

Colfax CORP  
Form 10-Q  
July 28, 2017

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

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2017

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 20701  
(Address of principal executive offices)

(Zip Code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth 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  Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

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

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As of June 30, 2017, there were 123,036,092 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 |              |
|--|--------------------|--------------|------------------|--------------|
|  | June 30, 2017      | July 1, 2016 | June 30, 2017    | July 1, 2016 |
| Net sales  | \$965,832          | \$957,249    | \$1,810,758      | \$1,834,092  |
| Cost of sales  | 665,134            | 656,144      | 1,230,693        | 1,252,466    |
| Gross profit   | 300,698            | 301,105      | 580,065          | 581,626      |
| Selling, general and administrative expense                        | 208,224            | 213,553      | 414,270          | 427,940      |
| Restructuring and other related items                              | 471                | 14,490       | 7,571            | 32,158       |
| Operating income   | 92,003             | 73,062       | 158,224          | 121,528      |
| Interest expense   | 8,418              | 8,711        | 17,513           | 17,831       |
| Income before income taxes   | 83,585             | 64,351       | 140,711          | 103,697      |
| Provision for income taxes   | 25,110             | 20,388       | 40,749           | 33,524       |
| Net income   | 58,475             | 43,963       | 99,962           | 70,173       |
| Less: income attributable to noncontrolling interest, net of taxes | 5,081              | 4,209        | 8,026            | 7,804        |
| Net income attributable to Colfax Corporation                      | \$53,394           | \$39,754     | \$91,936         | \$62,369     |
| Net income per share - basic                                       | \$0.43             | \$0.32       | \$0.75           | \$0.51       |
| Net income per share - diluted                                     | \$0.43             | \$0.32       | \$0.74           | \$0.51       |

See Notes to Condensed Consolidated Financial Statements.

COLFAX CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Dollars in thousands  
(Unaudited)

|   | Three Months Ended |                 | Six Months Ended |                 |
|---|--------------------|-----------------|------------------|-----------------|
|   | June 30,<br>2017   | July 1,<br>2016 | June 30,<br>2017 | July 1,<br>2016 |
| Net income  | \$58,475           | \$43,963        | \$99,962         | \$70,173        |
| Other comprehensive income (loss):  |                    |                 |                  |                 |
| Foreign currency translation, net of tax of \$1,013, \$2,190, \$(1,082) and \$2,436                                     | 107,911            | (134,022)       | 167,911          | (154,064)       |
| Unrealized (loss) gain on hedging activities, net of tax of \$(8,859), \$1,181, \$(8,623) and \$(1,699)                 | (13,416)           | 4,233           | (14,353)         | (5,320)         |
| Amounts reclassified from Accumulated other comprehensive loss:   |                    |                 |                  |                 |
| Amortization of pension and other post-retirement net actuarial loss, net of tax of \$1,176, \$775, \$1,936 and \$1,450 | 962                | 1,272           | 2,636            | 2,632           |
| Amortization of pension and other post-retirement prior service cost, net of tax of \$23, \$26, \$47 and \$48           | 39                 | 36              | 77               | 76              |
| Other comprehensive income (loss)   | 95,496             | (128,481)       | 156,271          | (156,676)       |
| Comprehensive income (loss)   | 153,971            | (84,518)        | 256,233          | (86,503)        |
| Less: comprehensive income attributable to noncontrolling interest  | 8,267              | 2,001           | 15,044           | 9,028           |
| Comprehensive income (loss) attributable to Colfax Corporation  | \$145,704          | \$(86,519)      | \$241,189        | \$(95,531)      |

See Notes to Condensed Consolidated Financial Statements.

COLFAX CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS

Dollars in thousands, except share amounts  
(Unaudited)

|  | June 30,<br>2017 | December 31,<br>2016 |
|--|------------------|----------------------|
| <b>ASSETS</b>  |                  |                      |
| <b>CURRENT ASSETS:</b>   |                  |                      |
| Cash and cash equivalents  | \$272,225        | \$ 221,730           |
| Trade receivables, less allowance for doubtful accounts of \$40,932 and \$41,511                                   | 978,606          | 913,614              |
| Inventories, net   | 454,601          | 403,857              |
| Other current assets   | 252,985          | 246,396              |
| Total current assets   | 1,958,417        | 1,785,597            |
| Property, plant and equipment, net   | 580,155          | 570,852              |
| Goodwill   | 2,686,694        | 2,563,326            |
| Intangible assets, net   | 949,925          | 932,702              |
| Other assets   | 555,088          | 532,982              |
| Total assets   | \$6,730,279      | \$ 6,385,459         |
| <b>LIABILITIES AND EQUITY</b>  |                  |                      |
| <b>CURRENT LIABILITIES:</b>  |                  |                      |
| Current portion of long-term debt  | \$5,920          | \$ 5,406             |
| Accounts payable   | 646,253          | 605,895              |
| Customer advances and billings in excess of costs incurred   | 157,352          | 151,015              |
| Accrued liabilities  | 337,230          | 344,358              |
| Total current liabilities  | 1,146,755        | 1,106,674            |
| Long-term debt, less current portion   | 1,322,442        | 1,286,738            |
| Other liabilities  | 888,675          | 898,703              |
| Total liabilities  | 3,357,872        | 3,292,115            |
| <b>Equity:</b>   |                  |                      |
| Common stock, \$0.001 par value; 400,000,000 shares authorized; 123,036,092 and 122,780,261 issued and outstanding | 123              | 123                  |
| Additional paid-in capital   | 3,214,746        | 3,199,682            |
| Retained earnings  | 787,336          | 685,411              |
| Accumulated other comprehensive loss   | (839,092 )       | (988,345 )           |
| Total Colfax Corporation equity  | 3,163,113        | 2,896,871            |
| Noncontrolling interest  | 209,294          | 196,473              |
| Total equity   | 3,372,407        | 3,093,344            |
| Total liabilities and equity   | \$6,730,279      | \$ 6,385,459         |

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       | \$     | Paid-In      | Earnings   | Other        | Interest       |              |
|   |              | Amount | Capital      |            | Comprehensiv |                |              |
|   |              |        |              |            | Loss         |                |              |
| Balance at January 1, 2017                                | 122,780,261  | \$ 123 | \$ 3,199,682 | \$ 685,411 | \$ (988,345) | \$ 196,473     | \$ 3,093,344 |
| Cumulative effect of accounting change                    | —            | —      | —            | 9,989      | —            | —              | 9,989        |
| Net income  | —            | —      | —            | 91,936     | —            | 8,026          | 99,962       |
| Distributions to noncontrolling owners                    | —            | —      | —            | —          | —            | (2,223)        | (2,223)      |
| Other comprehensive income, net of tax of \$(7.7) million | —            | —      | —            | —          | 149,253      | 7,018          | 156,271      |
| Common stock-based award activity                         | 255,831      | —      | 15,064       | —          | —            | —              | 15,064       |
| Balance at June 30, 2017                                  | 123,036,092  | \$ 123 | \$ 3,214,746 | \$ 787,336 | \$ (839,092) | \$ 209,294     | \$ 3,372,407 |

See Notes to Condensed Consolidated Financial Statements.

