

Colfax CORP  
Form 10-Q  
October 22, 2015

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

FORM 10-Q

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

For the Quarterly Period Ended September 25, 2015

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)

420 National Business Parkway, 5th Floor Annapolis  
Junction, Maryland  
(Address of principal executive offices)

20701  
(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

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As of September 25, 2015, there were 124,232,426 shares of the registrant's common stock, par value \$.001 per share, outstanding.

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## TABLE OF CONTENTS

	Page
<b>PART I - FINANCIAL INFORMATION</b>	
Item 1. Financial Statements	<u>2</u>
Condensed Consolidated Statements of Income	<u>2</u>
Condensed Consolidated Statements of Comprehensive (Loss) Income	<u>3</u>
Condensed Consolidated Balance Sheets	<u>4</u>
Condensed Consolidated Statement of Equity	<u>5</u>
Condensed Consolidated Statements of Cash Flows	<u>6</u>
Notes to Condensed Consolidated Financial Statements	<u>7</u>
Note 1. General	<u>7</u>
Note 2. Recently Issued Accounting Pronouncements	<u>7</u>
Note 3. Acquisitions	<u>8</u>
Note 4. Goodwill and Intangible Assets	<u>8</u>
Note 5. Net Income Per Share	<u>9</u>
Note 6. Income Taxes	<u>9</u>
Note 7. Equity	<u>10</u>
Note 8. Inventories, Net	<u>12</u>
Note 9. Debt	<u>13</u>
Note 10. Accrued Liabilities	<u>15</u>
Note 11. Net Periodic Benefit Cost - Defined Benefit Plans	<u>17</u>
Note 12. Financial Instruments and Fair Value Measurements	<u>17</u>
Note 13. Commitments and Contingencies	<u>20</u>
Note 14. Segment Information	<u>21</u>
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>23</u>
Item 3. Quantitative and Qualitative Disclosures About Market Risk	<u>33</u>
Item 4. Controls and Procedures	<u>34</u>
<b>PART II - OTHER INFORMATION</b>	
Item 1. Legal Proceedings	<u>35</u>
Item 1A. Risk Factors	<u>35</u>
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	<u>35</u>
Item 3. Defaults Upon Senior Securities	<u>36</u>
Item 4. Mine Safety Disclosures	<u>36</u>
Item 5. Other Information	<u>36</u>
Item 6. Exhibits	<u>37</u>
<b>SIGNATURES</b>	<u>38</u>

## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

COLFAX CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF INCOMEDollars in thousands, except per share amounts  
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 25, 2015	September 26, 2014	September 25, 2015	September 26, 2014
Net sales	\$969,144	\$1,164,453	\$2,905,589	\$3,418,120
Cost of sales	673,270	791,258	1,987,240	2,331,122
Gross profit	295,874	373,195	918,349	1,086,998
Selling, general and administrative expense	237,248	245,441	673,109	756,052
Restructuring and other related charges	13,071	8,948	25,658	28,734
Operating income	45,555	118,806	219,582	302,212
Interest expense	10,857	14,935	37,150	40,881
Income before income taxes	34,698	103,871	182,432	261,331
Provision for (benefit from) income taxes	11,153	22,568	43,783	(73,153)
Net income	23,545	81,303	138,649	334,484
Less: income attributable to noncontrolling interest, net of taxes	5,186	7,914	15,107	22,520
Net income attributable to Colfax Corporation	18,359	73,389	123,542	311,964
Dividends on preferred stock	—	—	—	2,348
Preferred stock conversion inducement payment	—	—	—	19,565
Net income available to Colfax Corporation common shareholders	\$18,359	\$73,389	\$123,542	\$290,051
Net income per share - basic	\$0.15	\$0.59	\$0.99	\$2.41
Net income per share - diluted	\$0.15	\$0.59	\$0.99	\$2.38

See Notes to Condensed Consolidated Financial Statements.

COLFAX CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

Dollars in thousands  
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 25, 2015	September 26, 2014	September 25, 2015	September 26, 2014
Net income	\$23,545	\$81,303	\$138,649	\$334,484
Other comprehensive loss:				
Foreign currency translation	(145,177	) (203,135	) (217,418	) (162,253
Unrealized (loss) gain on hedging activities, net of tax of \$1,641, \$3,226, \$16,069 and \$3,351	(6,830	) 16,315	5,429	19,439
Changes in deferred tax related to pension and other postretirement benefit cost	—	—	3,817	1,934
Amounts reclassified from Accumulated other comprehensive loss:				
Net pension and other postretirement benefit cost (income), net of tax of \$903, \$2,153, \$3,574 and \$2,458	1,813	(289	) 5,887	3,345
Other comprehensive loss	(150,194	) (187,109	) (202,285	) (137,535
Comprehensive (loss) income	(126,649	) (105,806	) (63,636	) 196,949
Less: comprehensive (loss) income attributable to noncontrolling interest	(6,790	) 1,844	(1,434	) 15,354
Comprehensive (loss) income attributable to Colfax Corporation	\$(119,859	) \$(107,650	) \$(62,202	) \$181,595

See Notes to Condensed Consolidated Financial Statements.

