolete inventory	(5,810)	(6,735)
Inventories, net	\$ 555,386	\$ 56,136

9. Debt

Long-term debt consisted of the following:

	March 30, 2012	December 31, 2011
	(In thousands)	
Term loans	\$ 1,707,025	\$ 72,500
Revolving credit facilities and other	18,106	39,018
Total Debt	1,725,131	111,518
Less: current portion	(29,338)	(10,000)
Long-term debt	\$ 1,695,793	\$ 101,518

As of December 31, 2011, the Company was party to a credit agreement (the "Bank of America Credit Agreement"), led and administered by Bank of America, which was a senior secured structure with a revolving credit facility and term credit facility. The term credit facility bore interest at the London Interbank Offered Rate ("LIBOR") 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 December 31, 2011, the interest rate was 2.55% inclusive of a margin of 2.25%. Additionally, an annual commitment fee on the revolver ranged from 40 basis points to 50 basis points determined by the Company's total leverage ratio

calculated at the end of each quarter. As of December 31, 2011, the commitment fee was 40 basis points and there was \$21.0 million outstanding on the letter of credit sub-facility.

During the three months ended March 30, 2012, the Company terminated the Bank of America Credit Agreement in conjunction with the financing of the Charter Acquisition. Upon the early termination of the Bank of America Credit Agreement, the Company incurred a total pre-tax charge of \$1.5 million, which includes the write-off of \$1.0 million of deferred financing fees and \$0.5 million of losses reclassified from Accumulated other comprehensive loss in the Condensed Consolidated Balance Sheet for the related interest rate swap to Interest expense in the Condensed Consolidated Statement of Operations.

On January 13, 2012 and January 25, 2012, Colfax incurred debt consisting of: (i) a \$200 million term A-1 facility, (ii) a \$500 million term A-2 facility, (iii) a €157.6 million term A-3 facility and (iv) a \$900 million term B facility pursuant to a credit agreement (the "Deutsche Bank Credit Agreement") with Deutsche Bank Securities Inc., HSBC Securities (USA) Inc. and certain other lender parties named therein. 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 term A-1, term A-2, term A-3 and the Revolver variable-rate borrowings are subject to interest payments of LIBOR or the Euro Interbank Offered Rate ("EURIBOR") plus a margin ranging from 2.50% to 3.25%, determined by our leverage ratio. Borrowings under the term B facility are also variable rate and are subject to interest payments of LIBOR plus a margin of 3.5%. The Revolver is subject to a commitment fee ranging from 37.5 and 50 basis points, determined by the Company's leverage ratio. Additionally, as of March 30, 2012 the Company had an original issue discount of \$65.6 million and deferred financing fees of \$5.7 million, which were recognized in connection with the Deutsche Bank Credit Agreement, and will be accreted to Interest expense primarily using the effective interest method. The weighted-average interest rate of borrowings under the Deutsche Bank Credit Agreement for the three months ended March 30, 2012 was 3.95% and there was \$291.9 million available on the Revolver, including \$191.9 available on the letter of credit sub-facility.

COLFAX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Unaudited)

The Company is also party to additional letter of credit facilities with total capacity of \$464.3 million and \$318.4 million outstanding as of March 30, 2012.

The contractual maturities of the Company's debt as of March 30, 2012 are as follow⁽¹⁾:

	(In thousands)
Remainder of 2012	\$ 24,980
2013	20,852
2014	144,000
2015	189,000
2016	421,903
2017	144,000
Thereafter	846,000
Total contractual maturities	1,790,735
Debt discount	(65,604)
Total debt	\$ 1,725,131

Represents scheduled payments required under the Deutsche Bank Credit Agreement through the respective final ⁽¹⁾maturities of the term A facilities through January 13, 2017 and the term B facility through January 13, 2019, as well as the contractual maturities of other Debt outstanding as of March 30, 2012.

In March 2012, the Company used a portion of the proceeds from the sale of Common stock to pay off \$35.0 million in borrowings under the term A facilities in advance of the scheduled payments. See Note 10, "Equity" for additional discussion regarding the Company's stock issuances.

