

Colfax CORP  
Form 10-Q  
July 28, 2016

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  
x 1934

For the Quarterly Period Ended July 1, 2016  
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)
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420 National Business Parkway, 5th Floor Annapolis Junction, Maryland (Address of principal executive offices)	20701 (Zip Code)
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(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 July 1, 2016, there were 122,659,511 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 INCOME

Dollars in thousands, except per share amounts

(Unaudited)

	Three Months Ended		Six Months Ended	
	July 1, 2016	June 26, 2015	July 1, 2016	June 26, 2015
Net sales	\$957,249	\$1,025,375	\$1,834,092	\$1,936,445
Cost of sales	656,144	697,338	1,252,466	1,313,970
Gross profit	301,105	328,037	581,626	622,475
Selling, general and administrative expense	213,553	222,629	427,940	435,861
Restructuring and other related charges	14,490	8,834	32,158	12,587
Operating income	73,062	96,574	121,528	174,027
Interest expense	8,711	14,249	17,831	26,293
Income before income taxes	64,351	82,325	103,697	147,734
Provision for income taxes	20,388	23,496	33,524	32,630
Net income	43,963	58,829	70,173	115,104
Less: income attributable to noncontrolling interest, net of taxes	4,209	5,702	7,804	9,921
Net income attributable to Colfax Corporation	\$39,754	\$53,127	\$62,369	\$105,183
Net income per share - basic	\$0.32	\$0.43	\$0.51	\$0.85
Net income per share - diluted	\$0.32	\$0.42	\$0.51	\$0.84

See Notes to Condensed Consolidated Financial Statements.

## COLFAX CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

Dollars in thousands

(Unaudited)

	Three Months Ended		Six Months Ended	
	July 1, 2016	June 26, 2015	July 1, 2016	June 26, 2015
Net income	\$43,963	\$58,829	\$70,173	\$115,104
Other comprehensive (loss) income:				
Foreign currency translation, net of tax of \$2,190, \$0, \$2,436 and \$0	(134,022 )	117,484	(154,064 )	(72,241 )
Unrealized gain (loss) on hedging activities, net of tax of \$1,181, \$11,638, \$(1,699) and \$14,428	4,233	(9,922 )	(5,320 )	12,259
Changes in deferred tax related to pension and other post-retirement benefit cost	—	1,707	—	3,817
Amounts reclassified from Accumulated other comprehensive loss:				
Net pension and other post-retirement benefit cost, net of tax of \$801, \$1,733, \$1,498 and \$2,671	1,308	1,858	2,708	4,074
Other comprehensive (loss) income	(128,481 )	111,127	(156,676 )	(52,091 )
Comprehensive (loss) income	(84,518 )	169,956	(86,503 )	63,013
Less: comprehensive income attributable to noncontrolling interest	2,001	4,013	9,028	5,356
Comprehensive (loss) income attributable to Colfax Corporation	\$(86,519)	\$165,943	\$(95,531)	\$57,657

See Notes to Condensed Consolidated Financial Statements.

COLFAX CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS

Dollars in thousands, except share amounts  
(Unaudited)

	July 1, 2016	December 31, 2015
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$184,672	\$197,469
Trade receivables, less allowance for doubtful accounts of \$43,850 and \$39,505	906,336	888,166
Inventories, net	432,246	420,386
Other current assets	263,806	253,744
Total current assets	1,787,060	1,759,765
Property, plant and equipment, net	635,351	644,536
Goodwill	2,665,963	2,817,687
Intangible assets, net	959,308	995,712
Other assets	528,478	515,219
Total assets	\$6,576,160	\$6,732,919
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current portion of long-term debt	\$5,611	\$5,792
Accounts payable	679,137	718,893
Accrued liabilities	403,156	391,659
Total current liabilities	1,087,904	1,116,344
Long-term debt, less current portion	1,399,851	1,411,755
Other liabilities	930,368	948,264
Total liabilities	3,418,123	3,476,363
<b>Equity:</b>		
Common stock, \$0.001 par value; 400,000,000 shares authorized; 122,659,511 and 123,486,425 issued and outstanding	123	123
Additional paid-in capital	3,189,835	3,199,267
Retained earnings	619,669	557,300
Accumulated other comprehensive loss	(844,615 )	(686,715 )
Total Colfax Corporation equity	2,965,012	3,069,975
Noncontrolling interest	193,025	186,581
Total equity	3,158,037	3,256,556
Total liabilities and equity	\$6,576,160	\$6,732,919

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	Retained	Accumulated	Noncontrolling	Total
	Shares	\$ Amount	Paid-In Capital	Earnings	Other Comprehensive Loss	Interest	
Balance at January 1, 2016	123,486,425	\$ 123	\$3,199,267	\$557,300	\$ (686,715 )	\$ 186,581	\$3,256,556
Net income	—	—	—	62,369	—	7,804	70,173
Distributions to noncontrolling owners	—	—	—	—	—	(2,584 )	(2,584 )
Other comprehensive (loss) income, net of tax of \$2.2 million	—	—	—	—	(157,900 )	1,224	(156,676 )
Stock repurchase	(1,000,000 )	(1 )	(20,811 )	—	—	—	(20,812 )
Common stock-based award activity	173,086	1	11,379	—	—	—	11,380
Balance at July 1, 2016	122,659,511	\$ 123	\$3,189,835	\$619,669	\$ (844,615 )	\$ 193,025	\$3,158,037

See Notes to Condensed Consolidated Financial Statements.

COLFAX CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Dollars in thousands  
(Unaudited)

	Six Months Ended July 1, 2016		June 26, 2015
Cash flows from operating activities:			
Net income	\$ 70,173		\$ 115,104
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and impairment charges	74,001		71,113
Stock-based compensation expense	10,967		8,716
Non-cash interest expense	2,106		8,294
Deferred income tax (benefit) provision	(528)	)	1,168
Changes in operating assets and liabilities:			
Trade receivables, net	(13,807)	)	(35,117)
Inventories, net	(7,356)	)	(21,522)
Accounts payable	(39,181)	)	(13,596)
Changes in other operating assets and liabilities	(39,963)	)	(67,291)
Net cash provided by operating activities	56,412		66,869
Cash flows from investing activities:			
Purchases of fixed assets, net	(25,497)	)	(18,318)
Net cash used in investing activities	(25,497)	)	(18,318)
Cash flows from financing activities:			
Borrowings under term credit facility	—		750,000
Payments under term credit facility	(18,750)	)	(1,214,122)
Proceeds from borrowings on	491,233		966,403



revolving credit facilities and other				
Repayments of borrowings on revolving credit facilities and other	(493,962)	)	(637,136)	)
Proceeds from issuance of common stock, net	413		2,987	
Repurchases of common stock	(20,812)	)	—	
Other	(5,278)	)	(3,625)	)
Net cash used in financing activities	(47,156)	)	(135,493)	)
Effect of foreign exchange rates on Cash and cash equivalents	3,444		(6,296)	)
Decrease in Cash and cash equivalents	(12,797)	)	(93,238)	)
Cash and cash equivalents, beginning of period	197,469		305,448	
Cash and cash equivalents, end of period	\$ 184,672		\$ 212,210	

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, 2015 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, 2015 (the “2015 Form 10-K”), filed with the SEC on February 16, 2016.

The Condensed Consolidated Financial Statements reflect, in the opinion of management, all adjustments, which consist solely of normal recurring adjustments, necessary to present fairly the Company’s financial position and results of operations as of and for the periods indicated. Significant intercompany transactions and accounts are eliminated in consolidation.

The Company makes certain estimates and assumptions in preparing its Condensed Consolidated Financial Statements in accordance with GAAP. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the Condensed Consolidated Financial Statements and the reported amounts of revenues and expenses for the periods presented. Actual results may differ from those estimates.

The results of operations for the three and six months ended July 1, 2016 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 Accounting Standards Update (“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. ASU 2014-09 is to be applied on a full or modified retrospective basis. In August 2015, the FASB issued ASU No. 2015-14, “Revenue from Contracts with Customers (Topic 606) — Deferral of the Effective Date”, 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. During the six months ended July 1, 2016, the FASB issued three additional Accounting Standards Updates that clarify the original guidance as laid out in ASU No. 2014-09. These Accounting Standards Updates focus on clarification of principal versus agent considerations, performance obligations and licensing, and provides for application of certain practical expedients and narrow-scope improvements. The Company plans to apply these Accounting Standards Updates on a full retrospective basis as of January 1, 2018 and is currently evaluating the impact on its Consolidated Financial Statements.

In July 2015, the FASB issued ASU 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.