COLFAX CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS

Dollars in thousands, except share amounts  
(Unaudited)

	September 25, 2015	December 31, 2014
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$221,247	\$305,448
Trade receivables, less allowance for doubtful accounts of \$36,905 and \$27,256	990,452	1,029,150
Inventories, net	449,891	442,732
Other current assets	337,502	323,148
Total current assets	1,999,092	2,100,478
Property, plant and equipment, net	664,200	727,435
Goodwill	2,876,011	2,873,023
Intangible assets, net	1,004,232	1,043,583
Other assets	496,361	491,842
Total assets	\$7,039,896	\$7,236,361
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current portion of long-term debt	\$16,517	\$9,855
Accounts payable	735,310	780,287
Accrued liabilities	453,599	496,207
Total current liabilities	1,205,426	1,286,349
Long-term debt, less current portion	1,532,267	1,526,955
Other liabilities	998,172	1,070,613
Total liabilities	3,735,865	3,883,917
<b>Equity:</b>		
Common stock, \$0.001 par value; 400,000,000 shares authorized; 124,232,426 and 123,730,578 issued and outstanding	124	124
Additional paid-in capital	3,219,262	3,200,832
Retained earnings	513,103	389,561
Accumulated other comprehensive loss	(629,435)	(443,691)
Total Colfax Corporation equity	3,103,054	3,146,826
Noncontrolling interest	200,977	205,618
Total equity	3,304,031	3,352,444
Total liabilities and equity	\$7,039,896	\$7,236,361

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		Additional Paid-In Capital	Retained Earnings	Accumulated		Noncontrolling Interest	Total
	Shares	\$ Amount			Other Comprehensive Loss			
Balance at January 1, 2015	123,730,578	\$124	\$3,200,832	\$389,561	\$ (443,691 )	\$205,618	\$3,352,444	
Net income	—	—	—	123,542	—	15,107	138,649	
Distributions to noncontrolling owners	—	—	—	—	—	(3,207 )	(3,207 )	
Other comprehensive loss, net of tax of \$15.8 million	—	—	—	—	(185,744 )	(16,541 )	(202,285 )	
Common stock-based award activity	435,848	—	15,002	—	—	—	15,002	
Contribution to defined benefit pension plan	66,000	—	3,428	—	—	—	3,428	
Balance at September 25, 2015	124,232,426	\$124	\$3,219,262	\$513,103	\$ (629,435 )	\$200,977	\$3,304,031	

See Notes to Condensed Consolidated Financial Statements.

COLFAX CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Dollars in thousands  
(Unaudited)

	Nine Months Ended	
	September 25, 2015	September 26, 2014
Cash flows from operating activities:		
Net income	\$ 138,649	\$ 334,484
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and impairment charges	110,776	129,448
Stock-based compensation expense	11,886	13,081
Non-cash interest expense	10,099	6,990
Deferred income tax provision (benefit)	15	(151,788)
Changes in operating assets and liabilities:		
Trade receivables, net	(38,972)	(38,666)
Inventories, net	(20,967)	5,200
Accounts payable	3,710	(82,874)
Changes in other operating assets and liabilities	(63,058)	(14,353)
Net cash provided by operating activities	152,138	201,522
Cash flows from investing activities:		
Purchases of fixed assets, net	(32,729)	(59,050)
Acquisitions, net of cash acquired	(184,500)	(948,800)
Net cash used in investing activities	(217,229)	(1,007,850)
Cash flows from financing activities:		
Borrowings under term credit facility	750,000	150,000
Payments under term credit facility	(1,223,497)	—
Proceeds from borrowings on revolving credit facilities and other	1,328,332	1,093,151
Repayments of borrowings on revolving credit facilities and other	(835,232)	(1,023,565)
Proceeds from issuance of common stock, net	3,116	612,982
Preferred stock conversion inducement payment	—	(19,565)
Payments of dividend on preferred stock	—	(3,853)
Other	(9,796)	(22,250)
Net cash provided by financing activities	12,923	786,900
Effect of foreign exchange rates on Cash and cash equivalents	(32,033)	(5,253)
Decrease in Cash and cash equivalents	(84,201)	(24,681)
Cash and cash equivalents, beginning of period	305,448	311,301
Cash and cash equivalents, end of period	\$ 221,247	\$ 286,620

See Notes to Condensed Consolidated Financial Statements.





