Colfax CORP
Form 10-Q
October 23, 2014

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

FORM 10-Q

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

For the Quarterly Period Ended September 26, 2014
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number - 001-34045
Colfax Corporation
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	54-1887631 (I.R.S. Employer Identification Number)
420 National Business Parkway, 5th Floor Annapolis Junction, Maryland (Address of principal executive offices)	20701 (Zip Code)

(301) 323-9000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ 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 þ 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 þ 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 þ

As of September 26, 2014, there were 123,686,331 shares of the registrant’s common stock, par value $.001 per share, outstanding.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended		Nine Months Ended	
	September 26, 2014	September 27, 2013	September 26, 2014	September 27, 2013
Net sales	$1,164,453	$1,014,570	$3,418,120	$3,035,831
Cost of sales	791,258	694,276	2,331,122	2,086,990
Gross profit	373,195	320,294	1,086,998	948,841
Selling, general and administrative expense	245,441	208,759	756,052	644,636
Restructuring and other related charges	8,948	8,737	28,734	17,428
Operating income	118,806	102,798	302,212	286,777
Interest expense	14,935	17,536	40,881	58,879
Income before income taxes	103,871	85,262	261,331	227,898
Provision for (benefit from) income taxes	22,568	19,787	(73,153)	62,948
Net income	81,303	65,475	334,484	164,950
Less: income attributable to noncontrolling interest, net of taxes	7,914	10,000	22,520	23,448
Net income attributable to Colfax Corporation	73,389	55,475	311,964	141,502
Dividends on preferred stock	—	5,086	2,348	15,254
Preferred stock conversion inducement payment	—	—	19,565	—
Net income available to Colfax Corporation common shareholders	$73,389	$50,389	$290,051	$126,248
Net income per share- basic	$0.59	$0.49	$2.41	$1.25
Net income per share- diluted	$0.59	$0.48	$2.38	$1.23

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended		Nine Months Ended	
	September 26, 2014	September 27, 2013	September 26, 2014	September 27, 2013
Net income	$81,303	$65,475	$334,484	$164,950
Other comprehensive (loss) income:				
Foreign currency translation, net of tax of $0, $(179), $0 and $(803)	(203,135)	120,961	(162,253)	(52,992)
Unrealized gain (loss) on hedging activities, net of tax of $3,226, $808, $3,351 and $165	16,315	(8,001)	19,439	(4,576)
Changes in deferred tax related to pension and other postretirement benefit cost	—	—	1,934	—
Amounts reclassified from Accumulated other comprehensive loss:				
Net pension and other postretirement benefit (income) cost, net of tax of $2,153, $183, $2,458 and $537	(289)	2,583	3,345	7,740
Other comprehensive (loss) income	(187,109)	115,543	(137,535)	(49,828)
Comprehensive (loss) income	(105,806)	181,018	196,949	115,122
Less: comprehensive income attributable to noncontrolling interest	1,844	6,645	15,354	7,595
Comprehensive (loss) income attributable to Colfax Corporation	$(107,650)	$174,373	$181,595	$107,527

See Notes to Condensed Consolidated Financial Statements.

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

	September 26, 2014	December 31, 2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$286,620	$311,301
Trade receivables, less allowance for doubtful accounts of $28,221 and $31,282	1,099,494	1,029,718
Inventories, net	522,361	445,153
Other current assets	309,597	351,124
Total current assets	2,218,072	2,137,296
Property, plant and equipment, net	772,115	756,507
Goodwill	2,947,286	2,391,270
Intangible assets, net	1,106,884	832,553
Other assets	484,958	471,423
Total assets	$7,529,315	$6,589,049
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	$73,695	$29,449
Accounts payable	778,846	862,125
Accrued liabilities	516,244	489,221
Total current liabilities	1,368,785	1,380,795
Long-term debt, less current portion	1,608,165	1,457,642
Other liabilities	1,015,270	1,009,489
Total liabilities	3,992,220	3,847,926
Equity:		
Preferred stock, $0.001 par value; 20,000,000 shares authorized; none and 13,877,552 issued and outstanding	—	14
Common stock, $0.001 par value; 400,000,000 shares authorized; 123,686,331 and 101,921,613 issued and outstanding	124	102
Additional paid-in capital	3,194,896	2,541,005
Retained earnings	309,427	19,376
Accumulated other comprehensive loss	(177,911)	(46,600)
Total Colfax Corporation equity	3,326,536	2,513,897
Noncontrolling interest	210,559	227,226
Total equity	3,537,095	2,741,123
Total liabilities and equity	$7,529,315	$6,589,049

See Notes to Condensed Consolidated Financial Statements.