COLFAX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

In September 2015, the FASB issued ASU 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 adoption of ASU No. 2015-16 during the six months ended July 1, 2016 did not have a material impact on the Company’s Condensed Consolidated Financial Statements. See Note 3, “Acquisitions” for measurement period adjustments made during the six months ended July 1, 2016, related to acquisitions that occurred during the year ended December 31, 2015.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, “Leases (Topic 842)” (“ASU No. 2016-02”). ASU No. 2016-02 requires a lessee to recognize assets and liabilities associated with the rights and obligations attributable to most leases but also recognize expenses similar to current lease accounting. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The new guidance must be adopted using a modified retrospective transition and provides for certain practical expedients. The Company is currently evaluating the impact of adopting ASU No. 2016-02 on its Consolidated Financial Statements.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, “Compensation - Stock Compensation (Topic 718) — Improvements to Employee Share-Based Payment Accounting” (“ASU No. 2016-09”). ASU No. 2016-09 is effective for fiscal periods beginning after December 15, 2016 with early adoption permitted. ASU No. 2016-09 aims to simplify the accounting for shared based payment accounting by recording all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement, eliminates the requirement that excess tax benefits be realized before they can be recognized, and provides the option to make an entity-wide accounting policy election to continue to estimate the amount of awards that are expected to vest or account for forfeitures as they occur. The effect for excess tax benefits not previously recognized will be recorded as a cumulative adjustment to retained earnings pursuant to a modified retrospective adoption method. Excess tax benefits and deficiencies will be accounted for as discrete items in the period the stock awards vest or otherwise are settled. Further, the guidance will require that excess tax benefits be presented as an operating activity on the statement of cash flows consistent with other income tax cash flows. ASU No. 2016-09 also increases share based withholding up to the maximum statutory tax rates in the applicable jurisdictions without causing the award to be classified as a liability. All provisions of ASU No. 2016-09 must be adopted in the same period. The Company plans to adopt ASU No. 2016-09 in the annual period beginning January 1, 2017. The Company is currently evaluating the impact of adopting ASU No. 2016-09 on its Consolidated Financial Statements.

In June 2016, the FASB issued Accounting Standards Update No. 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” (“ASU No. 2016-13”). ASU No. 2016-13 is effective for fiscal periods beginning after December 15, 2019 with early adoption permitted. ASU No. 2016-13 eliminates the probable initial recognition threshold under current U.S. GAAP and broadens the information an entity must consider when developing its expected credit loss estimates to include forecast information that affects the collectibility of the reported amount. The Company is currently evaluating the impact of adopting ASU No. 2016-13 on its Consolidated Financial Statements.

### 3. Acquisitions

The Company completed the acquisitions of the Roots™ blowers and compressors business unit, also known as Industrial Air & Gas Technologies, from GE Oil & Gas (“Roots”) on June 30, 2015, and Simsmart Technologies, Inc. (“Simsmart”) on October 5, 2015. During the six months ended July 1, 2016 the Company adjusted provisional amounts with respect to these acquisitions 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, primarily attributable to the Company’s valuation of inventory and revision of estimates based on additional information obtained for a specific environmental reserve increased the Goodwill balance by \$1.3 million during the six months ended July 1, 2016.

The Company continues to evaluate the acquired assets and liabilities assumed for Simsmart during the measurement period as certain valuations and studies have yet to be finalized, and accordingly, the assets acquired and liabilities assumed are subject to adjustment once the detailed analyses are complete.

## COLFAX CORPORATION

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

(Unaudited)

## 4. Net Income Per Share

Net income per share was computed as follows:

	Three Months Ended		Six Months Ended	
	July 1, 2016	June 26, 2015	July 1, 2016	June 26, 2015
	(In thousands, except share data)			
Computation of Net income per share - basic:				
Net income attributable to Colfax Corporation	\$39,754	\$ 53,127	\$62,369	\$ 105,183
Weighted-average shares of Common stock outstanding - basic	122,827,511	124,250,487	122,958,862	124,103,220
Net income per share - basic	\$0.32	\$ 0.43	\$0.51	\$ 0.85
Computation of Net income per share - diluted:				
Net income attributable to Colfax Corporation	\$39,754	\$ 53,127	\$62,369	\$ 105,183
Weighted-average shares of Common stock outstanding - basic	122,827,511	124,250,487	122,958,862	124,103,220
Net effect of potentially dilutive securities - stock options and restricted stock units	208,945	1,011,251	184,584	1,078,247
Weighted-average shares of Common stock outstanding - diluted	123,036,456	125,261,738	123,143,446	125,181,467
Net income per share - diluted	\$0.32	\$ 0.42	\$0.51	\$ 0.84

The weighted-average computation of the dilutive effect of potentially issuable shares of Common stock under the treasury stock method for the three months ended July 1, 2016 and June 26, 2015 excludes approximately 5.2 million and 2.2 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 six months ended July 1, 2016 and June 26, 2015 excludes approximately 5.1 million and 2.1 million of outstanding stock-based compensation awards, respectively, as their inclusion would be anti-dilutive.

## 5. Income Taxes

During the three and six months ended July 1, 2016, Income before income taxes was \$64.4 million and \$103.7 million, respectively, while the Provision for income taxes was \$20.4 million and \$33.5 million, respectively. The effective tax rates were 31.7% and 32.3% for the three and six months ended July 1, 2016, respectively, which differ 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 2016.

During the three and six months ended June 26, 2015, Income before income taxes was \$82.3 million and \$147.7 million, respectively, while the Provision for income taxes was \$23.5 million and \$32.6 million, respectively. The effective tax rate was 28.5% for the three months ended June 26, 2015, which 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 was not expected to be recognized in 2015. The effective tax rate was 22.1% for the six months ended June 26, 2015, which differs from the U.S. federal statutory rate primarily due to a tax benefit of \$13.0 million associated with the resolution of certain liabilities for 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 was not expected to be recognized in 2015.



## COLFAX CORPORATION

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

(Unaudited)

## 6. Equity

## 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.

During the six months ended July 1, 2016, the Company repurchased 1,000,000 shares of its Common stock in open market transactions for approximately \$20.8 million under a plan complying with Rule 10b5-1 under the Securities Exchange Act of 1934. As of July 1, 2016, the remaining stock repurchase authorization provided by the Company's Board of Directors is approximately \$52 million.

## Share-Based Payments

On May 13, 2016, the Company's Board of Directors and stockholders approved the Colfax Corporation 2016 Omnibus Incentive Plan (the "2016 Plan"). Under the 2016 Plan, the Company has reserved up to 10.5 million shares of Common stock for potential issuance as stock-based awards. Upon approval of the 2016 Plan, awards are no longer granted under the previously existing Colfax Corporation Omnibus Incentive Plan, as amended and restated on April 2, 2012.

## 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 six months ended July 1, 2016 and June 26, 2015. All amounts are net of tax and noncontrolling interest.

	Accumulated Other Comprehensive Loss Components			
	Net			
	Unrecognized Pension And Other Post-Retirement Benefit Cost	Foreign Currency Translation Adjustment	Unrealized Gain On Hedging Activities	Total
	(In thousands)			
Balance at January 1, 2016	\$(193,258)	\$(528,620)	\$35,163	\$(686,715)
Other comprehensive income (loss) before reclassifications:				
Foreign currency translation adjustment	468	(131,583)	779	(130,336)
Loss on long-term intra-entity foreign currency transactions	—	(25,021)	—	(25,021)
Loss on net investment hedges	—	—	(5,705)	(5,705)
Unrealized gain on cash flow hedges	—	—	454	454
Other comprehensive income (loss) before reclassifications	468	(156,604)	(4,472)	(160,608)



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Amounts reclassified from Accumulated other comprehensive loss	2,708	—	—	2,708
Net current period Other comprehensive income (loss)	3,176	(156,604 )	(4,472 )	(157,900 )
Balance at July 1, 2016	\$(190,082)	\$(685,224 )	\$ 30,691	\$(844,615)

## COLFAX CORPORATION

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

(Unaudited)

	Accumulated Other Comprehensive Loss Components	Net Unrecognized Pension And Other Post-Retirement Benefit Cost	Foreign Currency Translation Adjustment	Unrealized Gain On Hedging Activities	Total
	(In thousands)				
Balance at January 1, 2015	\$(240,513)	\$(227,059)	\$ 23,881		\$(443,691)
Other comprehensive income (loss) before reclassifications:					
Foreign currency translation adjustment	4,530	(76,639)	(155)		(72,264)
Gain on long-term intra-entity foreign currency transactions	—	4,620	—		4,620
Gain on net investment hedges	—	—	10,212		10,212
Unrealized gain on cash flow hedges	—	—	2,015		2,015
Other	3,817	—	—		3,817
Other comprehensive income (loss) before reclassifications	8,347	(72,019)	12,072		(51,600)
Amounts reclassified from Accumulated other comprehensive loss	4,074	—	—		4,074
Net current period Other comprehensive income (loss)	12,421	(72,019)	12,072		(47,526)
Balance at June 26, 2015	\$(228,092)	\$(299,078)	\$ 35,953		\$(491,217)

The effect on Net income of amounts reclassified out of each component of Accumulated other comprehensive loss for the three and six months ended July 1, 2016 and June 26, 2015 is as follows:

Three Months Ended July 1, 2016	Six Months Ended July 1, 2016
Amounts Reclassified From Tax Accumulated Benefit Other Comprehensive Loss (In thousands)	Amounts Reclassified From Tax Accumulated Benefit Other Comprehensive Loss (In thousands)
Total	Total

Pension and other post-retirement benefit cost:

Amortization of net loss <sup>(1)</sup>	\$2,047	\$(775 )	\$1,272	\$4,082	\$(1,450)	\$2,632
Amortization of prior service cost <sup>(1)</sup>	62	(26 )	36	124	(48 )	76
	\$2,109	\$(801 )	\$1,308	\$4,206	\$(1,498)	\$2,708

Three Months Ended June 26, 2015			Six Months Ended June 26, 2015		
Amount	Tax	Total	Amount	Tax	Total
Reclassification	Benefit		Reclassification	Benefit	
From			From		

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Accumulated	Accumulated
Other	Other
Comprehensive	Comprehensive
Loss	Loss
(In thousands)	

Pension and other post-retirement benefit cost:

Amortization of net loss <sup>(1)</sup>	\$3,522	\$(1,733)	\$1,789	\$6,614	\$(2,671)	\$3,943
Amortization of prior service cost <sup>(1)</sup>	69	—	69	131	—	131
	\$3,591	\$(1,733)	\$1,858	\$6,745	\$(2,671)	\$4,074

<sup>(1)</sup> Included in the computation of net periodic benefit (income) cost. See Note 10, “Net Periodic Benefit Cost - Defined Benefit Plans” for additional details.

## COLFAX CORPORATION

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

(Unaudited)

During the six months ended July 1, 2016, Noncontrolling interest increased by \$1.2 million as a result of Other comprehensive income, primarily due to foreign currency translation adjustment. During the six months ended June 26, 2015, Noncontrolling interest decreased by \$4.6 million as a result of Other comprehensive loss, primarily due to foreign currency translation adjustment.

## 7. Inventories, Net

Inventories, net consisted of the following:

	July 1, 2016	December 31, 2015
	(In thousands)	
Raw materials	\$154,122	\$160,640
Work in process	84,952	68,541
Finished goods	256,344	243,209
	495,418	472,390
Less: customer progress payments	(16,390 )	(15,876 )
Less: allowance for excess, slow-moving and obsolete inventory	(46,782 )	(36,128 )
Inventories, net	\$432,246	\$420,386

## 8. Debt

Long-term debt consisted of the following:

	July 1, 2016	December 31, 2015
	(In thousands)	
Term loans	\$695,751	\$713,175
Trade receivables financing arrangement	83,124	75,800
Revolving credit facilities and other	626,587	628,572
Total Debt	1,405,462	1,417,547
Less: current portion	(5,611 )	(5,792 )
Long-term debt	\$1,399,851	\$1,411,755

The Company is party to a 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 "Credit Agreement").

The Company had an original issue discount of \$6.4 million and deferred financing fees of \$7.1 million included in its Condensed Consolidated Balance Sheet as of July 1, 2016, which will be accreted to Interest expense, primarily using the effective interest method, over the life of the Credit Agreement. As of July 1, 2016, the weighted-average interest rate of borrowings under the Credit Agreement was 1.87%, excluding accretion of original issue discount, and there was \$771.8 million available on the revolving credit facility.

The Company is also party to letter of credit facilities with total capacity of \$743.3 million. Total letters of credit of \$348.2 million were outstanding as of July 1, 2016.

The Company is party to a receivables financing facility through 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 program limit of \$95 million. As of July 1, 2016, the total outstanding borrowings under the receivables financing facility were \$83.1 million and the interest rate was 1.29%. The scheduled termination date for the receivables financing facility is December 20, 2016 and may be extended from time to time.

As of July 1, 2016, the Company is in compliance with the covenants under the Credit Agreement.

## COLFAX CORPORATION

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

(Unaudited)

## 9. Accrued Liabilities

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

	July 1, 2016	December 31, 2015
	(In thousands)	
Accrued payroll	\$108,459	\$ 99,383
Advance payment from customers	42,583	45,590
Accrued taxes	47,214	51,834
Accrued asbestos-related liability	52,470	48,780
Warranty liability - current portion	36,172	36,128
Accrued restructuring liability - current portion	14,380	12,918
Accrued third-party commissions	9,333	10,275
Other	92,545	86,751
Accrued liabilities	\$403,156	\$ 391,659

## Warranty Liability

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

	Six Months Ended	
	July 1, 2016	June 26, 2015
	(In thousands)	
Warranty liability, beginning of period	\$37,407	\$51,135
Accrued warranty expense	13,750	8,685
Changes in estimates related to pre-existing warranties	2,322	(2,696 )
Cost of warranty service work performed	(16,839 )	(12,641 )
Foreign exchange translation effect	705	(2,013 )
Warranty liability, end of period	\$37,345	\$42,470

## 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:

	Six Months Ended July 1, 2016				
	Balance				Balance
	at	Provisions	Payments	Foreign	Balance
	Beginning			Currency	at End of
	of			Translation	Period <sup>(3)</sup>
	Period				
	(In thousands)				
Restructuring and other related charges:					
Gas and Fluid Handling:					
Termination benefits <sup>(1)</sup>	\$3,979	\$ 13,326	\$(7,405 )	\$ (24 )	\$ 9,876
Facility closure costs <sup>(2)</sup>	2,657	3,489	(6,007 )	106	245
	6,636	16,815	(13,412 )	82	10,121
Non-cash charges		874			
		17,689			
Fabrication Technology:					
Termination benefits <sup>(1)</sup>	6,031	10,396	(13,291 )	(38 )	3,098
Facility closure costs <sup>(2)</sup>	426	2,761	(1,884 )	(35 )	1,268
	6,457	13,157	(15,175 )	(73 )	4,366
Non-cash charges		1,312			
		14,469			
Corporate and Other:					
Facility closure costs <sup>(2)</sup>	625	—	(138 )	(53 )	434
	625	—	(138 )	(53 )	434
	\$13,718	29,972	\$(28,725 )	\$ (44 )	\$ 14,921
Non-cash charges		2,186			
		\$ 32,158			

<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 July 1, 2016, \$14.4 million and \$0.5 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 \$48 million during the remainder of 2016 related to these restructuring activities.





## COLFAX CORPORATION

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

(Unaudited)

## 10. 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 July 1, 2016		Six Months Ended July 1, 2016	
	June 26, 2015	June 26, 2015	June 26, 2015	June 26, 2015
	(In thousands)			
Pension Benefits-U.S. Plans:				
Service cost	\$48	\$—	\$96	\$—
Interest cost	4,353	4,288	8,705	8,581
Expected return on plan assets	(6,120 )	(6,019 )	(12,241)	(12,039)
Amortization	1,619	1,898	3,234	3,799
Net periodic benefit (income) cost	\$(100 )	\$167	\$(206 )	\$341
Pension Benefits-Non U.S. Plans:				
Service cost	\$856	\$818	\$1,691	\$2,025
Interest cost	8,716	9,777	17,160	19,536
Expected return on plan assets	(7,979 )	(9,153 )	(16,200)	(17,809)
Amortization	426	1,501	844	2,579
Net periodic benefit cost	\$2,019	\$2,943	\$3,495	\$6,331
Other Post-Retirement Benefits:				
Service cost	\$15	\$51	\$31	\$102
Interest cost	313	313	625	639
Amortization	64	192	128	367
Net periodic benefit cost	\$392	\$556	\$784	\$1,108



## COLFAX CORPORATION

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

(Unaudited)

## 11. Financial Instruments and Fair Value Measurements

The carrying values of financial instruments, including Trade receivables and Accounts payable, approximate their fair values due to their short-term maturities. The estimated fair value of the Company's debt of \$1.4 billion as of both July 1, 2016 and December 31, 2015 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.