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.

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, 2014 is derived from the Company's audited financial statements. During the nine months ended September 25, 2015, adjustments were made retrospectively to provisional amounts recorded as of December 31, 2014, primarily due to the Company's valuation of specific items related to an acquisition that occurred in the three months ended June 27, 2014. See Note 3, "Acquisitions" for additional information regarding these adjustments. 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, 2014 (the "2014 Form 10-K"), filed with the SEC on February 17, 2015.

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. During the three months ended September 25, 2015, the Company's Allowance for doubtful accounts was increased in recognition of uncertain economic conditions present in certain South American territories. One specific customer accounted for approximately \$8.1 million of this increase.

The results of operations for the three and nine months ended September 25, 2015 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 business. As our gas- and fluid-handling customers seek to fully utilize capital spending budgets before the end of the year, historically our shipments have peaked during the fourth quarter. Also, all of our European operations typically experience a slowdown during the July and August and December holiday seasons. General economic conditions may, however, impact future seasonal variations.

2. Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU No. 2014-09"). ASU No. 2014-09 clarifies the principles for recognizing revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance affects

entities that enter into contracts with customers to transfer goods or services, and supersedes prior GAAP guidance, namely Accounting Standards Codification Topic 605—Revenue Recognition. In August 2015, the FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers (Topic 606)", which delays the effective date of ASU No. 2014-09 by one year. As a result, ASU No. 2014-09 will be effective for fiscal years beginning after December 15, 2017, with early adoption permitted but not prior to the original effective date of annual periods beginning after December 15, 2016. ASU 2014-09 is to be applied retrospectively, or on a modified retrospective basis. The Company is currently evaluating the impact of adopting ASU No. 2014-09 on its Consolidated Financial Statements.

In April 2015, the FASB issued ASU No. 2015-03, "Interest—Imputation of Interest (Subtopic 835-30)" ("ASU No. 2015-03"). ASU No. 2015-03 aims to simplify the presentation of debt issuance costs by requiring debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Currently, debt issuance costs are presented as a deferred charge under GAAP. ASU No. 2015-03 is effective for fiscal years beginning after December 15, 2015, and is to be applied retrospectively, with early adoption permitted. The Company has early adopted ASU No. 2015-03 during the nine months ended September 25, 2015 resulting in \$2.5 million of debt issuance costs presented as a direct deduction to the Company's Long-term debt in the Condensed Consolidated Balance Sheet as of

COLFAX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

September 25, 2015. The retrospective application of ASU No. 2015-03 decreased Other assets and Long-term debt by \$2.4 million in the Condensed Consolidated Balance Sheet as of December 31, 2014. The Company has applied the provisions of ASU No. 2015-15, "Interest—Imputation of Interest (Subtopic 835-30)" and presents deferred costs associated with its line-of-credit agreements as an asset in the Condensed Consolidated Balance Sheet.

In May 2015, the FASB issued Accounting Standards Update No. 2015-07, "Fair Value Measurement (Topic 820)—Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (Subtopic 835-30)" ("ASU No. 2015-07"). ASU No. 2015-07 aims to remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. ASU 2015-07 also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Investments that calculate net asset value per share (or its equivalent), but for which the practical expedient is not applied will continue to be included in the fair value hierarchy along with the related required disclosures. ASU No. 2015-07 is effective for fiscal years beginning after December 15, 2015, and is to be applied retrospectively, with early adoption permitted. The Company plans to early adopt ASU No. 2015-07 in the Notes to Financial Statements as of December 31, 2015 and will apply the disclosure provisions of ASU 2015-07 to all investments measured using the net asset value per share practical expedient.

In July 2015, the FASB issued Accounting Standards Update No. 2015-11, "Inventory (Topic 330)—Simplifying the Measurement of Inventory" ("ASU No. 2015-11"). ASU No. 2015-11 requires an entity to measure inventory at the lower of cost and net realizable value, except for inventory that is measured using the last-in, first-out method or the retail inventory method. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. ASU No. 2015-11 is effective for fiscal years beginning after December 15, 2016 and is to be applied prospectively with early adoption permitted. The Company is currently evaluating the impact of adopting ASU No. 2015-11 on its Consolidated Financial Statements.