COLFAX CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF EQUITY
Dollars in thousands, except share amounts and as noted
(Unaudited)

	Common Stock		Preferred Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total
	Shares	$ Amount	Shares	$ Amount					
Balance at January 1, 2014	101,921,613	$ 102	13,877,552	$ 14	$ 2,541,005	$ 19,376	$ (46,600)	$ 227,226	$ 2,741,123
Net income	—	—	—	—	—	311,964	—	22,520	334,484
Distributions to noncontrolling owners	—	—	—	—	—	—	—	(6,639)	(6,639)
Acquisition of shares held by noncontrolling interest	—	—	—	—	15,986	—	(942)	(25,382)	(10,338)
Preferred stock dividend	—	—	—	—	—	(2,348)	—	—	(2,348)
Preferred stock conversion	12,173,291	12	(13,877,552)	(14)	2	(19,565)	—	—	(19,565)
Other comprehensive loss, net of tax of $3.9 million	—	—	—	—	—	—	(130,369)	(7,166)	(137,535)
Common stock issuance, net of costs of $22.1 million	9,200,000	9	—	—	610,354	—	—	—	610,363
Common stock-based award activity	208,427	—	—	—	15,700	—	—	—	15,700
Contribution to defined benefit pension plan	183,000	1	—	—	11,849	—	—	—	11,850
Balance at September 26, 2014	123,686,331	$ 124	—	$ —	$ 3,194,896	$ 309,427	$ (177,911)	$ 210,559	$ 3,537,095

See Notes to Condensed Consolidated Financial Statements.

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COLFAX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Dollars in thousands
(Unaudited)

	Nine Months Ended	
	September 26, 2014	September 27, 2013
Cash flows from operating activities:		
Net income	$334,484	$164,950
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and impairment charges	129,448	86,624
Stock-based compensation expense	13,081	9,788
Non-cash interest expense	6,990	15,024
Deferred income tax (benefit) provision	(151,788)	4,780
Changes in operating assets and liabilities, net of acquisitions:		
Trade receivables, net	(38,666)	(114,731)
Inventories, net	5,200	22,492
Accounts payable	(82,874)	46,841
Changes in other operating assets and liabilities	(14,353)	(48,923)
Net cash provided by operating activities	201,522	186,845
Cash flows from investing activities:		
Purchases of fixed assets, net	(59,050)	(50,915)
Acquisition, net of cash acquired	(948,800)	(13,722)
Net cash used in investing activities	(1,007,850)	(64,637)
Cash flows from financing activities:		
Borrowings under term credit facility	150,000	50,861
Payments under term credit facility	—	(274,695)
Proceeds from borrowings on revolving credit facilities	1,093,151	182,688
Repayments of borrowings on revolving credit facilities	(1,023,565)	(192,393)
Proceeds from issuance of common stock, net	612,982	323,289
Preferred stock conversion inducement payment	(19,565)	—
Payments of dividend on preferred stock	(3,853)	(15,310)
Other	(22,250)	(30,066)
Net cash provided by financing activities	786,900	44,374
Effect of foreign exchange rates on Cash and cash equivalents	(5,253)	(9,776)
(Decrease) increase in Cash and cash equivalents	(24,681)	156,806
Cash and cash equivalents, beginning of period	311,301	482,449
Cash and cash equivalents, end of period	$286,620	$639,255

See Notes to Condensed Consolidated Financial Statements.

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COLFAX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. General

Colfax Corporation (the “Company” or “Colfax”) is a diversified global industrial manufacturing and engineering company that provides gas- and fluid-handling and fabrication technology products and services to customers around the world under the Howden, ESAB and Colfax Fluid Handling brand names.

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, 2013 is derived from the Company’s audited financial statements. During the nine months ended September 26, 2014, adjustments were made retrospectively to provisional amounts recorded as of December 31, 2013, primarily due to the Company’s valuation of specific items related to acquisitions that occurred in the three months ended December 31, 2013. See Note 3, “Acquisitions” for additional information regarding these adjustments. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted in accordance with the SEC’s rules and regulations for interim financial statements. The Condensed Consolidated Financial Statements included herein should be read in conjunction with the audited financial statements and related footnotes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013 (the “2013 Form 10-K”), filed with the SEC on February 12, 2014.

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.