A summary of the Company's assets and liabilities that are measured at fair value for each fair value hierarchy level for the periods presented is as follows:

	July 1, 2016			Total
	Level	Level	Level	
	One	Two	Three	
	(In thousands)			
Assets:				
Cash equivalents	\$21,322	\$—	\$	—\$21,322
Foreign currency contracts related to sales - designated as hedges	—	2,033	—	2,033
Foreign currency contracts related to sales - not designated as hedges	—	658	—	658
Foreign currency contracts related to purchases - designated as hedges	—	4,271	—	4,271
Foreign currency contracts related to purchases - not designated as hedges	—	161	—	161
Deferred compensation plans	—	4,034	—	4,034
	\$21,322	\$11,157	\$	—\$32,479

## Liabilities:

Foreign currency contracts related to sales - designated as hedges	\$—	\$9,670	\$	—\$9,670
Foreign currency contracts related to sales - not designated as hedges	—	515	—	515
Foreign currency contracts related to purchases - designated as hedges	—	580	—	580
Foreign currency contracts related to purchases - not designated as hedges	—	467	—	467
Deferred compensation plans	—	4,034	—	4,034
	\$—	\$15,266	\$	—\$15,266

	December 31, 2015			Total
	Level	Level	Level	
	One	Two	Three	
	(In thousands)			
Assets:				
Cash equivalents	\$22,516	\$—	\$	—\$22,516
Foreign currency contracts related to sales - designated as hedges	—	988	—	988
Foreign currency contracts related to sales - not designated as hedges	—	664	—	664
Foreign currency contracts related to purchases - designated as hedges	—	1,554	—	1,554
Foreign currency contracts related to purchases - not designated as hedges	—	338	—	338
Deferred compensation plans	—	4,000	—	4,000
	\$22,516	\$7,544	\$	—\$30,060

## Liabilities:

Foreign currency contracts related to sales - designated as hedges	\$—	\$6,368	\$	—\$6,368
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Foreign currency contracts related to sales - not designated as hedges	—	969	—	969
Foreign currency contracts related to purchases - designated as hedges	—	322	—	322
Foreign currency contracts related to purchases - not designated as hedges	—	128	—	128
Deferred compensation plans	—	4,000	—	4,000
	\$—	\$11,787	\$	—\$11,787

There were no transfers in or out of Level One, Two or Three during the six months ended July 1, 2016.

## COLFAX CORPORATION

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

(Unaudited)

## Foreign Currency Contracts

As of July 1, 2016 and December 31, 2015, the Company had foreign currency contracts with the following notional values:

	July 1, 2016	December 31, 2015
	(In thousands)	
Foreign currency contracts sold - not designated as hedges	\$87,767	\$ 119,653
Foreign currency contracts sold - designated as hedges	187,661	206,366
Foreign currency contracts purchased - not designated as hedges	33,021	41,480
Foreign currency contracts purchased - designated as hedges	67,351	62,794
Total foreign currency derivatives	\$375,800	\$ 430,293

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

	Three Months Ended		Six Months Ended	
	July 1, 2016	June 26, 2015	July 1, 2016	June 26, 2015
	(In thousands)			
Contracts Designated as Hedges:				
Foreign Currency Contracts - related to customer sales contracts:				
Unrealized gain	\$2,063	\$6,267	\$858	\$508
Realized (loss) gain	(4,741)	3,050	(2,372)	3,502
Foreign Currency Contracts - related to supplier purchase contracts:				
Unrealized (loss) gain	(894)	2,229	(1,241)	(324)
Realized gain (loss)	2,678	(3,263)	2,711	(1,950)
Unrealized gain (loss) on net investment hedges <sup>(1)</sup>	4,868	(18,473)	(5,705)	10,212
Contracts Not Designated in a Hedge Relationship:				
Foreign Currency Contracts - related to customer sales contracts:				
Unrealized (loss) gain	(1,581)	1,746	447	2,272
Realized (loss)	(78)	(535)	(91)	(4,261)
Foreign Currency Contracts - related to supplier purchases contracts:				
Unrealized gain (loss)	520	531	(516)	387
Realized (loss) gain	(225)	(165)	(261)	414

<sup>(1)</sup> The unrealized gain (loss) on net investment hedges is attributable to the change in valuation of Euro denominated debt.

## COLFAX CORPORATION

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

(Unaudited)

## 12. Commitments and Contingencies

For further description of the Company's litigation and contingencies, reference is made to Note 15, "Commitments and Contingencies" in the Notes to Consolidated Financial Statements in our 2015 Form 10-K.

## Asbestos and Other Product Liability Contingencies

Claims activity since December 31 related to asbestos claims is as follows<sup>(1)</sup>:

	Six Months Ended	
	July 1, 2016	June 26, 2015
	(Number of claims)	
Claims unresolved, beginning of period	20,583	21,681
Claims filed <sup>(2)</sup>	2,908	2,502
Claims resolved <sup>(3)</sup>	(2,283 )	(2,180 )
Claims unresolved, end of period	21,208	22,003

<sup>(1)</sup> Excludes claims filed by one legal firm that have been "administratively dismissed."

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

<sup>(3)</sup> 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:

	July 1, 2016	December 31, 2015
	(In thousands)	
Current asbestos insurance asset <sup>(1)</sup>	\$29,678	\$ 28,872
Long-term asbestos insurance asset <sup>(2)</sup>	271,238	284,095
Long-term asbestos insurance receivable <sup>(2)</sup>	112,428	96,007
Accrued asbestos liability <sup>(3)</sup>	52,470	48,780
Long-term asbestos liability <sup>(4)</sup>	335,028	350,394

<sup>(1)</sup> Included in Other current assets in the Condensed Consolidated Balance Sheets.

<sup>(2)</sup> Included in Other assets in the Condensed Consolidated Balance Sheets.

<sup>(3)</sup> Represents current reserves for probable and reasonably estimable asbestos-related liability cost that the Company believes its subsidiaries will pay through the next 15 years, overpayments by certain insurers and 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.

<sup>(4)</sup> Included in Other liabilities in the Condensed Consolidated Balance Sheets.

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.

COLFAX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

Other Litigation Matters

The Lincoln Electric Company and Lincoln Global, Inc. (collectively, “Lincoln Electric”) filed suit against The ESAB Group, Inc. and ESAB AB in the United States District Court, Eastern District of Texas, alleging infringement of certain patents allegedly owned by Lincoln Electric. The complaint, as amended, seeks undisclosed damages plus interest, an award of attorneys’ fees and expenses, and injunctive relief. The defendants answered the complaint, denying Lincoln Electric’s infringement allegations and asserting affirmative defenses, on October 20, 2015. The litigation is in an early stage, and is not expected to have a material adverse effect on the financial condition, results of operations or cash flow of the Company. The defendants are vigorously defending against the claims.

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 accruals 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.

13. Segment Information

The Company conducts its operations through three operating segments: gas handling, fluid handling and fabrication technology. The gas-handling and fluid-handling operating segments are aggregated into a single reportable segment. A description of the Company’s reportable segments is as follows:

Gas and Fluid Handling - a global supplier of a broad range of gas- and fluid-handling products, including heavy-duty centrifugal and axial fans, rotary heat exchangers, gas compressors, pumps, fluid-handling systems, controls and specialty valves, 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 income (loss) before Restructuring and other related charges.



## COLFAX CORPORATION

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

(Unaudited)

The Company's segment results were as follows:

	Three Months Ended		Six Months Ended	
	July 1, 2016	June 26, 2015	July 1, 2016	June 26, 2015
	(In thousands)			
Net sales:				
Gas and fluid handling	\$483,692	\$504,875	\$916,430	\$927,084
Fabrication technology	473,557	520,500	917,662	1,009,361
	\$957,249	\$1,025,375	\$1,834,092	\$1,936,445
Segment operating income (loss) <sup>(1)</sup> :				
Gas and fluid handling	\$45,093	\$64,206	\$79,016	\$100,463
Fabrication technology	54,471	53,874	100,356	111,220
Corporate and other	(12,012 )	(12,672 )	(25,686 )	(25,069 )
	\$87,552	\$105,408	\$153,686	\$186,614

<sup>(1)</sup> The following is a reconciliation of Income before income taxes to segment operating income:

	Three Months Ended		Six Months Ended	
	July 1, 2016	June 26, 2015	July 1, 2016	June 26, 2015
	(In thousands)			
Income before income taxes	\$64,351	\$82,325	\$103,697	\$147,734
Interest expense	8,711	14,249	17,831	26,293
Restructuring and other related charges	14,490	8,834	32,158	12,587
Segment operating income	\$87,552	\$105,408	\$153,686	\$186,614

The detail of the Company's Net sales by product type is as follows:

	Three Months Ended		Six Months Ended	
	July 1, 2016	June 26, 2015	July 1, 2016	June 26, 2015
	(In thousands)			
Gas handling	\$367,560	\$365,786	\$689,162	\$666,025
Fluid handling	116,132	139,089	227,268	261,059
Welding and cutting	473,557	520,500	917,662	1,009,361
Total Net sales	\$957,249	\$1,025,375	\$1,834,092	\$1,936,445