In September 2015, the FASB issued Accounting Standards Update No. 2015-16, "Business Combinations (Topic 805)—Simplifying the Accounting for Measurement-Period Adjustments" ("ASU No. 2015-16"). ASU No. 2015-16 aims to simplify measurement period adjustments resulting from business combinations by requiring that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date, will be recorded in the same period's financial statements as the measurement period adjustment. ASU No. 2015-16 is effective for fiscal years beginning after December 15, 2015, and is to be applied prospectively to adjustments to provisional amounts that occur after the effective date of ASU No. 2015-16. The Company will adopt ASU No. 2015-16 prospectively in the fiscal period beginning after December 15, 2015.

### 3. Acquisitions

On June 30, 2015, Colfax completed the acquisition of the Roots™ blowers and compressors business unit ("Roots"), also known as Industrial Air & Gas Technologies, from GE Oil & Gas (the "Roots Acquisition") for cash consideration of approximately \$185 million, subject to certain purchase price adjustments. Roots is a leading supplier of blower and compressor technologies which service a broad range of end markets, including wastewater treatment, chemical production, and power generation. The acquisition of Roots will build on Howden's global strength in compressors and blowers and will add important application expertise and product solutions to the portfolio.

On April 14, 2014, Colfax completed the acquisition of Victor Technologies Holdings, Inc. (the "Victor Acquisition"). During the nine months ended September 25, 2015, the Company retrospectively adjusted provisional amounts with respect to the Victor Acquisition that were recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date. The aggregate adjustments for the nine months ended September 25, 2015 increased the Goodwill balance by \$0.1 million, primarily due to finalization of the Company's valuation of certain deferred tax assets and liabilities offset by finalization of the valuation of certain fixed assets and an adjustment to a VAT tax position in a specific foreign entity.

#### 4. Goodwill and Intangible Assets

During the three months ended September 25, 2015, an analysis was performed to evaluate certain intangible assets related to specific operations within the Company due to a decline in anticipated performance at the operations associated with those assets. The analysis determined an indefinite-lived trade name within the Company's fabrication technology segment, was no longer

## COLFAX CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

recoverable based upon relief from royalty measurements. The analysis resulted in a \$1.5 million impairment loss. A finite-lived intangible asset associated with customer relationships at a specific operation within the gas- and fluid-handling segment, was determined to be no longer recoverable based upon projected net cash flows, resulting in a \$1.7 million impairment loss. The impairment losses were included in Selling, general and administrative expense in the accompanying Condensed Consolidated Statements of Income for the three and nine months ended September 25, 2015.

On June 30, 2015, the Company completed the acquisition of Roots, resulting in recognition of \$84.1 million of Goodwill within the Company's gas- and fluid- handling segment, based on the preliminary purchase price allocation of the estimated fair values of the assets acquired and liabilities assumed at the date of the Roots Acquisition. These amounts are based upon certain valuations, studies and analyses that have yet to be finalized, and, accordingly, the assets acquired and liabilities assumed are subject to adjustment once the detailed analyses are completed. See Note 3, "Acquisitions" for additional information regarding the Roots Acquisition.

## 5. Net Income Per Share

Net income per share available to Colfax Corporation common shareholders was computed as follows:

	Three Months Ended		Nine Months Ended	
	September 25, 2015	September 26, 2014	September 25, 2015	September 26, 2014
	(In thousands, except share data)			
Computation of Net income per share - basic:				
Net income available to Colfax Corporation common shareholders	\$ 18,359	\$ 73,389	\$ 123,542	\$ 290,051
Weighted-average shares of Common stock outstanding - basic	124,404,267	123,841,699	124,205,441	120,163,945
Net income per share - basic	\$ 0.15	\$ 0.59	\$ 0.99	\$ 2.41
Computation of Net income per share - diluted:				
Net income available to Colfax Corporation common shareholders	\$ 18,359	\$ 73,389	\$ 123,542	\$ 290,051
Weighted-average shares of Common stock outstanding - basic	124,404,267	123,841,699	124,205,441	120,163,945
Net effect of potentially dilutive securities - stock options and restricted stock units	628,000	1,538,867	928,165	1,605,381
Weighted-average shares of Common stock outstanding - diluted <sup>(1)</sup>	125,032,267	125,380,566	125,133,606	121,769,326
Net income per share - diluted	\$ 0.15	\$ 0.59	\$ 0.99	\$ 2.38

<sup>(1)</sup> For the period from January 1, 2014 through February 12, 2014, Net income per share - diluted was calculated consistently with the if-converted method in accordance with GAAP until the outstanding shares of Series A Perpetual Convertible Preferred Stock were converted to Common stock on February 12, 2014. However, weighted-average shares outstanding - diluted for the nine months ended September 26, 2014 excludes the weighted average effect of 1.9 million Common stock equivalents for the period from January 1, 2014 through February 12, 2014, 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 three months ended September 25, 2015 and September 26, 2014 excludes approximately 3.2 million and 1.0 million of 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 25, 2015 and September 26, 2014 excludes approximately 2.5 million and 0.7 million of outstanding stock-based compensation awards, respectively, as their inclusion would be anti-dilutive.