In February 2014, the Venezuelan government introduced an additional auction-based foreign exchange system (“SICAD II”) which began operating on March 24, 2014. As there are multiple legal mechanisms in Venezuela to exchange currency, the Company has determined the SICAD II to be the most appropriate rate with which to remeasure the Company’s Venezuelan operations. The adoption of the SICAD II resulted in an 87% devaluation relative to the U.S. dollar from the previously used official rate of 6.3 bolivar fuerte to the U.S. dollar. As of and for the three and nine months ended September 26, 2014 the Company's Venezuelan operations represented less than 1% of the Company's Total assets and Net sales. The bolivar-denominated monetary net asset position, primarily related to cash and cash equivalents, was $0.6 million in the Condensed Consolidated Balance Sheet as of September 26, 2014. The change in exchange rates resulted in a foreign currency transaction loss of $6.3 million recognized in Selling, general and administrative expense in the Condensed Consolidated Statement of Operations for the nine months ended September 26, 2014.

The results of operations for the three and nine months ended September 26, 2014 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 holiday season. General economic conditions may, however, impact future seasonal variations.

2. Recently Issued Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-11, "Income Taxes (Topic 740)" ("ASU No. 2013-11"). ASU No. 2013-11 is intended to clarify the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. An unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except in certain circumstances. To the extent a carryforward is not available at the reporting date or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability. The adoption of ASU No. 2013-11 during the nine months ended September 26, 2014 did not have a material impact on the Company's Condensed Consolidated Balance Sheet. As of September 26, 2014,

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

$32.4 million of unrecognized tax benefit was presented as a reduction to the Company's deferred tax asset, which is included in Other assets in the Condensed Consolidated Balance Sheet. As ASU No. 2013-11 was not adopted retrospectively, $9.2 million of unrecognized tax benefits are included in Other liabilities in the Condensed Consolidated Balance Sheet as of December 31, 2013.

In April 2014, the FASB issued ASU No. 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360)—Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity" ("ASU No. 2014-08"). ASU No. 2014-08 changes the requirements for reporting discontinued operations. Under ASU No. 2014-08, only disposals representing a strategic shift in operations and have a major effect on the entity's operations and financial results should be presented as discontinued operations. Additionally, ASU No. 2014-08 requires expanded disclosures about discontinued operations. ASU No. 2014-08 is effective prospectively for fiscal years beginning after December 15, 2014, with early adoption permitted for disposals that have not been reported in financial statements previously issued. The Company will apply the provisions of ASU No. 2014-08 to future reporting of discontinued operations.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU No. 2014-09"). ASU No. 2014-09 clarifies the principles for recognizing revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance affects entities that enter into contracts with customers to transfer goods or services, and supersedes prior GAAP guidance, namely Accounting Standards Codification Topic 605—Revenue Recognition. ASU No. 2014-09 is effective for fiscal years beginning after December 15, 2016, and is to be applied retrospectively, or on a modified retrospective basis. Early adoption is not permitted. The Company is currently evaluating the impact of adopting ASU No. 2014-09 on its Consolidated Financial Statements.

3. Acquisitions

Victor Technologies Holdings, Inc.

On April 14, 2014, Colfax completed the acquisition of the common stock of Victor Technologies Holdings, Inc. ("Victor") for total net cash consideration of $948.8 million, including the assumption of debt, subject to certain adjustments (the "Victor Acquisition"). Victor is a global manufacturer of cutting, gas control and specialty welding solutions. The acquisition will complement the geographic footprint of our fabrication technology segment, as well as expand our product portfolio into new segments and applications.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of the Victor Acquisition. The amounts represent the Company's best estimate of the aggregate fair value of the assets acquired and liabilities assumed. These amounts are based upon certain valuations, studies and analyses that have yet to be finalized, and accordingly, the assets acquired and liabilities assumed, as detailed below, are subject to adjustment once the detailed analyses are completed. During the measurement period, the Company has made aggregate retrospective adjustments of $9.7 million during the three months ended September 27, 2014, to provisional amounts that were recognized at the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date. The aggregate adjustments decreased the Goodwill balance and primarily relate to the Company's valuation of intangible assets. Substantially all of the Goodwill recognized is not expected to be deductible for income tax purposes.

	April 14, 2014
	(In thousands)

Trade receivables	$76,778
Inventories	112,277
Property, plant and equipment	59,281
Goodwill	610,167
Intangible assets	389,700
Accounts payable	(34,271)
Other assets and liabilities, net	(265,132)
Consideration, net of cash acquired	$948,800

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

The following table summarizes Intangible assets acquired, excluding Goodwill, as of April 14, 2014:

	Intangible Asset (In thousands)	Weighted-Average Amortization Period (Years)
Customer relationships	$291,800	12.83
Acquired technology	18,600	10.00
Other intangible assets	26,000	9.28
Total amortizable intangible assets	$336,400	12.40
Trade names – indefinite life	$53,300	n/a

During the period from April 14, 2014 through September 26, 2014, the Company's Consolidated Statement of Operations included $229.0 million and $25.1 million of Net sales and Net income, respectively, associated with the Victor Acquisition. In connection with the Victor Acquisition, the Company incurred advisory, legal, valuation and other professional service fees of $2.7 million included in Selling, general and administrative expense in the Condensed Consolidated Statement of Operations and $2.7 million of termination payments to Victor executives included in Restructuring and other related charges in the Condensed Consolidated Statement of Operations for the nine months ended September 26, 2014.