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

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

The following discussion of the financial condition and results of operations of Colfax Corporation ("Colfax," "the Company," "we," "our," and "us") should be read in conjunction with the Condensed Consolidated Financial Statements and related footnotes included in Part I. Item 1. "Financial Statements" of this Quarterly Report on Form 10-Q for the quarterly period ended July 1, 2016 (this "Form 10-Q") and the Consolidated Financial Statements and related footnotes included in Part II. Item 8. "Financial Statements and Supplementary Data" of our Annual Report on Form 10-K for the year ended December 31, 2015 (the "2015 Form 10-K") filed with the Securities and Exchange Commission (the "SEC") on February 16, 2016.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements contained in this Form 10-Q that are not historical facts are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in Section 21E of the Exchange Act. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date this Form 10-Q is filed with the SEC. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including statements regarding: projections of revenue, profit margins, expenses, tax provisions and tax rates, earnings or losses from operations, impact of foreign exchange rates, cash flows, pension and benefit obligations and funding requirements, synergies or other financial items; plans, strategies and objectives of management for future operations including statements relating to potential acquisitions, compensation plans or purchase commitments; developments, performance or industry or market rankings relating to products or services; future economic conditions or performance; the outcome of outstanding claims or legal proceedings including asbestos-related liabilities and insurance coverage litigation; potential gains and recoveries of costs; assumptions underlying any of the foregoing; and any other statements that address activities, events or developments that we intend, expect, project, believe or anticipate will or may occur in the future. Forward-looking statements may be characterized by terminology such as "believe," "anticipate," "should," "would," "intend," "plan," "will," "expect," "estimate," "project," "positioned," "strategy," "targets," "aims," "seeks," "sees," expressions. These statements are based on assumptions and assessments made by our management in light of their experience and perception of historical trends, current conditions, expected future developments and other factors we believe to be appropriate. These forward-looking statements are subject to a number of risks and uncertainties, including but not limited to the following:

- changes in the general economy, as well as the cyclical nature of the markets we serve;
- a significant or sustained decline in commodity prices, including oil;
- our ability to identify, finance, acquire and successfully integrate attractive acquisition targets;
- our exposure to unanticipated liabilities resulting from acquisitions;
- our ability and the ability of our customers to access required capital at a reasonable cost;
- our ability to accurately estimate the cost of or realize savings from our restructuring programs;
- the amount of and our ability to estimate our asbestos-related liabilities;

- the solvency of our insurers and the likelihood of their payment for asbestos-related costs;
- material disruptions at any of our manufacturing facilities;
- noncompliance with various laws and regulations associated with our international operations, including anti-bribery laws, export control regulations and sanctions and embargoes;
- risks associated with our international operations;

- risks associated with the representation of our employees by trade unions and work councils;
- our exposure to product liability claims;
- potential costs and liabilities associated with environmental, health and safety laws and regulations;
- failure to maintain, protect and defend our intellectual property rights;
- the loss of key members of our leadership team;
- restrictions in our credit agreement entered into on June 5, 2015 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 “Credit Agreement”) that may limit our flexibility in operating our business;
- impairment in the value of intangible assets;
- the funding requirements or obligations of our defined benefit pension plans and other post-retirement benefit plans;
- significant movements in foreign currency exchange rates;
- availability and cost of raw materials, parts and components used in our products;
- new regulations and customer preferences reflecting an increased focus on environmental, social and governance issues, including new regulations related to the use of conflict minerals;
- service interruptions, data corruption, cyber-based attacks or network security breaches affecting our information technology infrastructure;
- risks arising from changes in technology;
  - the competitive environment in our industry;
- changes in our tax rates or exposure to additional income tax liabilities;
- our ability to manage and grow our business and execution of our business and growth strategies;
- the level of capital investment and expenditures by our customers in our strategic markets;
- our financial performance; and
- other risks and factors, listed in Item 1A. “Risk Factors” in Part I of our 2015 Form 10-K.

Any such forward-looking statements are not guarantees of future performance and actual results, developments and business decisions may differ materially from those envisaged by such forward-looking statements. These forward-looking statements speak only as of the date this Form 10-Q is filed with the SEC. We do not assume any obligation and do not intend to update any forward-looking statement except as required by law. See Part I. Item 1A. “Risk Factors” in our 2015 Form 10-K for a further discussion regarding some of the reasons that actual results may be materially different from those that we anticipate.



## Overview

We report our operations through the following reportable segments:

Gas and Fluid Handling - a global supplier of a broad range of gas- and fluid-handling products, including heavy-duty centrifugal and axial fans, rotary heat exchangers, gas compressors, pumps, fluid-handling systems and controls and specialty valves, 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.”

Colfax has a global geographic footprint, with production facilities in Europe, North America, South America, Asia, Australia and Africa. Through our reportable segments, we serve a global customer base across multiple markets through a combination of direct sales and third-party distribution channels. Our customer base is highly diversified and includes commercial, industrial and government customers.

We employ a comprehensive set of tools that we refer to as the Colfax Business System (“CBS”). CBS is our business management system. It is a repeatable, teachable process that we use to create superior value for our customers, shareholders and associates. Rooted in our core values, it is our culture. CBS provides the tools and techniques to ensure that we are continuously improving our ability to meet or exceed customer requirements on a consistent basis.

## Results of Operations

The following discussion of Results of Operations addresses the comparison of the periods presented. 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 income before Restructuring and other related charges.

## Items Affecting Comparability of Reported Results

The comparability of our operating results for the second quarter and six months ended July 1, 2016 to the comparable 2015 period is affected by the following additional significant items:

## Strategic Acquisitions

We complement our organic growth plans with strategic acquisitions. Acquisitions can significantly affect our reported results and can complicate period to period comparisons of results. As a consequence, we report the change in our Net sales between periods both from existing and acquired businesses. Orders and order backlog are presented only for the gas- and fluid-handling segment, where this information is relevant. The change in Net sales due to acquisitions represents the change in sales due to the following acquisitions:

## Gas and Fluid Handling

On June 30, 2015, Colfax completed the acquisition of the Roots<sup>TM</sup> blowers and compressors business unit (“Roots”), also known as Industrial Air & Gas Technologies, from GE Oil & Gas (the “Roots Acquisition”) for cash consideration of \$180.7 million. The acquisition builds on Howden’s global strength in compressors and blowers and adds important application expertise and product solutions to the portfolio.

On October 5, 2015, Colfax completed the acquisition of Simsmart Technologies, Inc. (“Simsmart”) for cash consideration of \$15.3 million, net of cash acquired. Simsmart provides a software product that controls ventilation conditions and increases fan efficiency. The acquisition of Simsmart expands the Howden product portfolio primarily within the mining end market and other end markets with challenging ventilation conditions.

## Foreign Currency Fluctuations

A significant portion of our Net sales, approximately 72% and 71% for the three and six months ended July 1, 2016, respectively, is derived from operations outside the U.S., with the majority of those sales denominated in currencies other than the U.S. dollar. Because much of our manufacturing and employee costs are outside the U.S., a significant portion of our costs are also denominated in currencies other than the U.S. dollar. Changes in foreign exchange rates can impact our results of operations and are quantified when significant to our discussion. For the second quarter and six months ended July 1, 2016, changes in foreign exchange rates have reduced Net sales by approximately 4% and 5%, respectively. Changes in foreign exchange rates also reduced Income before income taxes by approximately 5% for the second quarter and six months ended July 1, 2016. The changes in foreign exchange rates since December 31, 2015 decreased net assets by approximately 4%, due primarily to significant intangible assets denominated in British pounds.

## Seasonality

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.

## Sales, Orders and Backlog

Our Net sales decreased from \$1,025.4 million in the second quarter of 2015 to \$957.2 million in the second quarter of 2016. Our Net sales decreased from \$1,936.4 million in the six months ended June 26, 2015 to \$1,834.1 million in the six months ended July 1, 2016. The following tables present the components of changes in our consolidated Net sales and, for our gas- and fluid-handling segment, orders and order backlog:

	Net Sales		Orders <sup>(1)</sup>	
	\$	%	\$	%
	(In millions)			
For the three months ended June 26, 2015	\$1,025.4		\$502.3	
Components of Change:				
Existing businesses <sup>(2)</sup>	(57.2)	(5.6)%	(78.0)	(15.5)%
Acquisitions <sup>(3)</sup>	28.1	2.7 %	38.4	7.6 %
Foreign currency translation <sup>(4)</sup>	(39.1)	(3.8)%	(17.0)	(3.4 )%
	(68.2)	(6.7)%	(56.6)	(11.3)%
For the three months ended July 1, 2016	\$957.2		\$445.7	



	Net Sales		Orders <sup>(1)</sup>		Backlog at Period End	
	\$	%	\$	%	\$	%
	(In millions)					
As of and for the six months ended June 26, 2015	\$1,936.4		\$949.3		\$1,364.4	
Components of Change:						
Existing businesses <sup>(2)</sup>	(59.7)	(3.1)%	(119.5)	(12.6)%	(230.7)	(16.9)%
Acquisitions <sup>(3)</sup>	50.3	2.6 %	61.8	6.5 %	54.4	4.0 %
Foreign currency translation <sup>(4)</sup>	(92.9)	(4.8)%	(38.3)	(4.0 )%	(119.2)	(8.8 )%
	(102.3)	(5.3)%	(96.0)	(10.1)%	(295.5)	(21.7)%
As of and for the six months ended July 1, 2016	\$1,834.1		\$853.3		\$1,068.9	

<sup>(1)</sup> Represents contracts for products or services, net of cancellations for the period, for our gas- and fluid-handling segment.