COLFAX CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Dollars in thousands  
(Unaudited)

|   | Six Months Ended<br>June 30, 2017 |   | July 1, 2016 |   |
|---|-----------------------------------|---|--------------|---|
| Cash flows from operating activities:   |                                   |   |              |   |
| Net income  | \$ 99,962                         |   | \$ 70,173    |   |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                   |   |              |   |
| Depreciation, amortization and impairment charges                                 | 68,606                            |   | 74,001       |   |
| Stock-based compensation expense  | 11,931                            |   | 10,967       |   |
| Non-cash interest expense   | 2,170                             |   | 2,106        |   |
| Deferred income tax benefit   | (3,700)                           | ) | (528)        | ) |
| Gain on sale of facility  | (11,734)                          | ) | —            | ) |
| Changes in operating assets and liabilities:                                      |                                   |   |              |   |
| Trade receivables, net  | (59,419)                          | ) | (13,807)     | ) |
| Inventories, net  | (29,932)                          | ) | (7,356)      | ) |
| Accounts payable  | 17,432                            | ) | (1,711)      | ) |
| Customer advances and billings in excess of costs incurred                        | (1,352)                           | ) | (41,899)     | ) |
| Changes in other operating assets and liabilities                                 | 4,594                             | ) | (35,534)     | ) |
| Net cash provided by operating activities   | 98,558                            |   | 56,412       |   |
| Cash flows from investing activities:   |                                   |   |              |   |
| Purchases of fixed assets, net  | (10,649)                          | ) | (25,497)     | ) |
| Acquisitions, net of cash received  | (49,999)                          | ) | —            | ) |
| Net cash used in investing activities   | (60,648)                          | ) | (25,497)     | ) |
| Cash flows from financing activities:   |                                   |   |              |   |



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|   |            |   |            |   |
|---|------------|---|------------|---|
| Payments under term credit facility                               | (28,126)   | ) | (18,750)   | ) |
| Proceeds from borrowings on revolving credit facilities and other | 384,257    |   | 491,233    |   |
| Repayments of borrowings on revolving credit facilities and other | (720,473)  | ) | (493,962)  | ) |
| Proceeds from borrowings on senior unsecured notes                | 374,451    |   | —          |   |
| Proceeds from issuance of common stock, net                       | 3,134      |   | 413        |   |
| Repurchases of common stock                                       | —          |   | (20,812)   | ) |
| Other   | (8,329)    | ) | (5,278)    | ) |
| Net cash provided by (used in) financing activities               | 4,914      |   | (47,156)   | ) |
| Effect of foreign exchange rates on Cash and cash equivalents     | 7,671      |   | 3,444      |   |
| Increase (decrease) in Cash and cash equivalents                  | 50,495     |   | (12,797)   | ) |
| Cash and cash equivalents, beginning of period                    | 221,730    |   | 197,469    |   |
| Cash and cash equivalents, end of period                          | \$ 272,225 |   | \$ 184,672 |   |

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 through the Howden, ESAB and Colfax Fluid Handling businesses.

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, 2016 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, 2016 (the “2016 Form 10-K”), filed with the SEC on February 14, 2017.

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. Certain prior period amounts have been reclassified to conform to current year presentations.

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 June 30, 2017 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, 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)”. The ASU outlines a single set of comprehensive principles for recognizing revenue under U.S. GAAP and supersedes existing revenue recognition guidance. The main principle of the ASU is that revenue should be recognized 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. The Company will apply the ASU and its related updates on a full retrospective basis as of January 1, 2018. To evaluate the effect the ASU will have on the Company’s financial statements and related disclosures, the Company developed a comprehensive project plan that included representatives from across the Company’s operating segments. Based on the analysis performed to date on the Company’s different revenue streams, the adoption of the

ASU will primarily impact the timing of revenue recognition for air and gas handling customer orders for which percentage of completion accounting applies. As of June 30, 2017, there have been no indications the adoption of the ASU will have a material impact on its Consolidated Financial Statements. The Company is currently finalizing its review of a sample of its contracts for each revenue stream within each of its operating segments to support its findings to date. In addition, the Company is in the process of evaluating the qualitative and quantitative disclosure guidance of the new ASU for possible enhancements to the Company's financial statements that will enable users to better understand the nature, amount, timing, and uncertainty of revenues and cashflows arising from contracts with customers.

In July 2015, the FASB issued ASU No. 2015-11, "Inventory (Topic 330) - Simplifying the Measurement of Inventory". The ASU 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. The Company adopted the ASU during the six months ended June 30, 2017 on a prospective basis.

COLFAX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842)”. The ASU requires, among other things, 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 ASU also requires certain qualitative and quantitative disclosures designed to assess the amount, timing and uncertainty of cash flows arising from leases, along with additional key information about leasing arrangements. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The new guidance must be adopted using a modified retrospective transition and provides for certain practical expedients. The Company is in the process of analyzing initial data gathered to evaluate the impact of adopting the ASU on its Consolidated Financial Statements, the related systems required to capture the increased reporting and disclosures associated with the ASU, and its use of practical expedients. The Company will apply the ASU and its related updates on a modified retrospective basis as of January 1, 2019.

In March 2016, the FASB issued ASU No. 2016-09, “Compensation - Stock Compensation (Topic 718)”. The ASU, among other things, aims to simplify shared-based payment accounting by recording all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement and eliminates the requirement that excess tax benefits be realized before they can be recognized. The effect for excess tax benefits not previously recognized is recorded as a cumulative adjustment to retained earnings pursuant to a modified retrospective adoption method. Excess tax benefits and deficiencies are accounted for as discrete items in the period the stock awards vest or otherwise are settled. Further, the guidance requires that excess tax benefits be presented as an operating activity on the statement of cash flows consistent with other income tax cash flows. The Company’s adoption of the ASU as of January 1, 2017 resulted in a cumulative catch-up adjustment that increased retained earnings by \$10.0 million with a corresponding increase to U.S. deferred tax assets related to prior years’ unrecognized excess tax benefits. The Company has also elected to continue its entity-wide accounting policy to estimate the amount of awards that are expected to vest.