In connection with the Deutsche Bank Credit Agreement, the Company has pledged substantially all of its domestic subsidiaries' assets and 65% of the shares of certain first tier international subsidiaries as collateral against borrowings to its U.S. companies. In addition, subsidiaries in certain foreign jurisdictions have guaranteed the Company's obligations on borrowings of one of its European subsidiaries, as well as pledged substantially all of their assets for such borrowings to this European subsidiary under the Deutsche Bank Credit Agreement. The Deutsche Bank Credit Agreement contains customary covenants limiting the Company's ability 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 Deutsche Bank Credit Agreement contains financial covenants requiring the Company to maintain a total leverage ratio, as defined therein, of not more than 4.95 to 1.0 and a minimum interest coverage ratio, as defined therein, of 2.0 to 1.0, measured at the end of each quarter, through the year ended December 31, 2012. The minimum interest coverage ratio increases by 25 basis points each year beginning in the year ended December 31, 2013 until it reaches 3.0 to 1.0 for the year ended December 31, 2016. The maximum total leverage ratio decreases to 4.75 to 1.0 for the year ended December 31, 2014 and decreases by 25

basis points for the two subsequent fiscal years until it reaches 4.25 to 1.0 for the year ended December 31, 2016. The Deutsche Bank Credit Agreement contains various events of default, including failure to comply with such financial covenants, and upon an event of default the lenders may, subject to various customary cure rights, require the immediate payment of all amounts outstanding under the term loans and Revolver and foreclose on the collateral. The Company is in compliance with all such covenants as of March 30, 2012.

COLFAX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Unaudited)

10. Equity

Common and Preferred Stock

On January 24, 2012, following approval by the Company's shareholders, the Company's Certificate of Incorporation was amended to increase the number of authorized shares from 210,000,000 shares to 420,000,000 shares, comprised of an increase in Common stock from 200,000,000 shares to 400,000,000 shares and an increase in Preferred stock from 10,000,000 shares to 20,000,000 shares.

In connection with the financing of the Charter Acquisition, on January 24, 2012, the Company sold (i) 14,756,945 shares of newly issued 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) pursuant to a securities 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). 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 the Company 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 were 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.

On January 24, 2012, Colfax sold 2,170,139 shares of newly issued Colfax Common stock to each of Mitchell P. Rales, Chairman of Colfax's Board of Directors, and his brother Steven M. Rales and 1,085,070 shares of newly issued Colfax Common stock to Markel Corporation, a Virginia corporation ("Markel") at \$23.04 per share, for an aggregate of \$125 million, pursuant to separate securities purchase agreements with Mitchell P. Rales and Steven M. Rales, each of whom were beneficial owners of 20.9% of Colfax's Common stock, and Markel. Thomas S. Gayner, a member of

Colfax's Board of Directors, is President and Chief Investment Officer of Markel.

Consideration paid to Charter shareholders included 0.1241 shares of newly issued Colfax Common stock in exchange for each share of Charter's ordinary stock, which resulted in the issuance of 20,735,493 shares of Common stock on January 24, 2012.

In conjunction with the issuance of the Common and Preferred stock discussed above, the Company recognized \$14.5 million in equity issuance costs which were recorded as a reduction to Additional paid-in capital during the three months ended March 30, 2012.

On March 5, 2012, the Company sold 8,000,000 shares of newly issued Colfax Common stock to underwriters for public resale pursuant to a shelf registration statement for an aggregate purchase price of \$272 million. Further, on March 9, 2012, the underwriters of the March 5, 2012 equity offering exercised their over-allotment option and the Company sold an additional 1,000,000 shares of newly issued Colfax Common stock to the underwriters for public resale pursuant to a shelf registration statement for an aggregate purchase price of \$34 million. In conjunction with these issuances, the Company recognized \$12.6 million in equity issuance costs which were recorded as a reduction to Additional paid-in capital during the three months ended March 30, 2012.

COLFAX CORPORATION
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
 (Unaudited)

Dividend Restrictions

Beginning on January 13, 2012, the Company is subject to dividend restrictions under the Deutsche Bank Credit Agreement, which limit the total amount of cash dividends the Company may pay and Common stock repurchases the Company may make to \$50 million annually, in the aggregate.