Other

During the nine months ended September 26, 2014, the Company completed the $9.5 million acquisition of the remaining ownership of ESAB-SVEL ("Svel") and the $0.8 million acquisition of the remaining ownership of Howden Thomassen Middle East FCZO ("Howden Middle East"), both of which were less than wholly owned subsidiaries in which the Company increased its controlling interest. As a result of these transactions, the Company increased its ownership of Svel, which is included in the fabrication technology segment, from 51% to 100%, and increased its ownership of Howden Middle East, which is included in the gas- and fluid-handling segment, from 90% to 100%.

During the three months ended December 31, 2013, the Company completed four acquisitions: the global infrastructure and industry division of Fläkt Woods Group, Sistemas Centrales de Lubrication S.A. de C.V., ČKD Kompresory a.s., and certain business units of The New York Blower Company, including TLT-Babcock Inc. and Alphair Ventilating Systems Inc. These four acquisitions were accounted for using the acquisition method of accounting for which the Company is continuing to evaluate the fair value of the assets acquired and liabilities assumed during the measurement period, as certain valuations, studies and analyses are yet to be finalized. During the nine months ended September 26, 2014, the Company retrospectively adjusted provisional amounts with respect to these four 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 for the nine months ended September 26, 2014 of $6.7 million increased the Goodwill balance.

4. Goodwill and Intangible Assets

The following table summarizes the activity in Goodwill, by segment, during the nine months ended September 26, 2014 :

Total

	Gas and Fluid Handling	Fabrication Technology (In thousands)	
Balance, December 31, 2013	$1,513,772	$877,498	$2,391,270
Goodwill attributable to Victor Acquisition	—	610,167	610,167
Impact of foreign currency translation and other	(43,130)	(11,021)	(54,151)
Balance, September 26, 2014	$1,470,642	$1,476,644	$2,947,286

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

The following table summarizes the Intangible assets, excluding Goodwill:

	September 26, 2014		December 31, 2013	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(In thousands)			
Trade names – indefinite life	$430,219	$—	$412,341	$—
Acquired customer relationships	615,627	(75,583)	353,337	(51,675)
Acquired technology	118,504	(26,265)	114,647	(22,757)
Acquired backlog	68,272	(66,558)	73,476	(65,919)
Other intangible assets	53,272	(10,604)	26,061	(6,958)
	$1,285,894	$(179,010)	$979,862	$(147,309)

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

During the nine months ended September 26, 2014, an analysis was performed to evaluate certain long-lived and indefinite-lived intangible assets related to a specific operation within the gas- and fluid-handling segment due to the decision to substantially reduce its operations. The analysis determined the long-lived and indefinite-lived intangible assets, primarily consisting of trade names, acquired customer relationships, and acquired technology, were no longer recoverable based upon relief from royalty measurements and projected undiscounted net cash flows. The analysis resulted in a $12.1 million impairment loss, included in Selling, general and administrative expense in the accompanying Condensed Consolidated Statement of Operations for the nine months ended September 26, 2014.

As of September 26, 2014, total amortization expense for amortizable intangible assets is expected to be $58.5 million, $66.9 million, $63.6 million, $59.7 million, $56.6 million and $53.4 million for the years ending December 31, 2014, 2015, 2016, 2017, 2018 and 2019, respectively.

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

5. Net Income Per Share

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

	Three Months Ended		Nine Months Ended	
	September 26, 2014	September 27, 2013	September 26, 2014	September 27, 2013
	(In thousands, except share data)			
Computation of Net income per share - basic:				
Net income available to Colfax Corporation common shareholders	$73,389	$50,389	$290,051	$126,248
Less: net income attributable to participating securities[1]	—	—	—	(3,740)
	$73,389	$50,389	$290,051	$122,508
Weighted-average shares of Common stock outstanding - basic	123,841,699	101,977,511	120,163,945	98,185,166
Net income per share - basic	$0.59	$0.49	$2.41	$1.25
Computation of Net income per share - diluted:				
Net income available to Colfax Corporation common shareholders	$73,389	$50,389	$290,051	$126,248
Less: net income attributable to participating securities[1]	—	—	—	(3,740)
Add: dividends on preferred stock[1]	—	5,086	—	—
	$73,389	$55,475	$290,051	$122,508
Weighted-average shares of Common stock outstanding - basic	123,841,699	101,977,511	120,163,945	98,185,166
Net effect of potentially dilutive securities - stock options and restricted stock units	1,538,867	1,233,867	1,605,381	1,096,504
Net effect of potentially dilutive securities - convertible preferred stock[1]	—	12,173,291	—	—
Weighted-average shares of Common stock outstanding - diluted	125,380,566	115,384,669	121,769,326	99,281,670
Net income per share - diluted	$0.59	$0.48	$2.38	$1.23