## 6. Income Taxes

During the three months ended September 25, 2015, Income before income taxes was \$34.7 million and the Provision for income taxes was \$11.2 million. The effective tax rate of 32.1% for the three months ended September 25, 2015 differs from the U.S. federal statutory rate primarily due to international tax rates, which are lower than the U.S. tax rate, offset in part by losses in certain jurisdictions where a tax benefit is not expected to be recognized in 2015.

During the nine months ended September 25, 2015, Income before income taxes was \$182.4 million and the Provision for income taxes was \$43.8 million. The effective tax rate of 24.0% for the nine months ended September 25, 2015 differs from the U.S. federal statutory rate primarily due to a tax benefit of \$13.0 million associated with the resolution of a certain liability for

COLFAX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

unrecognized tax benefits and international tax rates, which are lower than the U.S. tax rate, offset in part by losses in certain jurisdictions where a tax benefit is not expected to be recognized in 2015.

During the three months ended September 26, 2014, Income before income taxes was \$103.9 million and the Provision for income taxes was \$22.6 million. The effective tax rate of 21.7% for the three months ended September 26, 2014 differs from the U.S. federal statutory rate primarily due to international tax rates, which are lower than the U.S. tax rate, and a decrease in the valuation allowance against U.S. pre-tax income during the period.

Income before income taxes was \$261.3 million and the Benefit from income taxes was \$73.2 million for the nine months ended September 26, 2014. The Benefit from income taxes for the nine months ended September 26, 2014 was impacted by the reassessment of the realizability of certain deferred tax assets as a result of the effect of the Victor Acquisition on expected future income. This reassessment resulted in a decrease in the Company's valuation allowance against U.S. deferred tax assets. The reduction in the valuation allowance created a non-cash income tax benefit for the nine months ended September 26, 2014 of approximately \$120 million. Additionally, a tax benefit of \$22.7 million was included in Benefit from income taxes in the Condensed Consolidated Statement of Income for the nine months ended September 26, 2014 associated with the resolution of a liability for unrecognized tax benefits. These items are the principal reasons for a tax benefit rather than a tax provision, which would result from the application of the U.S. federal statutory rate to the reported Income before income taxes for the nine months ended September 26, 2014.

## 7. Equity

### Common Stock

On May 21, 2015, the Company contributed 66,000 shares of newly issued Colfax Common stock to its U.S. defined benefit pension plan.

### Share Repurchase Program

On October 11, 2015, the Company's Board of Directors authorized the repurchase of up to \$100.0 million of the Company's Common stock from time-to-time on the open market or in privately negotiated transactions. The repurchase program is authorized until December 31, 2016. The timing and amount of shares repurchased is to be determined by management based on its evaluation of market conditions and other factors. Since October 16, 2015, the Company has repurchased 663,349 shares of the Company's Common stock in open market transactions through the close of business on October 21, 2015.



## COLFAX CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## Accumulated Other Comprehensive Loss

The following tables present the changes in the balances of each component of Accumulated other comprehensive loss including reclassifications out of Accumulated other comprehensive loss for the nine months ended September 25, 2015 and September 26, 2014. All amounts are net of tax and noncontrolling interest.

	Accumulated Other Comprehensive Loss Components			Total
	Net Unrecognized Pension And Other Post-Retirement Benefit Cost (In thousands)	Foreign Currency Translation Adjustment	Unrealized Gain On Hedging Activities	
Balance at January 1, 2015	\$ (240,513 )	\$ (227,059 )	\$ 23,881	\$ (443,691 )
Other comprehensive income (loss) before reclassifications:				
Foreign currency translation adjustment	6,090	(198,347 )	(365 )	(192,622 )
Loss on long-term intra-entity foreign currency transactions	—	(8,203 )	—	(8,203 )
Gain on net investment hedges	—	—	8,727	8,727
Unrealized loss on cash flow hedges	—	—	(3,350 )	(3,350 )
Other	3,817	—	—	3,817
Other comprehensive income (loss) before reclassifications	9,907	(206,550 )	5,012	(191,631 )
Amounts reclassified from Accumulated other comprehensive loss	5,887	—	—	5,887
Net current period Other comprehensive income (loss)	15,794	(206,550 )	5,012	(185,744 )
Balance at September 25, 2015	\$ (224,719 )	\$ (433,609 )	\$ 28,893	\$ (629,435 )