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments”. The ASU is effective for fiscal periods beginning after December 15, 2019 and early adoption is permitted. The ASU 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 forward-looking information. The Company is currently evaluating the impact of adopting the ASU on its Consolidated Financial Statements.

In August 2016, the FASB issued ASU No. 2016-15, “Statement of Cash Flows (Topic 203)”. The ASU addresses eight specific cash flow issues and clarifies their presentation and classification in the Statement of Cash Flows. The ASU is effective for fiscal years beginning after December 15, 2017 and is to be applied retrospectively with early adoption permitted. The Company is currently evaluating the impact of adopting the ASU on its Consolidated Financial Statements.

In December 2016, the FASB issued ASU No. 2016-19, “Technical Corrections and Improvements”. Among other things, the ASU provides clarification on the presentation of the costs of computer software developed or obtained for internal use. The Company retrospectively adopted the ASU during the six months ended June 30, 2017 and reclassified the carrying value of internal-use computer software from Property, plant and equipment, net to Intangible assets, net. The carrying value of internal-use computer software was \$30.6 million and \$33.0 million, respectively, as of June 30, 2017 and December 31, 2016.

In January 2017, the FASB issued ASU No. 2017-04, “Intangibles-Goodwill and Other (Topic 350)”. The ASU modifies the measurement of a goodwill impairment loss from the portion of the carrying amount of goodwill that exceeds its implied fair value to the excess of the carrying amount of a reporting unit that exceeds its fair value. This eliminates step 2 of the goodwill impairment test under current guidance. The ASU will be applied prospectively for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed after January 1, 2017. The Company is currently evaluating the timing of adoption.

### 3. Acquisitions

On March 8, 2017, the Company entered into a binding agreement to acquire Siemens Turbomachinery Equipment GmbH (STE) from Siemens AG for a cash consideration of approximately €195 million. The acquisition will be integrated into the gas and fluid handling reporting segment, broadening the segment’s range of compression solutions and expanding its product offering into smaller steam turbines. Closing of the acquisition is expected to be completed during the three months ending December 31, 2017.

## COLFAX CORPORATION

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

(Unaudited)

During the three months ended June 30, 2017, the Company completed two acquisitions in the Fabrication Technology segment for net cash consideration of €47.3 million, subject to certain purchase price adjustments.

## 4. Net Income Per Share

Net income per share was computed as follows:

|  | Three Months Ended                |             | Six Months Ended |             |
|--|-----------------------------------|-------------|------------------|-------------|
|  | June 30,                          | July 1,     | June 30,         | July 1,     |
|  | 2017                              | 2016        | 2017             | 2016        |
|  | (In thousands, except share data) |             |                  |             |
| Computation of Net income per share - basic:   |                                   |             |                  |             |
| Net income attributable to Colfax Corporation  | \$53,394                          | \$ 39,754   | \$91,936         | \$ 62,369   |
| Weighted-average shares of Common stock outstanding - basic                              | 123,203,511                       | 122,827,512 | 123,150,462      | 122,958,853 |
| Net income per share - basic   | \$0.43                            | \$ 0.32     | \$0.75           | \$ 0.51     |
| Computation of Net income per share - diluted:   |                                   |             |                  |             |
| Net income attributable to Colfax Corporation  | \$53,394                          | \$ 39,754   | \$91,936         | \$ 62,369   |
| Weighted-average shares of Common stock outstanding - basic                              | 123,203,511                       | 122,827,512 | 123,150,462      | 122,958,853 |
| Net effect of potentially dilutive securities - stock options and restricted stock units | 750,614                           | 208,945     | 730,560          | 184,584     |
| Weighted-average shares of Common stock outstanding - diluted                            | 123,954,125                       | 123,036,457 | 123,881,022      | 123,143,437 |
| Net income per share - diluted   | \$0.43                            | \$ 0.32     | \$0.74           | \$ 0.51     |

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 June 30, 2017 and July 1, 2016 excludes approximately 2.9 million and 5.2 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 June 30, 2017 and July 1, 2016 excludes approximately 2.8 million and 5.1 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 June 30, 2017, Income before income taxes was \$83.6 million and \$140.7 million, respectively, while the Provision for income taxes was \$25.1 million and \$40.7 million, respectively. The effective tax rates were 30.0% and 29.0% for the three and six months ended June 30, 2017, respectively. The effective tax rates differ from the U.S. federal statutory rate primarily due to international taxes, 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 2017. The provision for income taxes for the six months ended June 30, 2017 also includes a \$0.9 million discrete tax benefit primarily associated with a South American jurisdiction.

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. The effective tax rate 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

2016.

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## COLFAX CORPORATION

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

(Unaudited)

## 6. Equity

## 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 June 30, 2017 and July 1, 2016. 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, 2017  | \$(181,189)   | \$(860,789 )                            | \$ 53,633                             | \$(988,345) |
| Other comprehensive (loss) income before reclassifications:                   |   |   |                                       |             |
| Foreign currency translation adjustment                                       | (3,781 )  | 158,603                                 | (18 )                                 | 154,804     |
| Gain on long-term intra-entity foreign currency transactions                  | —   | 6,136                                   | —                                     | 6,136       |
| Loss on net investment hedges   | —   | —                                       | (19,429 )                             | (19,429 )   |
| Unrealized gain on cash flow hedges   | —   | —                                       | 5,015                                 | 5,015       |
| Other comprehensive (loss) income before reclassifications                    | (3,781 )  | 164,739                                 | (14,432 )                             | 146,526     |
| Amounts reclassified from Accumulated other comprehensive loss <sup>(1)</sup> | 2,727   | —                                       | —                                     | 2,727       |
| Net Other comprehensive (loss) income   | (1,054 )  | 164,739                                 | (14,432 )                             | 149,253     |
| Balance at June 30, 2017  | \$(182,243)   | \$(696,050 )                            | \$ 39,201                             | \$(839,092) |

|   | 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 )  |
| Amounts reclassified from Accumulated other comprehensive loss <sup>(1)</sup> | 2,708   | —                                       | —                                     | 2,708       |



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|                                       |             |              |           |             |
|---------------------------------------|-------------|--------------|-----------|-------------|
| Net 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) |

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

During the six months ended June 30, 2017 and July 1, 2016, Noncontrolling interest increased by \$7.0 million and \$1.2 million, respectively, as a result of Other comprehensive income, primarily due to foreign currency translation adjustments.