[1] Net income per share - diluted for periods prior to April 23, 2013 was calculated consistently with the two-class method in accordance with GAAP as the outstanding shares of Series A Perpetual Convertible Preferred Stock were considered participating securities. Subsequent to April 23, 2013 and prior to February 12, 2014, Net income per share - diluted was calculated consistently with the if-converted method in accordance with GAAP until the outstanding shares of Series A Perpetual Convertible Preferred Stock were converted to Common stock. However, for the nine months ended September 27, 2013, the calculation under this method was anti-dilutive. In addition, weighted-average shares outstanding - diluted for the nine months ended September 26, 2014 excludes the weighted average effect of 1.9 million Common stock equivalents for the period from January 1, 2014 through February 12, 2014, as their inclusion would be anti-dilutive. See Note 7, "Equity" for further discussion of the Series A Perpetual Convertible Preferred Stock conversion.

The weighted-average computation of the dilutive effect of potentially issuable shares of Common stock under the treasury stock method for the three months ended September 26, 2014 and September 27, 2013 excludes approximately 1.0 million and 0.6 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 both the nine months ended September 26, 2014 and

September 27, 2013 excludes approximately 0.7 million of outstanding stock-based compensation awards as their inclusion would be anti-dilutive.

6. Income Taxes

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

Income before income taxes was $261.3 million and the Benefit from income taxes was $73.2 million for the nine months ended September 26, 2014. The Benefit from income taxes for the nine months ended September 26, 2014 was impacted by the reassessment of the realizability of certain deferred tax assets as a result of the effect of the Victor Acquisition on expected future income. This reassessment resulted in a decrease in the Company’s valuation allowance against U.S. deferred tax assets. The reduction in the valuation allowance created a non-cash income tax benefit for the nine months ended September 26, 2014 of approximately $120 million. Additionally, a tax benefit of $22.7 million was included in Benefit from income taxes in the Condensed

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

Consolidated Statements of Operations for the nine months ended September 26, 2014 associated with the resolution of a liability for unrecognized tax benefits. These items are the principal reasons for a tax benefit rather than a tax provision, which would result from the application of the U.S. federal statutory rate to the reported Income before income taxes for the nine months ended September 26, 2014.

During the three months ended September 27, 2013, Income before income taxes was $85.3 million and the Provision for income taxes was $19.8 million. The effective tax rate of 23.2% for the three months ended September 27, 2013 differs from the U.S. federal statutory rate primarily due to international tax rates, which are lower than the U.S. tax rate, and a discrete credit to income tax expense of $5.1 million from a reduction to deferred tax balances in certain territories associated with the enactment of lower corporate tax rates, which were offset in part by losses in certain jurisdictions where a tax benefit was not expected to be recognized in 2013.

During the nine months ended September 27, 2013, Income before income taxes was $227.9 million and the Provision for income taxes was $62.9 million. The effective tax rate of 27.6% for the nine months ended September 27, 2013 differs from the U.S. federal statutory rate primarily due to international tax rates, which are lower than the U.S. tax rate, and a discrete credit to income tax expense of $5.1 million from a reduction to deferred tax balances in certain territories associated with the enactment of lower corporate tax rates and the resolution of a liability for unrecognized tax benefits, which resulted in a gain of $2.3 million, all of which were offset in part by other discrete tax items and losses in certain jurisdictions where a tax benefit was not expected to be recognized in 2013.

7. Equity

Common Stock

On January 15, 2014, the Company contributed 183,000 shares of newly issued Colfax Common stock to its U.S. defined benefit pension plan.

On February 20, 2014, the Company sold 9,200,000 shares of newly issued Colfax Common stock to underwriters for public resale pursuant to a shelf registration statement for an aggregate purchase price of $632.5 million. In conjunction with this issuance, the Company recognized $22.1 million in equity issuance costs, which were recorded as a reduction to Additional paid-in capital during the nine months ended September 26, 2014.

Preferred Stock

The Company entered into a Conversion Agreement with BDT CF Acquisition Vehicle, LLC (the “BDT Investor”), pursuant to which the BDT Investor exercised its option to convert 13,877,552 shares of Series A Perpetual Convertible Preferred Stock into 12,173,291 shares of the Company’s Common stock plus cash in lieu of a .22807018 share interest, which conversion occurred on February 12, 2014. As consideration for the BDT Investor’s agreement to exercise its optional conversion right, the Company paid approximately $23.4 million to the BDT Investor, of which $19.6 million represents the Preferred stock conversion inducement payment in the Condensed Consolidated Statement of Operations for the nine months ended September 26, 2014.