	Accumulated Other Comprehensive Loss Components			Total
	Net Unrecognized Pension And Other Post-Retirement Benefit Cost (In thousands)	Foreign Currency Translation Adjustment	Unrealized (Loss) Gain On Hedging Activities	
Balance at January 1, 2014	\$ (163,092 )	\$ 123,021	\$ (6,529 )	\$ (46,600 )
Acquisition of shares held by noncontrolling interest	—	(942 )	—	(942 )
Other comprehensive income (loss) before reclassifications:				
Foreign currency translation adjustment	2,440	(158,600 )	(8 )	(156,168 )
Gain on long-term intra-entity foreign currency transactions	—	1,083	—	1,083
Gain on net investment hedges	—	—	25,013	25,013

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Unrealized loss on cash flow hedges	—	—	(5,576	)	(5,576	)	
Other	1,934	—	—		1,934		
Other comprehensive income (loss) before reclassifications	4,374	(157,517	)	19,429	(133,714	)	
Amounts reclassified from Accumulated other comprehensive loss	3,345	—	—		3,345		
Net current period Other comprehensive income (loss)	7,719	(157,517	)	19,429	(130,369	)	
Balance at September 26, 2014	\$(155,373	)	\$(35,438	)	\$12,900	\$(177,911	)

## COLFAX CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

The effect on Net income of amounts reclassified out of each component of Accumulated other comprehensive loss for the three and nine months ended September 25, 2015 and September 26, 2014 is as follows:

	Three Months Ended September 25, 2015			Nine Months Ended September 25, 2015		
	Amounts Reclassified From Accumulated Other Comprehensive Loss (In thousands)	Tax Benefit	Total	Amounts Reclassified From Accumulated Other Comprehensive Loss	Tax Benefit	Total
Pension and other post-retirement benefit cost:						
Amortization of net loss <sup>(1)</sup>	\$2,662	\$(903 )	\$1,759	\$9,276	\$(3,574 )	\$5,702
Amortization of prior service cost <sup>(1)</sup>	54	—	54	185	—	185
	\$2,716	\$(903 )	\$1,813	\$9,461	\$(3,574 )	\$5,887

	Three Months Ended September 26, 2014			Nine Months Ended September 26, 2014		
	Amounts Reclassified From Accumulated Other Comprehensive Loss (In thousands)	Tax Benefit	Total	Amounts Reclassified From Accumulated Other Comprehensive Loss	Tax Benefit	Total
Pension and other post-retirement benefit cost:						
Amortization of net loss <sup>(1)</sup>	\$1,801	\$(2,153 )	\$(352 )	\$5,616	\$(2,458 )	\$3,158
Amortization of prior service cost <sup>(1)</sup>	63	—	63	187	—	187
	\$1,864	\$(2,153 )	\$(289 )	\$5,803	\$(2,458 )	\$3,345

<sup>(1)</sup> Included in the computation of net periodic benefit (income) cost. See Note 11, "Net Periodic Benefit Cost - Defined Benefit Plans" for additional details.

During the nine months ended September 25, 2015 and September 26, 2014, Noncontrolling interest decreased by \$16.5 million and \$7.2 million, respectively, as a result of Other comprehensive loss, primarily due to foreign currency translation adjustment.

## 8. Inventories, Net

Inventories, net consisted of the following:

	September 25, 2015 (In thousands)	December 31, 2014
Raw materials	\$172,890	\$164,115

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Work in process	75,848		81,110	
Finished goods	255,151		239,808	
	503,889		485,033	
Less: customer progress payments	(17,417	)	(7,728	)
Less: allowance for excess, slow-moving and obsolete inventory	(36,581	)	(34,573	)
Inventories, net	\$449,891		\$442,732	

12

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## COLFAX CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## 9. Debt

Long-term debt consisted of the following:

	September 25, 2015	December 31, 2014
	(In thousands)	
Term loans	\$722,189	\$1,210,474
Trade receivables financing arrangement	80,000	80,000
Revolving credit facilities and other	746,595	246,336
Total Debt	1,548,784	1,536,810
Less: current portion	(16,517)	(9,855)
Long-term debt	\$1,532,267	\$1,526,955

On June 5, 2015, the Company entered into a credit agreement (the "Credit Agreement") by and among the Company, as the borrower, certain U.S. subsidiaries of the Company identified therein, as guarantors, each of the lenders party thereto and Deutsche Bank AG New York Branch, as administrative agent, swing line lender and global coordinator.