Accumulated Other Comprehensive Loss

The activity in the components of Accumulated other comprehensive loss during the three months ended March 30, 2012 is as follows:

	Foreign Currency Translation Adjustment	Unrealized Losses on Hedging Activities	Net Unrecognized Pension and Other Post- Retirement Benefit Cost	Accumulated Other Comprehensive (Loss)
	(In millions)			
Balance at January 1, 2012	\$ (5,537)	\$ (471)	\$ (164,785)	\$ (170,793)
Change during 2012	123,069	(7,516)	2,025	117,578
Balance at March 30, 2012	\$ 117,532	\$ (7,987)	\$ (162,760)	\$ (53,215)

The activity in Accumulated other comprehensive loss related to foreign currency translation for the three months ended March 30, 2012 excludes the \$10.9 million impact of foreign currency translation related to Noncontrolling interest during the period.

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 expense in the Condensed Consolidated Statements of Operations, as payroll costs of the employees receiving the awards are recorded in the same line item. During the three months ended March 30, 2012, a total of \$1.2 million and \$0.1 million of stock-based compensation expense and related deferred tax benefits,

respectively, were recognized. During the three months ended April 1, 2011, a total of \$1.7 million of stock-based compensation expense and \$0.6 million of deferred tax benefits were recognized, including approximately \$0.2 million of stock-based compensation expense included in Restructuring and other related charges in the Condensed Consolidated Financial Statements related to the accelerated vesting of certain awards as part of the termination benefits of one employee associated with the Company's restructuring activities. As of March 30, 2012, the Company had \$14.7 million of unrecognized compensation expense related to stock-based awards that will be recognized over a weighted-average period of approximately 2.4 years.

COLFAX CORPORATION
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
 (Unaudited)

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:

	Three Months Ended March 30, 2012	
Expected period that options will be outstanding (in years)	4.50	
Interest rate (based on U.S. Treasury yields at the time of grant)	0.87	%
Volatility	44.90	%
Dividend yield	—	
Weighted-average fair value of options granted	\$ 13.36	

Expected volatility is estimated based on the historical volatility of comparable public companies. The Company considers historical data to estimate employee termination within the valuation model. Separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. Since the Company has limited option exercise history, it has elected to estimate the expected life of an award based upon the SEC-approved “simplified method” noted under the provisions of Staff Accounting Bulletin No. 107 with the continued use of this method extended under the provisions of Staff Accounting Bulletin No. 110.

Stock option activity is as follows:

	Number of Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value ⁽¹⁾ (In thousands)
Outstanding at December 31, 2011	1,461,157	14.76		
Granted	348,564	35.29		
Exercised	(174,620)	13.58		
Forfeited	(3,270)	19.10		

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Expired	(6,457)	12.58		
Outstanding at March 30, 2012	1,625,374	\$ 19.29	5.36	\$ 26,040
Vested or expected to vest at March 30, 2012	1,473,259	\$ 20.00	5.33	\$ 22,557
Exercisable at March 30, 2012	800,007	\$ 13.36	4.43	\$ 17,506

The aggregate intrinsic value is based upon the difference between the Company's closing stock price at the date of the Consolidated Balance Sheet and the exercise price of the stock option for in-the-money stock options. The (1) 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 performance-based restricted stock units ("PRSUs") and restricted stock units ("RSUs") is equal to the market value of a share of Common stock on the date of grant, and the related compensation expense is recognized ratably over the requisite service period and, for PRSUs, when it is expected that any of the performance criterion will be achieved.

COLFAX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Unaudited)

The activity in the Company's PRSUs and RSUs is as follows:

	PRSUs		RSUs	
	Number of Units	Weighted-Average Grant Date Fair Value	Number of Units	Weighted-Average Grant Date Fair Value
Nonvested at December 31, 2011	324,447	\$ 15.99	64,263	\$ 14.71
Granted	120,761	35.60	5,556	35.63
Vested	—	—	(1,852)	9.21
Forfeited	(2,897)	17.25	—	—
Nonvested at March 30, 2012	442,311	\$ 21.34	67,967	\$ 16.57

11. Accrued Liabilities

Accrued liabilities in the Condensed Consolidated Balance Sheets consisted of the following:

	March 30, 2012	December 31, 2011
	(In thousands)	
Accrued payroll	\$89,604	\$ 21,415
Advance payment from customers	96,585	14,704
Accrued taxes	92,415	4,911
Accrued asbestos-related liability	77,532	76,295
Accrued restructuring liability – current portion	12,116	4,573
Warranty liability – current portion	37,768	2,987
Accrued Charter Acquisition-related liability	10,078	29,430
Accrued pension liability	17,046	1,267
Other	102,377	20,425
Accrued liabilities	\$535,521	\$ 176,007

Warranty Liability

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 consisted of the following:

	Three Months	
	Ended	
	March	April
	30,	1,
	2012	2011
	(In thousands)	
Warranty liability, beginning of period	\$2,987	\$2,963
Accrued warranty expense	4,498	910
Changes in estimates related to pre-existing warranties	198	458
Cost of warranty service work performed	(8,317)	(515)
Acquisitions	44,476	447
Foreign exchange translation effect	176	194
Warranty liability, end of period	\$44,018	\$4,457

COLFAX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Unaudited)

Accrued Restructuring Liability

The Company initiated a series of restructuring actions at its fluid-handling operations beginning in 2009 in response to then current and expected future economic conditions. During the three months ended April 1, 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. During the year ended December 31, 2011, 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.

As a result of the Charter Acquisition, the Company's restructuring programs expanded to include ongoing initiatives at the Company's fabrication technology operations and efforts to reduce the structural costs and rationalize the corporate overhead of the combined businesses. Initiatives at the Company's fabrication technology operations include the transfer of European capacity, a reduction in fixed overhead in Europe, the replacement of an old factory in the U.S. with a modern, lower cost and higher capacity facility, and the reduction of product range complexity to drive margin and working capital improvement.

During the three months ended March 30, 2012 and April 1, 2011, restructuring and other related charges of \$8.6 million and \$2.0 million were recognized in Restructuring and other related charges in the Condensed Consolidated Statements of Operations.

A summary of the activity in the Company's restructuring liability included in Accrued liabilities and Other liabilities in the Condensed Consolidated Balance Sheets is as follows:

Three Months Ended March 30, 2012

Balance

at

Beginning of

of

Period

(In thousands)

Foreign

Currency

Translation

Balance at

End of

Period

Restructuring and other related charges:

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Termination benefits ⁽¹⁾	\$3,868	\$ 6,324	\$ 7,777	\$(7,412)	\$ 83	\$ 10,640
Facility closure costs ⁽²⁾	633	3,860	277	(1,485)	(3)	3,282
Other related charges	72	—	589	(617)	2	46
	\$4,573	\$ 10,184	\$ 8,643	\$(9,514)	\$ 82	\$ 13,968

(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, relocating equipment and lease termination expense in connection with the closure of facilities, discussed above.

The Company expects to incur Restructuring and other related charges of approximately \$22.0 million during the remainder of 2012 related to these restructuring activities.

COLFAX CORPORATION
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
 (Unaudited)

12. Net Periodic Benefit Cost—Defined Benefit Plans

In conjunction with the Charter Acquisition, the Company acquired a net pension and other post-retirement benefit liability of \$206.0 million as of January 13, 2012 and increased its pension and other post-retirement benefit plans by 44 plans. Of the total plans acquired, 40 were underfunded by a total amount of \$256.8 million and three were overfunded by a total amount of \$50.8 million. Employer contributions to pension and other post-retirement employee benefit plans during the three months ended March 30, 2012 were \$28.2 million, and the Company expects to make additional contributions ranging from \$25 million to \$35 million during the remainder of the year ended December 31, 2012. Contributions during the three months ended March 30, 2012 included \$18.9 million of supplemental contributions to pension plans in the United Kingdom as a result of financing the Charter Acquisition. See Note 3, “Acquisition” for additional information regarding the Charter Acquisition.