Accumulated Other Comprehensive Loss

The following tables present the changes in the balances of each component of Accumulated other comprehensive loss including reclassifications out of Accumulated other comprehensive loss for the nine months ended September 26, 2014 and September 27, 2013. All amounts are net of tax and noncontrolling interest.

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COLFAX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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	Accumulated Other Comprehensive Loss Components			
	Net Unrecognized Pension And Other Post-Retirement Benefit Cost	Foreign Currency Translation Adjustment	Unrealized (Loss) Gain On Hedging Activities	Total
	(In thousands)			
Balance at January 1, 2014	$(159,795)	$127,604	$(14,409)	$(46,600)
Acquisition of shares held by noncontrolling interest	—	(942)	—	(942)
Other comprehensive income (loss) before reclassifications:				
Foreign currency translation adjustment	—	(156,168)	—	(156,168)
Gain on long-term intra-entity foreign currency transactions	—	1,083	—	1,083
Gain on net investment hedges	—	—	25,013	25,013
Unrealized loss on cash flow hedges	—	—	(5,576)	(5,576)
Other	1,934	—	—	1,934
Other comprehensive income (loss) before reclassifications	1,934	(155,085)	19,437	(133,714)
Amounts reclassified from Accumulated other comprehensive loss	3,345	—	—	3,345
Net current period Other comprehensive income (loss)	5,279	(155,085)	19,437	(130,369)
Balance at September 26, 2014	$(154,516)	$(28,423)	$5,028	$(177,911)

	Accumulated Other Comprehensive Loss Components			
	Net Unrecognized Pension And Other Post-Retirement Benefit Cost	Foreign Currency Translation Adjustment	Unrealized Loss On Hedging Activities	Total
	(In thousands)			
Balance at January 1, 2013	$(247,332)	$104,718	$(3,980)	$(146,594)
Acquisition of shares held by noncontrolling interest	—	(381)	—	(381)
Other comprehensive loss before reclassifications:				
Foreign currency translation adjustment	—	(42,706)	—	(42,706)
Gain on long-term intra-entity foreign currency transactions	—	5,546	—	5,546
Loss on net investment hedges	—	—	(6,299)	(6,299)
Unrealized gain on cash flow hedges	—	—	1,744	1,744
Other comprehensive loss before reclassifications	—	(37,160)	(4,555)	(41,715)
Amounts reclassified from Accumulated other comprehensive loss	7,740	—	—	7,740

Net current period Other comprehensive income (loss)	7,740	(37,160)	(4,555)	(33,975)
Balance at September 27, 2013	$(239,592)	$67,177	$(8,535)	$(180,950)

COLFAX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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The effect on Net income of amounts reclassified out of each component of Accumulated other comprehensive loss for the three and nine months ended September 26, 2014 and September 27, 2013 is as follows:

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

	Three Months Ended September 27, 2013			Nine Months Ended September 27, 2013		
	Amounts Reclassified From Accumulated Other Comprehensive Loss	Tax Benefit	Total	Amounts Reclassified From Accumulated Other Comprehensive Loss	Tax Benefit	Total
	(In thousands)					
Pension and other post-retirement benefit cost:						
Amortization of net loss(1)	$2,704	$(183)	$2,521	$8,091	$(537)	$7,554
Amortization of prior service cost(1)	62	—	62	186	—	186
	$2,766	$(183)	$2,583	$8,277	$(537)	$7,740

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

During the nine months ended September 26, 2014 and September 27, 2013, Noncontrolling interest decreased by $7.2 million and $15.9 million, respectively, as a result of Other comprehensive loss, primarily due to foreign currency translation adjustment.

8. Inventories, Net

Inventories, net consisted of the following:

	September 26, 2014	December 31, 2013

	(In thousands)	
Raw materials	$182,592	$145,689
Work in process	93,423	114,206
Finished goods	285,269	222,109
	561,284	482,004
Less: customer progress payments	(5,183)	(4,078)
Less: allowance for excess, slow-moving and obsolete inventory	(33,740)	(32,773)
Inventories, net	$522,361	$445,153

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

9. Debt

Long-term debt consisted of the following:

	September 26, 2014	December 31, 2013
	(In thousands)	
Term loans	$1,242,145	$1,115,238
Revolving credit facilities and other	439,715	371,853
Total Debt	1,681,860	1,487,091
Less: current portion	(73,695)	(29,449)
Long-term debt	$1,608,165	$1,457,642

The Company is party to a credit agreement by and among the Company, Colfax UK Holdings Ltd, the other subsidiaries of the Company party thereto, the lenders party thereto and Deutsche Bank AG New York Branch, as administrative agent, as amended (the "Deutsche Bank Credit Agreement").