The proceeds of the loans under the Credit Agreement were used by the Company to repay in full its preexisting senior secured credit facility, by and among the Company, Colfax UK Holdings Ltd, the other subsidiaries of the Company party thereto, the lenders party thereto and Deutsche Bank AG New York Branch, as administrative agent (the "Deutsche Bank Credit Agreement"), as well as for working capital and general corporate purposes. The Credit Agreement consists of a term loan in an aggregate amount of \$750.0 million (the "Term Loan") and a revolving credit facility (the "Revolver"), each of which matures in five years. The Revolver contains a \$50.0 million swing line loan sub-facility.

On September 25, 2015, the Company entered into an Increase Agreement, as provided for under the terms of the Credit Agreement. Under the Increase Agreement, the Company increased the Revolver by \$300.0 million, resulting in a total Revolver commitment under the Credit Agreement of \$1.3 billion.

The Term Loan and the Revolver bear interest, at the election of the Company, at either the base rate (as defined in the Credit Agreement) or the Eurocurrency rate (as defined in the Credit Agreement), in each case, plus the applicable interest rate margin. The Term Loan and the Revolver initially bear interest either at the Eurocurrency rate plus 1.50% or at the base rate plus 0.50%, and in future quarters will bear interest either at the Eurocurrency rate or the base rate plus the applicable interest rate margin based upon either, whichever results in the lower applicable interest rate margin (subject to certain exceptions), the Company's total leverage ratio and the corporate family rating of the Company as determined by Standard & Poor's and Moody's (ranging from 1.25% to 2.00%, in the case of the Eurocurrency margin, and 0.25% to 1.00%, in the case of the base rate margin). Each swing line loan denominated in dollars will bear interest at the base rate plus the applicable interest rate margin and each swing line loan denominated in any other currency available under the credit facility will bear interest at the Eurocurrency rate plus the applicable interest rate margin.

In conjunction with the Credit Agreement, the Company recorded a charge to Interest expense in the Condensed Consolidated Statement of Income for the nine months ended September 25, 2015 of \$4.7 million to write-off certain deferred financing fees and original issue discount and expensed approximately \$0.4 million of costs incurred in connection with the refinancing of the Deutsche Bank Credit Agreement. The Company had an original issue discount of \$6.5 million and deferred financing fees of \$9.4 million included in its Condensed Consolidated Balance Sheet as of September 25, 2015, which will be accreted to Interest expense primarily using the effective interest method, over

the life of the Credit Agreement. As of September 25, 2015, the weighted-average interest rate of borrowings under the Credit Agreement was 1.70%, excluding accretion of original issue discount, and there was \$586.5 million available on the revolving credit facility.

The Company is also party to letter of credit facilities with total capacity of \$736.1 million. Total letters of credit of \$363.1 million were outstanding as of September 25, 2015.

On December 22, 2014, the Company entered into a receivables financing facility, pursuant to which it established a wholly owned, special purpose bankruptcy-remote subsidiary which purchases trade receivables from certain of the Company's subsidiaries on an ongoing basis and pledges them to support its obligation as borrower under the receivables financing facility. This special purpose subsidiary has a separate legal existence from its parent and its assets are not available to satisfy the claims of creditors of the selling subsidiaries or any other member of the consolidated group. Availability of funds may fluctuate over time given changes in eligible receivable balances, but will not exceed the \$80.0 million program limit. As of September 25, 2015, the total

## COLFAX CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

outstanding borrowings under the receivables financing facility were \$80.0 million and the interest rate was 0.9%. The scheduled termination date for the receivables financing facility is December 21, 2015, which may be extended from time to time. The facility contains representations, warranties, covenants and indemnities customary for facilities of this type. The facility does not contain any covenants that the Company views as materially constraining to the activities of its business.

The contractual maturities of the Company's debt as of September 25, 2015 are as follows<sup>(1)</sup>:

	(In thousands)
Remainder of 2015	\$ 15,582
2016	5,620
2017	4,452
2018	4,142
2019	35,550
2020	1,492,500
Total contractual maturities	1,557,846
Debt discount <sup>(2)</sup>	(9,062 )
Total debt	\$ 1,548,784

<sup>(1)</sup> Represents scheduled payments required under the Credit Agreement through June 5, 2020, as well as the contractual maturities of other debt outstanding as of September 25, 2015, and reflects management's intention to repay scheduled maturities of the term loans outstanding under the Credit Agreement and the trade receivables financing arrangement (if not extended) with proceeds from the revolving credit facility.

<sup>(2)</sup> Includes \$2.5 million of deferred debt issuance costs pursuant to the adoption of ASU 2015-03. See Note 2, "Recently Issued Accounting Pronouncements" for further discussion.