The following table sets forth the components of net periodic benefit cost of the defined benefit pension plans and the Company’s other post-retirement employee benefit plans:

	Three Months Ended	
	March 30, 2012	April 1, 2011
	(in thousands)	
Pension Benefits—U.S. Plans:		
Service cost	\$—	\$—
Interest cost	4,685	2,850
Expected return on plan assets	(6,031)	(4,164)
Amortization	1,746	1,313
Net periodic benefit cost (credit)	\$400	\$(1)
Pension Benefits—Non U.S. Plans:		
Service cost	\$833	\$288
Interest cost	7,954	1,214
Expected return on plan assets	(4,759)	(353)
Amortization	190	154
Net periodic benefit cost	\$4,218	\$1,303
Other Post-Retirement Benefits:		
Service cost	\$39	\$—
Interest cost	326	172
Amortization	233	213
Net periodic benefit cost	\$598	\$385

13. Financial Instruments and Fair Value Measurements

The carrying values of financial instruments, including Trade receivables, Accounts payable and Accrued liabilities approximate their fair values due to their short-term maturities. The estimated fair value of the Company's debt of \$1.7 billion and \$110.9 million as of March 30, 2012 and December 31, 2011, respectively, was based on current interest rates for similar types of borrowings and is in Level Two of the fair value hierarchy. 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.

COLFAX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Unaudited)

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:

	March 30, 2012			
	Level One	Level Two	Level Three	Total
	(In thousands)			
Assets:				
Cash equivalents	\$309,907	\$—	\$—	\$309,907
Foreign currency contracts related to sales – designated as hedges	—	3,188	—	3,188
Foreign currency contracts related to sales – not designated as hedges	—	4,592	—	4,592
Foreign currency contracts related to purchases – designated as hedges	—	550	—	550
Foreign currency contracts related to purchases – not designated as hedges	—	367	—	367
Deferred compensation plans	—	2,428	—	2,428
	\$309,907	\$11,125	\$—	\$321,032
Liabilities:				
Foreign currency contracts related to sales – designated as hedges	—	2,019	—	2,019
Foreign currency contracts related to sales – not designated as hedges	—	1,601	—	1,601
Foreign currency contracts related to purchases – designated as hedges	—	822	—	822
Foreign currency contracts related to purchases – not designated as hedges	—	2,711	—	2,711
Deferred compensation plans	—	2,428	—	2,428
Liability for contingent payments	—	—	4,537	4,537
	\$—	\$9,581	\$4,537	\$14,118
	December 31, 2011			
	Level One	Level Two	Level Three	Total
	(In thousands)			
Assets:				
Cash equivalents	\$15,540	\$—	\$—	\$15,540
Foreign currency contracts – primarily related to customer sales contracts	—	5	—	5
	\$15,540	\$5	\$—	\$15,545
Liabilities:				
Interest rate swap	\$—	\$471	\$—	\$471
Foreign currency contracts – acquisition-related	—	14,986	—	14,986
Foreign currency contracts – primarily related to customer sales contracts	—	371	—	371
Liability for contingent payments	—	—	4,359	4,359
	\$—	\$15,828	\$4,359	\$20,187

There were no transfers in or out of Level One, Two or Three during the three months ended March 30, 2012.

COLFAX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Unaudited)

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 approximates cost due to their short-term maturities and the high credit quality of the issuers of the underlying securities.

Derivatives

The Company periodically enters into foreign currency, interest rate swap, and commodity derivative contracts. The Company uses interest rate swaps to manage exposure to interest rate fluctuations. Foreign currency contracts are used to manage exchange rate fluctuations. 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 derivative contracts for trading purposes.

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. For transactions in which the instrument has been designated as a cash flow hedge, changes in the fair value of the derivative are reported in Accumulated other comprehensive loss to the extent they are effective at offsetting changes in the hedged item. For transactions in which the instrument has been designated as a fair value hedge, changes in the fair value of the derivative are reported in either Trade receivables or Accounts payable to the extent they are effective at offsetting changes in the hedged item. Changes in the fair value of certain derivatives not designated as hedges, related to the Charter Acquisition, are recognized in Charter acquisition-related expense in the Condensed Consolidated Statements of Operations, while changes in the fair value of all other derivatives not designated as hedges are recognized as a component of Selling, general and administrative expense in the Condensed Consolidated Statements of Operations.