On May 14, 2014, the Company entered into an Incremental Amendment to the Term A-1 facility under the Deutsche Bank Credit Agreement, as amended. Pursuant to the Incremental Amendment, the borrowing capacity of the Term A-1 facility was increased by $150.0 million to an aggregate of $558.7 million, upon the same terms as the existing Term A-1 facility.

The Company had an original issue discount of $13.7 million and deferred financing fees of $10.5 million included in its Condensed Consolidated Balance Sheet as of September 26, 2014, which will be accreted to Interest expense primarily using the effective interest method, over the life of the Deutsche Bank Credit Agreement. As of September 26, 2014, the weighted-average interest rate of borrowings under the amended Deutsche Bank Credit Agreement was 1.94%, excluding accretion of original issue discount, and there was $484.9 million available on the revolving credit subfacilities, including $199.9 million available on a letter of credit subfacility.

The Company is also party to additional letter of credit facilities with total capacity of $773.1 million. Total letters of credit of $382.4 million were outstanding as of September 26, 2014.

As of September 26, 2014, the Company is in compliance with the covenants under the Deutsche Bank Credit Agreement.

10. Accrued Liabilities

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

	September 26, 2014	December 31, 2013
	(In thousands)	
Accrued payroll	$137,362	$136,645
Advance payment from customers	45,932	53,280
Accrued taxes and deferred tax liability - current portion	104,372	75,274
Accrued asbestos-related liability	54,707	51,142
Warranty liability - current portion	49,701	54,977
Accrued restructuring liability - current portion	6,816	12,856

Accrued third-party commissions	12,131	13,095
Other	105,223	91,952
Accrued liabilities	$516,244	$489,221

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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Warranty Liability

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

	Nine Months Ended September 26, 2014	September 27, 2013
	(In thousands)	
Warranty liability, beginning of period	$61,472	$40,437
Accrued warranty expense	14,814	16,633
Changes in estimates related to pre-existing warranties	(4,612)	(693)
Cost of warranty service work performed	(20,111)	(14,862)
Acquisitions	4,488	—
Foreign exchange translation effect	(2,741)	(476)
Warranty liability, end of period	$53,310	$41,039

Accrued Restructuring Liability

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

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

	Nine Months Ended September 26, 2014				
	Balance at Beginning of Period	Provisions	Payments	Foreign Currency Translation	Balance at End of Period[3]
	(In thousands)				
Restructuring and other related charges:					
Gas and Fluid Handling:					
Termination benefits[1]	$3,638	$5,864	$(8,213)	$ (130)	$1,159
Facility closure costs[2]	756	2,889	(3,496)	(37)	112
	4,394	8,753	(11,709)	(167)	1,271
Non-cash impairment		2,863			
		11,616			
Fabrication Technology:					
Termination benefits[1]	7,033	15,698	(17,116)	(257)	5,358
Facility closure costs[2]	1,429	1,420	(2,412)	(131)	306
	8,462	17,118	(19,528)	(388)	5,664
Corporate and Other:					
Facility closure costs[2]	1,259	—	(252)	(21)	986
	1,259	—	(252)	(21)	986
	$14,115	25,871	$(31,489)	$ (576)	$7,921
Non-cash impairment		2,863			
		$28,734			

(1) Includes severance and other termination benefits, including outplacement services. The Company recognizes the cost of involuntary termination benefits at the communication date or ratably over any remaining expected future service period. Voluntary termination benefits are recognized as a liability and an expense when employees accept the offer and the amount can be reasonably estimated.

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

(3) As of September 26, 2014, $6.8 million and $1.1 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 $20 million during the remainder of 2014 related to these restructuring activities.

COLFAX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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11. Net Periodic Benefit Cost - Defined Benefit Plans

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

	Three Months Ended		Nine Months Ended	
	September 26, 2014	September 27, 2013	September 26, 2014	September 27, 2013
	(In thousands)			
Pension Benefits-U.S. Plans:				
Service cost	$—	$—	$—	$—
Interest cost	4,796	4,352	14,118	13,126
Expected return on plan assets	(6,180)	(6,192)	(18,114)	(18,611)
Amortization	1,298	1,964	3,894	5,891
Net periodic benefit (income) cost	$(86)	$124	$(102)	$406
Pension Benefits-Non U.S. Plans:				
Service cost	$1,127	$598	$3,039	$2,420
Interest cost	12,717	11,089	37,804	33,293
Expected return on plan assets	(10,937)	(8,295)	(32,580)	(24,785)
Amortization	456	626	1,579	1,857
Net periodic benefit cost	$3,363	$4,018	$9,842	$12,785
Other Post-Retirement Benefits:				
Service cost	$21	$32	$94	$122
Interest cost	288	229	871	731
Amortization	110	176	330	529
Net periodic benefit cost	$419	$437	$1,295	$1,382