## COLFAX CORPORATION

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

(Unaudited)

## 7. Inventories, Net

Inventories, net consisted of the following:

|  | June 30,<br>2017 | December<br>31, 2016 |
|--|------------------|----------------------|
|  | (In thousands)   |                      |
| Raw materials  | \$ 166,404       | \$ 148,513           |
| Work in process  | 77,458           | 75,331               |
| Finished goods   | 270,683          | 237,507              |
|  | 514,545          | 461,351              |
| Less: customer progress payments                               | (13,479 )        | (14,624 )            |
| Less: allowance for excess, slow-moving and obsolete inventory | (46,465 )        | (42,870 )            |
| Inventories, net   | \$ 454,601       | \$ 403,857           |

## 8. Debt

Long-term debt consisted of the following:

|   | June 30,<br>2017 | December<br>31, 2016 |
|---|------------------|----------------------|
|   | (In thousands)   |                      |
| Senior unsecured notes                  | \$ 393,623       | \$—                  |
| Term loans                              | 651,401          | 678,286              |
| Trade receivables financing arrangement | 68,545           | 63,399               |
| Revolving credit facilities and other   | 214,793          | 550,459              |
| Total Debt                              | 1,328,362        | 1,292,144            |
| Less: current portion                   | (5,920 )         | (5,406 )             |
| Long-term debt                          | \$ 1,322,442     | \$ 1,286,738         |

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 "DB Credit Agreement"). As of June 30, 2017, the weighted-average interest rate of borrowings under the DB Credit Agreement was 2.73%, excluding accretion of original issue discount and deferred financing fees, and there was \$1.1 billion available on the revolving credit facility.

On April 19, 2017, the Company issued senior unsecured notes with an aggregate principal amount of €350 million (the "Euro Notes"). The Euro Notes are due in April 2025 and have an interest rate of 3.25%. The proceeds from the Euro Notes offering were used to repay borrowings under the DB Credit Agreement and bilateral credit facilities totaling €283.5 million, as well as for general corporate purposes, and are guaranteed by certain of the Company's domestic subsidiaries (the "Guarantees"). In conjunction with the issuance, the Company recorded \$5.7 million of deferred financing fees. The Euro Notes and the Guarantees have not been, and will not be, registered under the Securities Act of 1933, as amended (the "Securities Act"), or the securities laws of any other jurisdiction.

As of June 30, 2017, the Company had an original issue discount of \$4.7 million and deferred financing fees of \$10.3 million included in its Condensed Consolidated Balance Sheet, which will be accreted to Interest expense, primarily using the effective interest method, over the life of the applicable debt agreements.

In addition to the debt agreements discussed above, the Company is party to various bilateral credit facilities with a borrowing capacity of \$212.3 million. As of June 30, 2017, outstanding borrowings under these facilities total \$18.9 million, with a weighted average borrowing rate of 2.25%.

The Company is also party to letter of credit facilities with total capacity of \$774.7 million. Total letters of credit of \$369.8 million were outstanding as of June 30, 2017.

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

## COLFAX CORPORATION

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

(Unaudited)

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, which is \$80 million as of June 30, 2017. As of June 30, 2017, the total outstanding borrowings under the receivables financing facility were \$68.6 million and the interest rate was 2.00%. The scheduled termination date for the receivables financing facility is December 19, 2017 and may be extended from time to time.

As of June 30, 2017, the Company is in compliance with the covenants under the DB Credit Agreement.

## 9. Accrued Liabilities

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

|   | June 30,<br>2017 | December 31,<br>2016 |
|---|------------------|----------------------|
|   | (In thousands)   |                      |
| Accrued payroll                                   | \$104,151        | \$ 102,960           |
| Accrued taxes                                     | 37,688           | 38,367               |
| Accrued asbestos-related liability                | 53,377           | 51,166               |
| Warranty liability - current portion              | 29,926           | 30,710               |
| Accrued restructuring liability - current portion | 6,586            | 13,184               |
| Accrued third-party commissions                   | 12,565           | 8,697                |
| Other   | 92,937           | 99,274               |
| Accrued liabilities                               | \$337,230        | \$ 344,358           |

## Warranty Liability

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

|   | Six Months Ended |                 |
|---|------------------|-----------------|
|   | June 30,<br>2017 | July 1,<br>2016 |
|   | (In thousands)   |                 |
| Warranty liability, beginning of period                 | \$31,721         | \$37,407        |
| Accrued warranty expense                                | 10,049           | 13,750          |
| Changes in estimates related to pre-existing warranties | (291 )           | 2,322           |
| Cost of warranty service work performed                 | (12,319 )        | (16,839 )       |
| Acquisitions  | 13               | —               |
| Foreign exchange translation effect                     | 1,215            | 705             |
| Warranty liability, end of period                       | \$30,388         | \$37,345        |

## 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 June 30, 2017 |            |            |             |                       |
|--|--------------------------------|------------|------------|-------------|-----------------------|
|  | Balance                        |            |            | Foreign     | Balance               |
|  | at                             | Provisions | Payments   | Currency    | at End of             |
|  | Beginning                      |            |            | Translation | Period <sup>(3)</sup> |
|  | of                             |            |            |             |                       |
|  | Period                         |            |            |             |                       |
|  | (In thousands)                 |            |            |             |                       |
| Restructuring and other related items: |                                |            |            |             |                       |
| Gas and Fluid Handling:                |                                |            |            |             |                       |
| Termination benefits <sup>(1)</sup>    | \$6,776                        | \$ 6,128   | \$(8,704 ) | \$ 434      | \$ 4,634              |
| Facility closure costs <sup>(2)</sup>  | 1,714                          | (9,166 )   | 8,042      | (1 )        | 589                   |
|  | 8,490                          | (3,038 )   | (662 )     | 433         | 5,223                 |
| Fabrication Technology:                |                                |            |            |             |                       |
| Termination benefits <sup>(1)</sup>    | 3,712                          | 3,438      | (6,020 )   | 70          | 1,200                 |
| Facility closure costs <sup>(2)</sup>  | 981                            | 3,043      | (3,873 )   | 11          | 162                   |
|  | 4,693                          | 6,481      | (9,893 )   | 81          | 1,362                 |
| Non-cash charges <sup>(2)</sup>        |                                | 4,128      |            |             |                       |
|  |                                | 10,609     |            |             |                       |
| Corporate and Other:                   |                                |            |            |             |                       |
| Facility closure costs <sup>(2)</sup>  | 203                            | —          | (126 )     | 9           | 86                    |
|  | 203                            | —          | (126 )     | 9           | 86                    |
|  | \$ 13,386                      | 3,443      | \$(10,681) | \$ 523      | \$ 6,671              |
| Non-cash charges <sup>(2)</sup>        |                                | 4,128      |            |             |                       |
|  |                                | \$ 7,571   |            |             |                       |