Interest Rate Swap. The notional value of the Company's interest rate swap was \$25 million as of December 31, 2011 at which time it exchanged its LIBOR-based variable-rate interest for a fixed rate of 4.1375%. On January 11, 2012, the Company terminated its interest rate swap in conjunction with the repayment of the Bank of America Credit Agreement and reclassified \$0.5 million of net losses from Accumulated other comprehensive loss to Interest expense

in the Condensed Consolidated Statement of Operations.

Foreign Currency Contracts. As of March 30, 2012 and December 31, 2011, the Company had foreign currency contracts with the following notional values:

	March 30, 2012	December 31, 2011
	(In thousands)	
Foreign currency contracts sold – not designated as hedges	\$322,033	\$—
Foreign currency contracts sold – designated as hedges	206,454	5,116
Foreign currency contracts purchased – not designated as hedges	115,013	—
Foreign currency contracts purchased – designated as hedges	35,360	—
Foreign currency contracts – acquisition related	—	2,749,000
Total foreign currency derivatives	\$678,860	\$2,754,116

COLFAX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Unaudited)

The Company recognized the following in its Condensed Consolidated Financial Statements related to its derivative instruments:

	Three Months Ended	
	March 30, 2012	April 1, 2011
	(In thousands)	
Contracts Designated as Hedges:		
Interest Rate Swap:		
Unrealized loss	\$—	\$(100)
Realized loss	(471)	(485)
Foreign Currency Contracts – related to customer sales contracts:		
Unrealized gain	1,309	—
Realized loss	(755)	—
Foreign Currency Contracts – related to supplier purchase contracts:		
Unrealized loss	(606)	—
Realized loss	(90)	—
Unrealized loss on net investment hedge	(9,879)	—
Contracts Not Designated in a Hedge Relationship:		
Foreign Currency Contracts – acquisition-related:		
Realized loss	(7,177)	—
Foreign Currency Contracts – primarily related to customer sales contracts:		
Unrealized gain	743	(426)
Realized gain	1,094	17

Liability for Contingent Payments

The Company's liability for contingent payments represents the fair value of estimated additional cash payments related to its acquisition of COT-Puritech in December of 2011, which are subject to the achievement of certain performance goals, and is included in Other liabilities in the Condensed Consolidated Balance Sheets. The fair value of the liability for contingent payments represents the present value of probability weighted expected cash flows based upon the Company's internal model and projections and is included in Level Three of the fair value hierarchy. During the three months ended March 30, 2012, an insignificant amount of accretion was recognized in Interest expense in the Condensed Consolidated Statement of Operations related to the Company's liability for contingent payments. Realized or unrealized gains or losses in future periods will be recognized in Selling, general and administrative expense in the Condensed Consolidated Statements of Operations.

14. Commitments and Contingencies

For further description of the Company's litigation and contingencies, reference is made to Note 17, "Commitments and Contingencies" in the Notes to Consolidated Financial Statements for the year ended December 31, 2011.

COLFAX CORPORATION
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
 (Unaudited)

Asbestos and Other Product Liability Contingencies

Claims activity since December 31 related to asbestos claims of our fluid-handling subsidiaries is as follows⁽¹⁾:

	Three Months Ended	
	March 30, 2012	April 1, 2011
	(Number of claims)	
Claims unresolved, beginning of period	23,682	24,764
Claims filed ⁽²⁾	1,001	926
Claims resolved ⁽³⁾	(767)	(3,916)
Claims unresolved, end of period	23,916	21,774

(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’s Condensed Consolidated Balance Sheets included the following amounts related to asbestos-related litigation:

	March 30, 2012	December 31, 2011
	(In thousands)	
Current asbestos insurance asset ⁽¹⁾	\$43,452	\$43,452
Current asbestos insurance receivable ⁽¹⁾	37,224	33,696
Long-term asbestos insurance asset ⁽²⁾	322,774	326,838
Long-term asbestos insurance receivable ⁽²⁾	14,034	14,034
Accrued asbestos liability ⁽³⁾	48,700	48,700
Long-term asbestos liability ⁽⁴⁾	378,163	382,394

(1) Included in Other current assets in the Condensed Consolidated Balance Sheets.

(2) Included in Other assets in the Condensed Consolidated Balance Sheets.