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

<sup>(3)</sup> Represents the incremental sales, orders and order backlog as a result of our acquisitions.

<sup>(4)</sup> Represents the difference between prior year sales, orders and order backlog valued at the actual prior year foreign exchange rates and prior year sales, orders and order backlog valued at current year foreign exchange rates.

The decrease in Net sales from existing businesses during the second quarter of 2016 compared to the second quarter of 2015 was attributable to decreases of \$35.4 million in our gas- and fluid-handling segment and \$21.8 million in our fabrication technology segment. Orders, net of cancellations, from existing businesses for our gas- and fluid-handling segment decreased during the second quarter of 2016 compared to the second quarter of 2015 due to declines in the oil, gas and petrochemical, power generation, and general industrial and other end markets, partially offset by growth in the marine and mining end markets.

The decrease in Net sales from existing businesses during the six months ended July 1, 2016 compared to the six months ended June 26, 2015 was attributable to decreases of \$31.3 million in our fabrication technology segment and \$28.4 million in our gas- and fluid-handling segment. Orders, net of cancellations, from existing businesses for our gas- and fluid-handling segment decreased during the six months ended July 1, 2016 compared to the six months ended June 26, 2015 due to declines in all end markets.

## Business Segments

As discussed further above, the Company reports results in two reportable segments: gas and fluid handling and fabrication technology. The following table summarizes Net sales by reportable segment for each of the following periods:

	Three Months Ended		Six Months Ended	
	July 1, 2016	June 26, 2015	July 1, 2016	June 26, 2015
	(In millions)			
Gas and Fluid Handling	\$483.7	\$504.9	\$916.4	\$927.1
Fabrication Technology	473.5	520.5	917.7	1,009.3
Total Net sales	\$957.2	\$1,025.4	\$1,834.1	\$1,936.4

## Gas and Fluid Handling

We design, manufacture, install and maintain gas- and fluid-handling products for use in a wide range of markets, including power generation, oil, gas and petrochemical, mining, marine (including defense) and general industrial and other. Our gas-handling products are principally marketed under the Howden brand name. Howden's primary products are heavy-duty fans, rotary heat exchangers and compressors. The fans and heat exchangers are used in coal-fired and other types of power stations, both in combustion and emissions control applications, underground mines, steel sintering plants and other industrial facilities that require movement of large volumes of air in harsh applications. Howden's compressors are mainly used in the oil, gas and petrochemical end market. Our fluid-handling products are marketed by Colfax Fluid Handling under a portfolio of brands including Allweiler and Imo. Colfax Fluid Handling is a supplier of a broad range of fluid-handling products, including pumps, fluid-handling systems and controls, and specialty valves.

The following table summarizes selected financial data for our gas- and fluid-handling segment:

	Three Months Ended		Six Months Ended	
	July 1, 2016	June 26, 2015	July 1, 2016	June 26, 2015
	(Dollars in millions)			
Net sales	\$483.7	\$504.9	\$916.4	\$927.1
Gross profit	136.4	156.5	261.0	286.0
Gross profit margin	28.2 %	31.0 %	28.5 %	30.8 %
Restructuring and other related charges	\$7.1	\$2.7	\$17.7	\$5.3
Selling, general and administrative expense	91.3	92.2	182.0	185.5
Selling, general and administrative expense as a percentage of Net sales	18.9 %	18.3 %	19.9 %	20.0 %
Segment operating income	\$45.1	\$64.3	\$79.0	\$100.5
Segment operating income margin	9.3 %	12.7 %	8.6 %	10.8 %

The \$35.4 million Net sales decrease due to existing businesses during the second quarter of 2016 in comparison to the second quarter of 2015, as discussed and defined under “Sales, Orders and Backlog” above, was due to declines in our oil, gas, and petrochemical, general industrial and other, marine, and mining end markets, partially offset by growth in our power generation end market. Acquisition-related growth contributed \$28.1 million of Net sales in the second quarter of 2016. Changes in foreign exchange rates had a negative impact on Net sales of \$13.9 million. Gross profit decreased in the second quarter of 2016 reflecting the impact of changes in volumes and foreign exchange rates and a \$3.0 million provision for losses on specific customer contracts, that were partially offset by acquisition-related growth and a \$1.1 million insurance recovery associated with a product liability claim. Gross profit margin decreased during the second quarter of 2016 in comparison to the second quarter of 2015 primarily due to sales mix, the provision for losses discussed previously and higher warranty costs. Restructuring and other related charges increased during the second quarter of 2016 primarily due to accelerated cost reduction programs to reduce the cost structure of the Company in response to the current challenging, cyclical economic conditions. Selling, general and administrative expense for the second quarter of 2016 decreased compared to the second quarter of 2015 primarily due to changes in foreign exchange rates and cost control activities, partially offset by acquisition-related growth and a \$1.4 million impairment charge on long-lived assets at a specific North American business.

The \$28.4 million Net sales decrease due to existing businesses during the six months ended July 1, 2016 in comparison to the six months ended June 26, 2015, as discussed and defined under “Sales, Orders and Backlog” above, was due to declines in our general industrial and other, marine, and mining end markets, partially offset by growth in our power generation and oil, gas, and petrochemical end markets. Acquisition-related growth contributed \$50.3 million of Net sales during the six months ended July 1, 2016. Changes in foreign exchange rates had a negative impact on Net sales of \$32.6 million. Gross profit decreased in the six months ended July 1, 2016 reflecting the impact of changes in volumes and foreign exchange rates and a provision for losses on customer contracts, that were partially offset by acquisition-related growth and an insurance recovery, as discussed previously. Gross profit margin decreased during the six months ended July 1, 2016 in comparison to the six months ended June 26, 2015 due to decremental margins on lower volumes, contractual loss provisions, and higher warranty costs. Restructuring and other related charges increased during the six months ended July 1, 2016 primarily due to accelerated cost reduction programs, as discussed previously. Selling, general and administrative expense for the six months ended July 1, 2016 decreased compared to the six months ended June 26, 2015 primarily due to changes in foreign exchange rates and cost control activities, partially offset by acquisition-related growth and an impairment charge, as discussed previously.

#### Fabrication Technology

We formulate, develop, manufacture and supply consumable products and equipment for use in the cutting and joining of steels, aluminum and other metals and metal alloys. Our fabrication technology products are marketed under

several brand names, most notably ESAB and Victor, which we believe are well known in the international cutting and welding industry. ESAB's comprehensive range of cutting and welding consumables includes electrodes, cored and solid wire and fluxes. ESAB's fabrication technology equipment ranges from portable welding machines to large customized cutting and automated welding systems. The Victor Acquisition complemented the geographic footprint of our fabrication technology segment and expanded our cutting equipment and consumables, gas control and specialty welding product lines. Products are sold into a wide range of end markets, including oil, gas and petrochemicals, power generation, wind power, shipbuilding, pipelines, mobile/off-highway equipment and mining.

The following table summarizes selected financial data for our fabrication technology segment:

	Three Months Ended		Six Months Ended	
	July 1, 2016	June 26, 2015	July 1, 2016	June 26, 2015
	(Dollars in millions)			
Net sales	\$473.5	\$520.5	\$917.7	\$1,009.3
Gross profit	164.7	171.6	320.6	336.5
Gross profit margin	34.8 %	33.0 %	34.9 %	33.3 %
Restructuring and other related charges	\$7.4	\$6.2	\$14.5	\$7.3
Selling, general and administrative expense	110.2	117.7	220.2	225.2
Selling, general and administrative expense as a percentage of Net sales	23.3 %	22.6 %	24.0 %	22.3 %
Segment operating income	\$54.5	\$53.9	\$100.4	\$111.2
Segment operating income margin	11.5 %	10.4 %	10.9 %	11.0 %

The \$21.8 million Net sales decrease due to existing businesses during the second quarter of 2016 in comparison to the second quarter of 2015, as discussed and defined under “Sales, Orders and Backlog” above, was primarily the result of decreases in volumes in North America, partially offset by growth in Europe and Russia. Additionally, changes in foreign exchange rates had a negative impact on Net sales of \$25.2 million. Gross profit decreased in the second quarter of 2016 primarily due to the impact of lower volumes and changes in foreign exchange rates. The decrease was partially offset by \$1.3 million of gross profit recognized upon agreement with a customer for work performed in 2015 under a long-term contract arrangement. Gross profit margin increased during the second quarter of 2016 in comparison to the second quarter of 2015 primarily due to decreased raw material costs and the positive impact of cost control activities. Restructuring and other related charges increased during the second quarter of 2016 primarily due to accelerated cost reduction programs to reduce the cost structure of the Company in response to the current challenging, cyclical economic conditions. Selling, general and administrative expense as a percentage of Net sales increased during the second quarter of 2016 as compared to the second quarter of 2015 due to the lower volumes and legal costs of \$1.9 million related to defense of alleged patent infringement, that were partially offset by \$0.7 million of insurance recoveries associated with the litigation. See Note 12, “Commitments and Contingencies” in the accompanying Notes to Condensed Consolidated Financial Statements in this Form 10-Q for additional information on the patent infringement litigation.