<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. During the six months ended June 30, 2017, the Company recorded a gain of approximately \$12 million from the sale of a facility in the gas and fluid handling segment and a \$4 million non-cash impairment charge for a facility in our fabrication technology segment, that were both previously closed as part of restructuring activities.

<sup>(3)</sup> As of June 30, 2017, \$6.6 million and \$0.1 million of the Company's restructuring liability was included in Accrued liabilities and Other liabilities, respectively.

The Company expects to incur charges of approximately \$25 million during the remainder of 2017 related to its 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 cost (income) of the Company's defined benefit pension plans and other post-retirement employee benefit plans:

|   | Three Months<br>Ended<br>June 30, July 1,<br>2017 2016 |          | Six Months<br>Ended<br>June 30, July 1,<br>2017 2016 |          |
|---|--|----------|--|----------|
|   | (In thousands)   |          |  |          |
| <b>Pension Benefits - U.S. Plans:</b>     |  |          |  |          |
| Service cost                              | \$47   | \$48     | \$93   | \$96     |
| Interest cost                             | 3,866  | 4,353    | 7,745  | 8,705    |
| Expected return on plan assets            | (5,340 )   | (6,120 ) | (10,679)   | (12,241) |
| Amortization                              | 1,618  | 1,619    | 3,237  | 3,234    |
| Net periodic benefit cost (income)        | \$191  | \$(100 ) | \$396  | \$(206 ) |
| <b>Pension Benefits - Non-U.S. Plans:</b> |  |          |  |          |
| Service cost                              | \$1,053  | \$856    | \$1,998  | \$1,691  |
| Interest cost                             | 6,667  | 8,716    | 13,179   | 17,160   |
| Expected return on plan assets            | (6,837 )   | (7,979 ) | (13,410)   | (16,200) |
| Amortization                              | 683  | 426      | 1,673  | 844      |
| Net periodic benefit cost                 | \$1,566  | \$2,019  | \$3,440  | \$3,495  |
| <b>Other Post-Retirement Benefits:</b>    |  |          |  |          |
| Service cost                              | \$11   | \$15     | \$21   | \$31     |
| Interest cost                             | 242  | 313      | 485  | 625      |
| Amortization                              | (100 )   | 64       | (200 )   | 128      |
| Net periodic benefit cost                 | \$153  | \$392    | \$306  | \$784    |

## 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 \$1.3 billion estimated fair value of the Company's debt as of June 30, 2017 and December 31, 2016, 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:

|  | June 30, 2017  |           |             |           |
|--|----------------|-----------|-------------|-----------|
|  | Level One      | Level Two | Level Three | Total     |
|  | (In thousands) |           |             |           |
| <b>Assets:</b>   |                |           |             |           |
| Cash equivalents   | \$23,782       | \$—       | \$          | —\$23,782 |
| Foreign currency contracts related to sales - designated as hedges         | —              | 3,799     | —           | 3,799     |
| Foreign currency contracts related to sales - not designated as hedges     | —              | 1,638     | —           | 1,638     |
| Foreign currency contracts related to purchases - designated as hedges     | —              | 1,602     | —           | 1,602     |
| Foreign currency contracts related to purchases - not designated as hedges | —              | 387       | —           | 387       |
| Deferred compensation plans  | —              | 6,009     | —           | 6,009     |
|  | \$23,782       | \$13,435  | \$          | —\$37,217 |
| <b>Liabilities:</b>  |                |           |             |           |
| Foreign currency contracts related to sales - designated as hedges         | \$—            | \$3,032   | \$          | —\$3,032  |
| Foreign currency contracts related to sales - not designated as hedges     | —              | 351       | —           | 351       |
| Foreign currency contracts related to purchases - designated as hedges     | —              | 710       | —           | 710       |
| Foreign currency contracts related to purchases - not designated as hedges | —              | 668       | —           | 668       |
| Deferred compensation plans  | —              | 6,009     | —           | 6,009     |
|  | \$—            | \$10,770  | \$          | —\$10,770 |
| <b>December 31, 2016</b>   |                |           |             |           |
|  | Level One      | Level Two | Level Three | Total     |
|  | (In thousands) |           |             |           |
| <b>Assets:</b>   |                |           |             |           |
| Cash equivalents   | \$24,603       | \$—       | \$          | —\$24,603 |
| Foreign currency contracts related to sales - designated as hedges         | —              | 992       | —           | 992       |
| Foreign currency contracts related to sales - not designated as hedges     | —              | 1,422     | —           | 1,422     |
| Foreign currency contracts related to purchases - designated as hedges     | —              | 4,224     | —           | 4,224     |
| Foreign currency contracts related to purchases - not designated as hedges | —              | 120       | —           | 120       |
| Deferred compensation plans  | —              | 4,586     | —           | 4,586     |
|  | \$24,603       | \$11,344  | \$          | —\$35,947 |
| <b>Liabilities:</b>  |                |           |             |           |
| Foreign currency contracts related to sales - designated as hedges         | \$—            | \$11,280  | \$          | —\$11,280 |



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|  |     |          |    |           |
|--|-----|----------|----|-----------|
| Foreign currency contracts related to sales - not designated as hedges     | —   | 256      | —  | 256       |
| Foreign currency contracts related to purchases - designated as hedges     | —   | 469      | —  | 469       |
| Foreign currency contracts related to purchases - not designated as hedges | —   | 1,004    | —  | 1,004     |
| Deferred compensation plans  | —   | 4,586    | —  | 4,586     |
|  | \$— | \$17,595 | \$ | —\$17,595 |

There were no transfers in or out of Level One, Two or Three during the six months ended June 30, 2017.