Certain U.S. subsidiaries of the Company have agreed to guarantee the obligations of the Company under the Credit Agreement. The Credit Agreement contains customary covenants limiting the ability of the Company and its subsidiaries to, among other things, incur debt or liens, merge or consolidate with others, dispose of assets, make investments or pay dividends. In addition, the Credit Agreement contains financial covenants requiring the Company to maintain a total leverage ratio, as defined therein, of not more than 3.5 to 1.0 and minimum interest coverage ratio, as defined therein, of 3.0 to 1.0, measured at the end of each quarter. 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, subject to various customary cure rights, require the immediate payment of all amounts outstanding under the Term Loan and the Revolver. As of September 25, 2015, the Company is in compliance with the covenants under the Credit Agreement.

## COLFAX CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## 10. Accrued Liabilities

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

	September 25, 2015	December 31, 2014 <sup>(1)</sup>
	(In thousands)	
Accrued payroll	\$128,700	\$120,068
Advance payments from customers	50,577	58,049
Accrued taxes and deferred tax liability - current portion	49,037	58,823
Accrued asbestos-related liability	51,539	50,175
Warranty liability - current portion	40,531	47,966
Accrued restructuring liability - current portion	11,549	21,846
Accrued third-party commissions	10,535	11,026
Other	111,131	128,254
Accrued liabilities	\$453,599	\$496,207

<sup>(1)</sup> During the nine months ended September 25, 2015 the Company retrospectively adjusted provisional amounts with respect to an acquisition completed during the three months ended June 27, 2014 to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date. See Note 3, "Acquisitions" for further discussion regarding these adjustments.

## Warranty Liability

The activity in the Company's warranty liability consisted of the following:

	Nine Months Ended	
	September 25, 2015	September 26, 2014
	(In thousands)	
Warranty liability, beginning of period	\$51,135	\$65,512
Accrued warranty expense	14,392	14,814
Changes in estimates related to pre-existing warranties	(2,467)	(4,612)
Cost of warranty service work performed	(18,657)	(20,111)
Acquisition	321	4,488
Foreign exchange translation effect	(3,142)	(6,781)
Warranty liability, end of period	\$41,582	\$53,310



## COLFAX CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## Accrued Restructuring Liability

The Company's restructuring programs include a series of restructuring actions to reduce the structural costs of the Company.

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:

	Nine Months Ended September 25, 2015			Foreign	Balance at End
	Balance at	Provisions	Payments	Currency	of Period <sup>(3)</sup>
	Beginning of			Translation	
	Period				
	(In thousands)				
Restructuring and other related charges:					
Gas and Fluid Handling:					
Termination benefits <sup>(1)</sup>	\$7,551	\$6,172	\$(10,900)	\$(452)	\$2,371
Facility closure costs <sup>(2)</sup>	1,445	3,472	(2,951)	(161)	1,805
	8,996	9,644	(13,851)	(613)	4,176
Non-cash impairment		1,918			
		11,562			
Fabrication Technology:					
Termination benefits <sup>(1)</sup>	11,155	8,604	(12,502)	(323)	6,934
Facility closure costs <sup>(2)</sup>	1,937	5,492	(6,424)	(166)	839
	13,092	14,096	(18,926)	(489)	7,773
Corporate and Other:					
Facility closure costs <sup>(2)</sup>	922	—	(184)	(25)	713
	922	—	(184)	(25)	713
	\$23,010	23,740	\$(32,961)	\$(1,127)	\$12,662
Non-cash impairment		1,918			
		\$25,658			

<sup>(1)</sup> 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.

<sup>(2)</sup> Includes the cost of relocating associates, relocating equipment and lease termination expense in connection with the closure of facilities.

<sup>(3)</sup> As of September 25, 2015, \$11.5 million and \$1.2 million of the Company's restructuring liability was included in Accrued liabilities and Other liabilities, respectively.

The Company expects to incur restructuring and other related charges of approximately \$40 million during the remainder of 2015 related to these restructuring activities.

## COLFAX CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## 11. Net Periodic Benefit Cost - Defined Benefit Plans

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

	Three Months Ended		Nine Months Ended	
	September 25, 2015	September 26, 2014	September 25, 2015	September 26, 2014
	(In thousands)			
Pension Benefits-U.S. Plans:				
Service cost	\$—	\$—	\$—	\$—
Interest cost	4,128	4,796	12,709	14,118
Expected return on plan assets	(6,150)	) (6,180	) (18,189	) (18,114
Amortization	1,665	1,298	5,464	3,894
Net periodic benefit income	\$(357	) \$(86	) \$(16	) \$(102
Pension Benefits-Non U.S. Plans:				
Service cost	\$947	\$1,127	\$2,972	\$3,039
Interest cost	9,563	12,717	29,099	37,804
Expected return on plan assets	(8,485	) (10,937	) (26,294	) (32,580