12. 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 $1.7 billion and $1.5 billion as of September 26, 2014 and December 31, 2013, respectively, was based on current interest rates for similar types of borrowings and is in Level Two of the fair value hierarchy. The estimated fair values may not represent actual values of the financial instruments that could be realized as of the balance sheet date or that will be realized in the future.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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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:

	September 26, 2014			
	Level One	Level Two	Level Three	Total
	(In thousands)			
Assets:				
Cash equivalents	$23,263	$—	$—	$23,263
Foreign currency contracts related to sales - designated as hedges	—	6,611	—	6,611
Foreign currency contracts related to sales - not designated as hedges	—	1,033	—	1,033
Foreign currency contracts related to purchases - designated as hedges	—	1,661	—	1,661
Foreign currency contracts related to purchases - not designated as hedges	—	515	—	515
Deferred compensation plans	—	2,798	—	2,798
	$23,263	$12,618	$—	$35,881
Liabilities:				
Foreign currency contracts related to sales - designated as hedges	$—	$4,216	$—	$4,216
Foreign currency contracts related to sales - not designated as hedges	—	2,591	—	2,591
Foreign currency contracts related to purchases - designated as hedges	—	969	—	969
Foreign currency contracts related to purchases - not designated as hedges	—	3,125	—	3,125
Deferred compensation plans	—	2,798	—	2,798
Liability for contingent payments	—	—	2,948	2,948
	$—	$13,699	$2,948	$16,647

	December 31, 2013			
	Level One	Level Two	Level Three	Total
	(In thousands)			
Assets:				
Cash equivalents	$22,032	$—	$—	$22,032
Foreign currency contracts related to sales - designated as hedges	—	11,241	—	11,241
Foreign currency contracts related to sales - not designated as hedges	—	3,642	—	3,642
Foreign currency contracts related to purchases - designated as hedges	—	428	—	428
Foreign currency contracts related to purchases - not designated as hedges	—	2,543	—	2,543
Deferred compensation plans	—	2,414	—	2,414
	$22,032	$20,268	$—	$42,300
Liabilities:				

Foreign currency contracts related to sales - designated as hedges	$—	$1,126	$—	$1,126
Foreign currency contracts related to sales - not designated as hedges	—	3,625	—	3,625
Foreign currency contracts related to purchases - designated as hedges	—	742	—	742
Foreign currency contracts related to purchases - not designated as hedges	—	846	—	846
Deferred compensation plans	—	2,414	—	2,414
Liability for contingent payments	—	—	6,176	6,176
	$—	$8,753	$6,176	$14,929

There were no transfers in or out of Level One, Two or Three during the nine months ended September 26, 2014.

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

Foreign Currency Contracts

As of September 26, 2014 and December 31, 2013, the Company had foreign currency contracts with the following notional values:

	September 26, 2014	December 31, 2013
	(In thousands)	
Foreign currency contracts sold - not designated as hedges	$180,181	$244,755
Foreign currency contracts sold - designated as hedges	190,919	206,220
Foreign currency contracts purchased - not designated as hedges	79,831	273,714
Foreign currency contracts purchased - designated as hedges	62,396	46,728
Total foreign currency derivatives	$513,327	$771,417

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

	Three Months Ended		Nine Months Ended	
	September 26, 2014	September 27, 2013	September 26, 2014	September 27, 2013
	(In thousands)			
Contracts Designated as Hedges:				
Foreign Currency Contracts - related to customer sales contracts:				
Unrealized (loss) gain	$(1,054)	$3,248	$(2,212)	$2,658
Realized (loss) gain	(3,566)	3,355	(3,821)	(116)
Foreign Currency Contracts - related to supplier purchase contracts:				
Unrealized (loss) gain	(1,661)	908	(1,910)	(145)
Realized gain (loss)	2,389	(1,425)	2,497	76
Unrealized gain (loss) on net investment hedges	20,240	(13,562)	25,013	(6,299)
Contracts Not Designated in a Hedge Relationship:				
Foreign Currency Contracts - related to customer sales contracts:				
Unrealized (loss) gain	(1,539)	2,765	(1,575)	1,495
Realized (loss) gain	(1,312)	1,940	(3,026)	1,162
Foreign Currency Contracts - related to supplier purchases contracts:				