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## COLFAX CORPORATION

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

(Unaudited)

## Foreign Currency Contracts

As of June 30, 2017 and December 31, 2016, the Company had foreign currency contracts with the following notional values:

|   | June 30,<br>2017 | December 31,<br>2016 |
|---|------------------|----------------------|
|   | (In thousands)   |                      |
| Foreign currency contracts sold - not designated as hedges      | \$116,258        | \$ 87,172            |
| Foreign currency contracts sold - designated as hedges          | 188,994          | 215,086              |
| Foreign currency contracts purchased - not designated as hedges | 12,950           | 40,127               |
| Foreign currency contracts purchased - designated as hedges     | 89,089           | 84,604               |
| Total foreign currency derivatives                              | \$407,291        | \$ 426,989           |

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

|   | Three Months<br>Ended<br>June 30, July 1,<br>2017 2016 |         | Six Months<br>Ended<br>June 30, July 1,<br>2017 2016 |         |
|---|--|---------|--|---------|
|   | (In thousands)   |         |  |         |
| Contracts Designated as Hedges:                                       |  |         |  |         |
| Foreign Currency Contracts - related to customer sales contracts:     |  |         |  |         |
| Unrealized gain   | \$1,628  | \$2,063 | \$2,717  | \$858   |
| Realized gain (loss)  | 2,249  | (4,741) | 1,627  | (2,372) |
| Foreign Currency Contracts - related to supplier purchase contracts:  |  |         |  |         |
| Unrealized (loss) gain  | (194)  | (894)   | 639  | (1,241) |
| Realized (loss) gain  | (435)  | 2,678   | (1,014)  | 2,711   |
| Unrealized (loss) gain on net investment hedges <sup>(1)</sup>        | (15,954)   | 4,868   | (19,429)   | (5,705) |
| Contracts Not Designated in a Hedge Relationship:                     |  |         |  |         |
| Foreign Currency Contracts - related to customer sales contracts:     |  |         |  |         |
| Unrealized gain (loss)  | 1,570  | (1,581) | 260  | 447     |
| Realized gain (loss)  | 1,630  | (78)    | 1,590  | (91)    |
| Foreign Currency Contracts - related to supplier purchases contracts: |  |         |  |         |
| Unrealized (loss) gain  | (286)  | 520     | 604  | (516)   |
| Realized loss   | (253)  | (225)   | (255)  | (261)   |

<sup>(1)</sup> The unrealized (loss) gain 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 2016 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<br>Ended   |                 |
|--|-----------------------|-----------------|
|  | June<br>30,<br>2017   | July 1,<br>2016 |
|  | (Number of<br>claims) |                 |
| Claims unresolved, beginning of period | 20,567                | 20,583          |
| Claims filed <sup>(2)</sup>            | 2,339                 | 2,908           |
| Claims resolved <sup>(3)</sup>         | (4,869)               | (2,283)         |
| Claims unresolved, end of period       | 18,037                | 21,208          |

<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:

|  | June 30,<br>2017 | December<br>31, 2016 |
|--|------------------|----------------------|
|  | (In thousands)   |                      |
| Long-term asbestos insurance asset <sup>(1)</sup>      | \$281,622        | \$293,289            |
| Long-term asbestos insurance receivable <sup>(1)</sup> | 75,804           | 92,269               |
| Accrued asbestos liability <sup>(2)</sup>              | 53,377           | 51,166               |
| Long-term asbestos liability <sup>(3)</sup>            | 316,607          | 330,194              |

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

<sup>(2)</sup> Represents current accruals for probable and reasonably estimable asbestos-related liability cost that the Company believes the subsidiaries will pay, 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>(3)</sup> Included in Other liabilities in the Condensed Consolidated Balance Sheets.

Following a Delaware Supreme Court ruling on September 12, 2016, the Company received a total of \$26.0 million of previously unreimbursed costs funded by the Company in defense and settlement of asbestos claims from insurance companies during the six months ended June 30, 2017. Certain matters, including potential interest which could be awarded to a specific subsidiary, are subject to further rulings from the Delaware courts. While the outcome is

uncertain, none of these matters is expected to have a material adverse effect on the financial condition, results of operations or cash flows of the Company.

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 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, as well as aftermarket and lubrication-related services; 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.

The Company's segment results were as follows:

|  | Three Months Ended |                 | Six Months Ended |              |
|--|--------------------|-----------------|------------------|--------------|
|  | June 30,<br>2017   | July 1,<br>2016 | June 30,<br>2017 | July 1, 2016 |
|  | (In thousands)     |                 |                  |              |
| Net sales:                                       |                    |                 |                  |              |
| Gas and fluid handling                           | \$471,035          | \$483,692       | \$855,900        | \$916,430    |
| Fabrication technology                           | 494,797            | 473,557         | 954,858          | 917,662      |
|  | \$965,832          | \$957,249       | \$1,810,758      | \$1,834,092  |
| Segment operating income (loss) <sup>(1)</sup> : |                    |                 |                  |              |
| Gas and fluid handling                           | \$46,367           | \$45,093        | \$78,718         | \$79,016     |
| Fabrication technology                           | 60,825             | 54,471          | 116,464          | 100,356      |
| Corporate and other                              | (14,718 )          | (12,012 )       | (29,387 )        | (25,686 )    |
|  | \$92,474           | \$87,552        | \$165,795        | \$153,686    |

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

|                                       | Three Months<br>Ended |                 | Six Months Ended |                 |
|---------------------------------------|-----------------------|-----------------|------------------|-----------------|
|                                       | June 30,<br>2017      | July 1,<br>2016 | June 30,<br>2017 | July 1,<br>2016 |
|                                       | (In thousands)        |                 |                  |                 |
| Income before income taxes            | \$83,585              | \$64,351        | \$140,711        | \$103,697       |
| Interest expense                      | 8,418                 | 8,711           | 17,513           | 17,831          |
| Restructuring and other related items | 471                   | 14,490          | 7,571            | 32,158          |
| Segment operating income              | \$92,474              | \$87,552        | \$165,795        | \$153,686       |

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## COLFAX CORPORATION

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

(Unaudited)

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

|                      | Three Months Ended |                 | Six Months Ended |                 |
|----------------------|--------------------|-----------------|------------------|-----------------|
|                      | June 30,<br>2017   | July 1,<br>2016 | June 30,<br>2017 | July 1,<br>2016 |
|                      | (In thousands)     |                 |                  |                 |
| Air and gas handling | \$353,165          | \$367,560       | \$626,734        | \$689,162       |
| Fluid handling       | 117,870            | 116,132         | 229,166          | 227,268         |
| Welding and cutting  | 494,797            | 473,557         | 954,858          | 917,662         |
| Total Net sales      | \$965,832          | \$957,249       | \$1,810,758      | \$1,834,092     |

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 June 30, 2017 (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, 2016 (the “2016 Form 10-K”) filed with the Securities and Exchange Commission (the “SEC”) on February 14, 2017.