The \$31.3 million Net sales decrease due to existing businesses during the six months ended July 1, 2016 in comparison to the six months ended June 26, 2015, as discussed and defined under “Sales, Orders and Backlog” above, was primarily the result of a decrease in filler metal volumes in most regions offset by three extra selling days in 2016. Selling days are more significant to fabrication technology where more products are sold from finished stock. Additionally, changes in foreign exchange rates had a negative impact on Net sales of \$60.3 million. Gross profit decreased during the six months ended July 1, 2016, primarily due to the impact of changes in foreign exchange rates and lower overall volumes partially offset by the change order settlement discussed previously. Gross profit margin increased during the six months ended July 1, 2016 in comparison to the six months ended June 26, 2015 primarily due to decreased raw material costs and the positive impact of cost control activities. Restructuring and other related charges increased during the six months ended July 1, 2016 due to the accelerated cost reduction programs mentioned previously. Selling, general and administrative expense decreased during the six months ended July 1, 2016 as compared to the six months ended June 26, 2015 as a result of cost savings from the Company’s cost reduction programs. These reductions were partially offset by asset impairment charges of \$2.3 million associated with the expected exit of a specific South American business, approximately \$3.0 million of charges associated with uncollectible accounts of specific customers, and net legal costs of \$2.2 million related to defense of alleged patent infringement. Selling, general and administrative expense as a percentage of Net sales increased during the second quarter of 2016 as compared to the second quarter of 2015 due to the lower volumes and the incremental charges discussed above.



# Gross Profit - Total Company

	Three Months Ended		Six Months Ended	
	July 1, 2016	June 26, 2015	July 1, 2016	June 26, 2015
	(Dollars in millions)			
Gross profit	\$301.1	\$328.0	\$581.6	\$622.5
Gross profit margin	31.5 %	32.0 %	31.7 %	32.1 %

The \$26.9 million decrease in Gross profit during the second quarter of 2016 in comparison to the second quarter of 2015 was attributable to a decreases of \$20.0 million in our gas- and fluid-handling segment and \$6.9 million in our fabrication technology segment. The \$40.9 million decrease in Gross profit during the six months ended July 1, 2016 in comparison to the six months ended June 26, 2015 was attributable to decreases of \$25.0 million in our gas- and fluid-handling segment and \$15.9 million in our fabrication technology segment. Gross profit decreased during the second quarter and six months ended July 1, 2016 in comparison to the second quarter and six months ended June 26, 2015 primarily due to changes in foreign exchange rates and lower overall volumes, partially offset by acquisition-related growth. Gross profit for the second quarter and six months ended July 1, 2016 included various incremental charges discussed previously. Gross profit margin decreased during the second quarter and six months ended July 1, 2016 in comparison to the second quarter and six months ended June 26, 2015 primarily as a result of lower margin product mix in gas- and fluid-handling offset by lower material costs in fabrication technology, as discussed previously. Changes in foreign exchange rates during the second quarter and six months ended July 1, 2016 had a \$10.4 million and \$25.7 million negative impact on Gross profit in comparison to the second quarter and six months ended June 26, 2015.

# Operating Expenses - Total Company

	Three Months Ended		Six Months Ended	
	July 1, 2016	June 26, 2015	July 1, 2016	June 26, 2015
	(Dollars in millions)			
Selling, general and administrative expense	\$213.6	\$222.6	\$427.9	\$435.9
Selling, general and administrative expense as a percentage of Net sales	22.3 %	21.7 %	23.3 %	22.5 %
Restructuring and other related charges	\$14.5	\$8.8	\$32.2	\$12.6

Selling, general and administrative expense decreased by \$9.0 million and \$8.0 million during the second quarter and six months ended July 1, 2016 in comparison to the second quarter and six months ended June 26, 2015. These decreases in Selling, general and administrative expense are attributable to accelerated cost reduction programs in both segments, the impact of foreign exchange rates and the insurance recovery discussed previously. These reductions were partially offset by acquisition related growth in our gas- and fluid-handling segment and incremental charges related to asset impairments in specific operations in North and South America, charges associated with uncollectible accounts of specific customers, and legal costs related to defense of alleged patent infringements discussed previously. Selling, general and administrative expense as a percentage of Net sales increased during the second quarter and six months ended July 1, 2016 as compared to the second quarter and six months ended June 26, 2015 due to the lower volumes and net incremental charges discussed above. Restructuring and other related charges increased during the second quarter and six months ended July 1, 2016 primarily due to accelerated cost reduction programs to reduce the cost structure of the Company in response to the current challenging, cyclical economic conditions.

# Interest Expense - Total Company

Three Months Ended	Six Months Ended
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Ended

July	June	July	June
1,	26,	1,	26,
2016	2015	2016	2015

(In millions)

Interest expense	\$8.7	\$14.2	\$17.8	\$26.3
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The decrease in Interest expense during the second quarter and six months ended July 1, 2016 in comparison to the second quarter and six months ended June 26, 2015 is primarily due to the decrease in outstanding borrowing levels, lower amortization of deferred financing fees and original issue discount, and lower borrowing margins resulting from the refinancing of our credit facility in June 2015. A \$4.7 million charge resulting from this refinancing is reflected in Interest expense for the second quarter and six months ended June 26, 2015.



## Provision for Income Taxes - Total Company

The effective tax rate for the second quarter of 2016 was 31.7%, which was lower than the U.S. federal statutory tax rate primarily due to foreign earnings where international tax rates 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 2016. The effective tax rate for the second quarter of 2015 was 28.5%, which was lower than the U.S. federal statutory tax 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 was not expected to be recognized in 2015.

The effective tax rate for the six months ended July 1, 2016 was 32.3%, which was lower than the U.S. federal statutory tax rate primarily due to foreign earnings where international tax rates 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 2016. The effective tax rate for the six months ended June 26, 2015 was 22.1%, which was lower than the U.S. federal statutory tax rate primarily due to a tax benefit of \$13.0 million associated with the resolution of certain liabilities for 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 was not expected to be recognized in 2015.

## Liquidity and Capital Resources

### Overview

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

### Equity Capital

On October 11, 2015, the Company's Board of Directors authorized the repurchase of up to \$100.0 million of our 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. During the six months ended July 1, 2016, the Company repurchased 1,000,000 shares of the Company's Common stock under a plan complying with Rule 10b5-1. As of July 1, 2016, the remaining stock repurchase authorization provided by the Company's Board of Directors is approximately \$52 million.

### Borrowing Arrangements

On June 5, 2015, we entered into a 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, to extend the life of our borrowing facility to five years, adjust principal amortization, and modify the underlying covenants and security requirements.

As of July 1, 2016, the weighted-average interest rate of borrowings under the Credit Agreement was 1.87%, excluding accretion of original issue discount, and there was \$771.8 million available on the revolving credit facility.

We are also party to letter of credit facilities with total capacity of \$743.3 million. Total letters of credit of \$348.2 million were outstanding as of July 1, 2016.

The Company is party to a receivables financing facility through 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 program limit of \$95 million. As of July 1, 2016, the total outstanding borrowings under the receivables financing facility were \$83.1 million and the interest rate was 1.29%. The scheduled termination date for the receivables financing facility is December 20, 2016 and 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.

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 or make certain investments. 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. The Company is in compliance with all such covenants as of July 1, 2016. We believe that our sources of liquidity, including the Credit Agreement, are adequate to fund our operations for the next twelve months.

## Cash Flows

As of July 1, 2016, we had \$184.7 million of Cash and cash equivalents, a decrease of \$12.7 million from \$197.4 million as of December 31, 2015. The following table summarizes the change in Cash and cash equivalents during the periods indicated:

	Six Months Ended	
	July 1, 2016	June 26, 2015
	(In millions)	
Net cash provided by operating activities	\$56.4	\$66.9
Net cash used in investing activities	(25.5 )	(18.3 )
Repayments of borrowings, net	(21.5 )	(134.9 )
Repurchases of common stock	(20.8 )	—
Other	(4.7 )	(0.6 )
Net cash used in financing activities	(47.0 )	(135.5 )
Effect of foreign exchange rates on Cash and cash equivalents	3.4	(6.3 )
Decrease in Cash and cash equivalents	\$(12.7)	\$(93.2)

Cash flows from operating activities can fluctuate significantly from period to period due to changes in working capital and the timing of payments for items such as pension funding and asbestos-related costs. Changes in significant operating cash flow items are discussed below.

Net cash received or paid for asbestos-related costs, net of insurance proceeds, including the disposition of claims, defense costs and legal expenses related to litigation against our insurers, creates variability in our operating cash flows. We had net cash outflows of \$21.4 million and \$10.9 million during the six months ended July 1, 2016 and six months ended June 26, 2015, respectively.