Represents current reserves for probable and reasonably estimable asbestos-related liability cost that the Company believes the fluid handling subsidiaries will pay through the next 15 years, overpayments by certain insurers and (3) unpaid legal costs related to defending themselves against asbestos-related liability claims and legal action against the Company's insurers, which is included in Accrued liabilities in the Condensed Consolidated Balance Sheets.

(4) Included in Other liabilities in the Condensed Consolidated Balance Sheets.

In addition to the asbestos litigation of our fluid-handling subsidiaries, certain subsidiaries acquired in conjunction with the Charter Acquisition have been named as defendants in asbestos related actions in the U.S. These lawsuits have alleged that the defendants were liable for acts of a former affiliate. The defendants have contested these actions and, in most cases, have obtained dismissals. The Company expects to continue to defend successfully the actions brought against them.

Additionally, another subsidiary acquired in conjunction with the Charter Acquisition has been named as a defendant in a number of lawsuits in state and federal courts in the U.S. alleging personal injuries from exposure to manganese in the fumes of welding consumables. This subsidiary, along with other co-defendants, entered into an agreement with plaintiffs' counsel that provides for the dismissal with prejudice of substantially all of the pending manganese claims provided certain conditions precedent are satisfied.

COLFAX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Unaudited)

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.

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.

15. Segment Information

Upon the closing of the Charter Acquisition, the Company changed the composition of its reportable segments to reflect the changes in its internal organization resulting from the integration of the acquired businesses. The Company now conducts its operations through the following business segments:

Gas & Fluid Handling – a global supplier of a broad range of gas- and fluid-handling products, including pumps, fluid-handling systems and controls, specialty valves, heavy-duty centrifugal and axial fans, rotary heat exchangers and gas compressors, which serves customers in the power generation, oil, gas and petrochemical, mining, marine (including defense) and general industrial and other end markets; and

Fabrication Technology – a global supplier of welding equipment and consumables, cutting equipment and consumables and automated welding and cutting systems.

Certain amounts not allocated to the two reportable segments and intersegment eliminations are reported under the heading "Corporate and other." The Company's management evaluates the operating results of each of its reportable segments based upon Net sales and segment operating income (loss), which represents Operating (loss) income before

Restructuring and other related charges.

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COLFAX CORPORATION
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
 (Unaudited)

The Company's segment results were as follows:

	Three Months Ended	
	March	April 1,
	30,	2011
	2012	
	(In thousands)	
Net sales:		
Gas and fluid handling	\$425,331	\$158,558
Fabrication technology	461,035	—
	\$886,366	\$158,558
Segment operating income (loss)⁽¹⁾:		
Gas and fluid handling	\$22,096	\$22,382
Fabrication technology	16,996	—
Corporate and other	(54,580)	(9,073)
	\$(15,488)	\$13,309
Depreciation and Amortization:		
Gas and fluid handling	\$29,544	\$5,283
Fabrication technology	27,629	—
Corporate and other	4,631	244
	\$61,804	\$5,527
Capital Expenditures:		
Gas and fluid handling	\$9,294	\$2,714
Fabrication technology	9,604	—
Corporate and other	—	322
	\$18,898	\$3,036

(1) The following is a reconciliation of (Loss) income before income taxes to segment operating (loss) income:

	Three Months	
	Ended	
	March	April 1,
	30,	2011
	2012	
	(In thousands)	
(Loss) income before income taxes	\$(43,113)	\$9,505
Interest expense	18,982	1,827
Restructuring and other related charges	8,643	1,977
Segment operating (loss) income	\$(15,488)	\$13,309

March 30,

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	2012	December 31, 2011
	(In thousands)	
Investment in Equity Method Investees:		
Gas and fluid handling	\$10,660	\$7,680
Fabrication technology	35,924	—
Corporate and other	—	—
	\$46,584	\$7,680
Total Assets:		
Gas and fluid handling	\$3,274,212	\$947,773
Fabrication technology	2,415,992	—
Corporate and other	439,877	140,770
	\$6,130,081	\$1,088,543

COLFAX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Unaudited)

The detail of the Company's operations by geography and product type are as follows:

Three
Months
Ended