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 Securities and Exchange Commission (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,” “strategize,” “aims,” “seeks,” “sees,” and similar 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 principal credit facility 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 2016 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 2016 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, and certain related products, as well as aftermarket and lubrication-related services, 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.

To operate our businesses, 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. Our management evaluates the operating results of each of its reportable segments based upon Net sales and segment operating income, 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 June 30, 2017 to the comparable 2016 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 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 for the periods presented in this filing represents the incremental sales as a result of three acquisitions in our fabrication technology segment, of which one was completed in the fourth quarter of 2016, and two others in the second quarter of 2017.

## Foreign Currency Fluctuations

A significant portion of our Net sales, approximately 73% and 72%, for the second quarter and six months ended June 30, 2017, 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. Changes in foreign exchange rates had an overall negligible impact on Net sales and Income before income taxes for the second quarter and six months ended June 30, 2017. Changes in foreign exchange rates since December 31, 2016 increased net assets by approximately 5%.

## 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, 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 second quarter 2017 Net sales increased from second quarter 2016 levels and our year to date 2017 Net sales decreased from the comparable 2016 period. The following table presents the components of changes in our consolidated Net sales and, for our gas and fluid handling segment, orders and order backlog:

|   | Net Sales |        | Gas and Fluid Handling Orders <sup>(1)</sup> |        |
|---|-----------|--------|--|--------|
|   | \$        | %      | \$   | %      |
| For the three months ended July 1, 2016     | \$957.2   |        | \$432.6                                      |        |
| Components of Change:                       |           |        |  |        |
| Existing Businesses <sup>(2)</sup>          | 4.4       | 0.5 %  | 32.4   | 7.5 %  |
| Acquisitions <sup>(3)</sup>                 | 10.8      | 1.1 %  | —  | — %    |
| Foreign Currency Translation <sup>(4)</sup> | (6.6 )    | (0.7)% | (7.2 )                                       | (1.7)% |
| For the three months ended June 30, 2017    | \$965.8   |        | \$457.8                                      |        |

  

|  | Net Sales |        | Gas and Fluid Handling Orders <sup>(1)</sup> |        | Backlog at Period End |       |
|--|-----------|--------|--|--------|-----------------------|-------|
|  | \$        | %      | \$   | %      | \$                    | %     |
| As of and for the six months ended July 1, 2016  | \$1,834.1 |        | \$838.9                                      |        | \$1,068.9             |       |
| Components of Change:                            |           |        |  |        |                       |       |
| Existing Businesses <sup>(2)</sup>               | (31.3 )   | (1.7)% | 78.9   | 9.4 %  | 24.9                  | 2.3 % |
| Acquisitions <sup>(3)</sup>                      | 17.3      | 0.9 %  | —  | — %    | —                     | — %   |
| Foreign Currency Translation <sup>(4)</sup>      | (9.3 )    | (0.5)% | (14.8 )                                      | (1.8)% | 2.3                   | 0.2 % |
| As of and for the six months ended June 30, 2017 | \$1,810.8 |        | \$903.0                                      |        | \$1,096.1             |       |

<sup>(1)</sup> Represents contracts for products or services, net of current year cancellations for orders placed in the current and prior period. Prior period amounts have been recast to conform to current year presentation.

<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 discussed previously.

<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 increase in Net sales from existing businesses during the second quarter of 2017 compared to the second quarter of 2016, was attributable to an increase of \$10.2 million in our fabrication technology segment partially offset by a decrease of \$5.8 million in our gas and fluid handling segment. The increase in Orders from existing businesses during the second quarter of 2017 as compared to the second quarter of 2016 represents the fourth consecutive quarter

of growth. The increase is primarily attributable to increased orders in the oil, gas, and petrochemical, mining and general industrial and other end markets, partially offset by a decline in the power generation end market.

The \$14.9 million of Net sales growth from existing businesses in our fabrication technology segment for the six months ended June 30, 2017 was offset by a decline in our gas and fluid handling segment, leading to an overall decrease in Net Sales for the six months ended June 30, 2017 when compared to the six months ended July 1, 2016. Orders from existing businesses continued to be strong in our oil, gas, and petrochemical, mining, and general industrial and other industrial end markets during the six months ended June 30, 2017. The year over year growth in these end markets was partially offset by declines in the marine and power generation end markets.

## Operating Results

The following table summarizes our results of operations for the comparable periods.

|  | Three Months Ended    |              | Six Months Ended |              |
|--|-----------------------|--------------|------------------|--------------|
|  | June 30, 2017         | July 1, 2016 | June 30, 2017    | July 1, 2016 |
|  | (Dollars in millions) |              |                  |              |
| Gross profit   | \$300.7               | \$301.1      | \$580.1          | \$581.6      |
| Gross profit margin  | 31.1 %                | 31.5 %       | 32.0 %           | 31.7 %       |
| Selling, general and administrative expense                              | \$208.2               | \$213.6      | \$414.3          | \$427.9      |
| Selling, general and administrative expense as a percentage of Net sales | 21.6 %                | 22.3 %       | 22.9 %           | 23.3 %       |
| Restructuring and other related items                                    | \$0.5                 | \$14.5       | \$7.6            | \$32.2       |
| Operating income   | 92.0                  | 73.1         | 158.2            | 121.5        |
| Operating income margin  | 9.5 %                 | 7.6 %        | 8.7 %            | 6.6 %        |
| Interest expense, net  | \$8.4                 | \$8.7        | \$17.5           | \$17.8       |
| Provision for income taxes   | 25.1                  | 20.4         | 40.7             | 33.5         |

## Second Quarter of 2017 Compared to Second Quarter of 2016

The \$0.4 million decrease in Gross profit during the second quarter of 2017 in comparison to the second quarter of 2016 was attributable to a decrease of \$5.6 million in our gas and fluid handling segment, substantially offset by a \$5.2 million increase in our fabrication technology segment. The positive impact of our restructuring initiatives in both segments provided approximately \$9 million of cost savings in the quarter as compared to prior year and acquisition-related growth contributed approximately \$5 million of gross profit in the second quarter of 2017. This was offset by the impact of lower project margins in our gas and fluid handling business and \$1.6 million of unfavorable changes in foreign exchange rates. Gross profit margin remained relatively flat as compared to the second quarter of 2016.