- Funding requirements of our defined benefit plans, including pension plans and other post-retirement benefit plans, can vary significantly from period to period due to changes in the fair value of plan assets and actuarial assumptions. For the six months ended July 1, 2016 and six months ended June 26, 2015, cash contributions for defined benefit plans were \$18.1 million and \$24.4 million, respectively.
- During the six months ended July 1, 2016 and six months ended June 26, 2015, cash payments of \$28.7 million and \$20.4 million, respectively, were made for our restructuring initiatives.

Changes in net working capital also affected the operating cash flows for the periods presented. We define working capital as Trade receivables, net and Inventories, net reduced by Accounts payable. During the six months ended July 1, 2016, net working capital consumed cash of \$60.3 million, before the impact of foreign exchange, primarily due to an increase in receivables and inventory levels, and a decrease in payables. The principal contributor to the increase in working capital was significant costs in excess of billings on long-term contracts as of July 1, 2016.

During the six months ended June 26, 2015, net working capital consumed cash of \$70.2 million, before the impact of foreign exchange, primarily due to an increase in receivables and inventory levels, and a decrease in payables. The principal

contributors to the increase in working capital in 2015 were higher inventory and receivable levels within the fabrication technology segment, and an increase in receivables and a decrease in payables in our gas- and fluid-handling segment.

Increased working capital in both years reflect normal seasonal changes.

Cash flows from financing activities for the six months ended July 1, 2016 were impacted by the repurchase of 1,000,000 shares of the Company's Common stock for approximately \$20.8 million and net repayments of borrowings of \$21.5 million as compared to net repayments of \$134.9 million during the six months ended June 26, 2015. The higher repayments in 2015 largely resulted from reduced cash balances.

Our Cash and cash equivalents as of July 1, 2016 includes \$177.7 million held in jurisdictions outside the U.S., which may be subject to U.S. income taxes if repatriated into the U.S. and other restrictions.

### Critical Accounting Policies

The methods, estimates and judgments that we use in applying our critical accounting policies have a significant impact on our results of operations and financial position. We evaluate our estimates and judgments on an ongoing basis. Our estimates are based upon our historical experience, our evaluation of business and macroeconomic trends and information from other outside sources, as appropriate. Our experience and assumptions form the basis for our judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may vary from what our management anticipates and different assumptions or estimates about the future could have a material impact on our results of operations and financial position. There have been no significant additions to the methods, estimates and judgments included in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies" in our 2015 Form 10-K.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk from changes in short-term interest rates, foreign currency exchange rates and commodity prices that could impact our results of operations and financial condition. We address our exposure to these risks through our normal operating and financing activities. We do not enter into derivative contracts for trading purposes.

#### Interest Rate Risk

We are subject to exposure from changes in short-term interest rates related to interest payments on our borrowing arrangements. Under the Credit Agreement and the receivables financing facility, substantially all of our borrowings as of July 1, 2016 are variable-rate facilities based on LIBOR or EURIBOR. In order to mitigate our interest rate risk, we may enter into interest rate swap or collar agreements. A hypothetical increase in the interest rate of 1.00% during the second quarter and six months ended July 1, 2016 would have increased Interest expense by approximately \$3.6 million and \$7.2 million, respectively.

#### Exchange Rate Risk

We have manufacturing sites throughout the world and sell our products globally. As a result, we are exposed to movements in the exchange rates of various currencies against the U.S. dollar and against the currencies of other countries in which we manufacture and sell products and services. During the second quarter and six months ended July 1, 2016, approximately 72% and 71% of our sales were derived from operations outside the U.S. We have significant manufacturing operations in European countries that are not part of the Eurozone. Sales revenues are more highly weighted toward the Euro and U.S. dollar. We also have significant contractual obligations in U.S. dollars that are met with cash flows in other currencies as well as U.S. dollars. To better match revenue and expense as well as cash needs from contractual liabilities, we regularly enter into cross currency swaps and forward contracts.

We also face exchange rate risk from our investments in subsidiaries owned and operated in foreign countries. The Euro denominated borrowings under the Credit Agreement provide a natural hedge to a portion of our European net asset position. The effect of a change in currency exchange rates on our net investment in international subsidiaries, net of the translation effect of the Company's Euro denominated borrowings, is reflected in the Accumulated other comprehensive loss component of Equity. A 10% depreciation in major currencies, relative to the U.S. dollar as of July 1, 2016 (net of the translation effect of our Euro denominated borrowings) would result in a reduction in Equity of approximately \$250 million.

We also face exchange rate risk from transactions with customers in countries outside the U.S. and from intercompany transactions between affiliates. Although we use the U.S. dollar as our functional currency for reporting purposes, we have manufacturing sites throughout the world, and a substantial portion of our costs are incurred and sales are generated in foreign currencies. Costs incurred and sales recorded by subsidiaries operating outside of the U.S. are translated into U.S. dollars using exchange rates effective during the respective period. As a result, we are exposed to movements in the exchange rates of various currencies against the U.S. dollar. In particular, the Company has more sales in European currencies than it has expenses in those currencies. Although a significant portion of this difference is hedged, when European currencies strengthen or weaken against the U.S. dollar, operating profits are increased or decreased, respectively.

We have generally accepted the exposure to exchange rate movements without using derivative financial instruments to manage this risk. Both positive and negative movements in currency exchange rates against the U.S. dollar will, therefore, continue to affect the reported amount of sales, profit, assets and liabilities in our Condensed Consolidated Financial Statements.

#### Commodity Price Risk

We are exposed to changes in the prices of raw materials used in our production processes. Commodity futures contracts are periodically used to manage such exposure. As of July 1, 2016, our open commodity futures contracts were not material.

See Note 11, “Financial Instruments and Fair Value Measurements” in our Notes to Condensed Consolidated Financial Statements included in this Form 10-Q for additional information regarding our derivative instruments.

#### Item 4. Controls and Procedures

##### Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as of July 1, 2016. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective in providing reasonable assurance that the information required to be disclosed in this report on Form 10-Q has been recorded, processed, summarized and reported as of the end of the period covered by this report on Form 10-Q.

Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

##### Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f)) identified in connection with the evaluation required by Rule 13a-15(d) of the Exchange Act that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.





## PART II - OTHER INFORMATION

## Item 1. Legal Proceedings

Discussion of legal proceedings is incorporated by reference to Note 12, “Commitments and Contingencies,” in the Notes to Condensed Consolidated Financial Statements included in Part I. Item 1. “Financial Statements” of this Form 10-Q.

## Item 1A. Risk Factors

An investment in our common stock involves a high degree of risk. There have been no material changes to the risk factors included in “Part I. Item 1A. Risk Factors” in our 2015 Form 10-K.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

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 and is being conducted pursuant to SEC Rule 10b-18. The timing and amount of shares repurchased is to be determined by management based on its evaluation of market conditions and other factors. For the three months ended July 1, 2016 the Company made no repurchases of shares. The following table presents additional information with respect to our Common stock repurchase program.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs
4/2/16 - 4/29/16	—	—	—	51,821,526
4/30/16 - 5/27/16	—	—	—	51,821,526
5/28/16 - 7/1/16	—	—	—	51,821,526
Total	—	—	—	51,821,526 <sup>(1)</sup>

(1) Represents the repurchase program limit authorized by the Board of Directors of \$100.0 million less the value of purchases made since October 11, 2015.

## Item 3. Defaults Upon Senior Securities

None.

## Item 4. Mine Safety Disclosures

None.

## Item 5. Other Information

None.



Item 6. Exhibits

Exhibit No.	Exhibit Description
3.01*	Amended and Restated Certificate of Incorporation.
3.02**	Colfax Corporation Amended and Restated Bylaws.
10.01***	Colfax Corporation 2016 Omnibus Incentive Plan
10.02***	Letter Agreement between Colfax Corporation and Christopher Hix
10.03***	Second Amendment to the Credit Agreement, dated June 24, 2016, among Colfax Corporation, as the borrower, the guarantors party thereto, each of the lenders party thereto, and Deutsche Bank AG New York Branch, as administrative agent.
31.01	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.02	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.01	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.02	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
*	Incorporated by reference to Exhibit 3.01 to Colfax Corporation's Form 8-K (File No. 001-34045) as filed with the SEC on January 30, 2012.
**	Incorporated by reference to Exhibit 3.02 to Colfax Corporation's Form 10-Q (File No. 001-34045) as filed with the SEC on July 23, 2015.
***	Filed herewith.



SIGNATURES

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

Registrant: Colfax Corporation

By:

/s/ MATTHEW L. TREROTOLA      President and Chief Executive Officer  
Matthew L. Trerotola      (Principal Executive Officer)      July 28, 2016

/s/ C. SCOTT BRANNAN      Senior Vice President, Finance,  
C. Scott Brannan      Chief Financial Officer and Treasurer  
(Principal Financial and Accounting Officer)      July 28, 2016