The approximate \$5 million decrease in Selling, general and administrative expense in the second quarter of 2017 as compared to the second quarter of 2016 is primarily attributable to cost savings as a result of our restructuring initiatives in both segments. Changes in foreign exchange rates of approximately \$3 million offset the increase from acquisitions.

Restructuring and other related items decreased during the second quarter of 2017 as compared to the second quarter of 2016 principally due to an approximate \$12 million gain on proceeds received from sale of a European facility in our gas and fluid handling segment that was previously closed as part of restructuring activities. Restructuring and other related items for the second quarter of 2017 includes a non-cash impairment charge of approximately \$4 million associated with a previously closed facility as part of our restructuring activities in our fabrication technology segment.

Interest expense for the second quarter of 2017 is consistent with the second quarter of 2016.



The effective tax rate for the second quarter of 2017 was 30.0%, 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 2017. 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.

Six Months Ended June 30, 2017 Compared to Six Months Ended July 1, 2016

Our Gross profit and gross profit margin for the six months ended June 30, 2017 remained consistent with the prior year, as the \$12.7 million increase in our fabrication technology segment was more than offset by the decrease in our gas and fluid handling segment. We achieved approximately \$18 million in costs savings as a result of our restructuring initiatives during the six months ended June 30, 2017 which helped offset the net impact of lower volumes in our gas and fluid handling segment and the \$3 million decrease from foreign exchange translation rates.

Selling, general and administrative expense decreased during the six months ended June 30, 2017 in comparison to the six months ended July 1, 2016 primarily due to approximately \$22 million of cost savings as a result of our cost reduction and restructuring initiatives in both segments. Acquisitions added approximately \$6 million of Selling, general and administrative expense during the six months ended June 30, 2017. Restructuring and other related items decreased during the six months ended June 30, 2017 as compared to the six months ended July 1, 2016 consistent with management's plan, as we started to see more stable market conditions at the end of 2016. Restructuring and other related items for the six months ended June 30, 2017 includes a gain on sale of a facility discussed previously.

Interest expense during the six months ended June 30, 2017 is consistent with the six months ended July 1, 2016.

The effective tax rate during the six months ended June 30, 2017 was 29.0%, 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 2017. The provision for income taxes for the six months ended June 30, 2017 also includes a net \$0.9 million discrete tax benefit primarily associated with a South American jurisdiction. The effective tax rate during 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.

## Business Segments

As discussed further above, we report results in two reportable segments: gas and fluid handling and fabrication technology.

### 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 for combustion and emissions control applications in coal-fired and other types of power stations, and in 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 |              |
|--|-----------------------|--------------|------------------|--------------|
|  | June 30, 2017         | July 1, 2016 | June 30, 2017    | July 1, 2016 |
|  | (Dollars in millions) |              |                  |              |
| Net sales  | \$471.0               | \$483.7      | \$855.9          | \$916.4      |
| Gross profit   | 130.8                 | 136.4        | 246.8            | 261.0        |
| Gross profit margin  | 27.8 %                | 28.2 %       | 28.8 %           | 28.5 %       |
| Selling, general and administrative expense                              | \$84.4                | \$91.3       | \$168.1          | \$182.0      |
| Selling, general and administrative expense as a percentage of Net sales | 17.9 %                | 18.9 %       | 19.6 %           | 19.9 %       |
| Segment operating income   | \$46.4                | \$45.1       | \$78.7           | \$79.0       |
| Segment operating income margin  | 9.9 %                 | 9.3 %        | 9.2 %            | 8.6 %        |
| Restructuring and other related items                                    | \$(7.4 )              | \$7.1        | \$(3.0 )         | \$17.7       |

Net sales from existing businesses, as discussed and defined under "Sales, Orders and Backlog" above, decreased by \$5.8 million during the second quarter of 2017 in comparison to the second quarter of 2016 as our growth in the mining end market of approximately \$11 million was more than offset by a decline in the oil, gas and petrochemical end market. Changes in foreign exchange rates contributed another \$6.9 million to the decline. Gross profit and gross profit margin decreased in the second quarter of 2017 as compared to the second quarter of 2016 reflecting the impact of lower margin projects and, to a lesser extent, the lower overall volumes. Cost savings as a result of our restructuring programs totaling approximately \$6 million, offset the \$1 million negative impact from foreign exchange rates and the approximate \$5 million of specific contract charges taken in the period. Selling, general and administrative expense for the second quarter of 2017 decreased compared to the second quarter of 2016 primarily due to approximately \$4 million of cost savings associated with restructuring programs and a \$2 million decrease from changes in foreign exchange rates. Restructuring and other related items decreased during the second quarter of 2017 as compared to the second quarter of 2016 principally due to an approximate \$12 million gain on proceeds received from sale of a previously closed European facility as part of our restructuring activities.

Net sales decreased by \$46.2 million due to existing businesses during the six months ended June 30, 2017 in comparison to the six months ended July 1, 2016 driven by declines in the oil, gas and petrochemical end market. Changes in foreign exchange translation rates decreased Net sales by \$14.3 million during the six months ended June

30, 2017 over the comparable period. Gross profit decreased during the six months ended June 30, 2017 as compared to the six months ended July 1, 2016 reflecting the impact of lower volumes. The impact of unfavorable project margin mix as compared to the prior year was mitigated through approximately \$12 million of cost savings as a result of our restructuring programs. Selling, general and administrative expense for the six months ended June 30, 2017 decreased compared to the six months ended July 1, 2016 as a result of cost savings from restructuring programs totaling approximately \$9 million and a \$4 million decrease from foreign exchange rates. Restructuring and other related items decreased during the six months ended June 30, 2017, consistent with management's previously stated operational planning. Restructuring and other related charges for the six months ended June 30, 2017 includes a gain on sale of a facility 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. 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 |              |
|--|-----------------------|--------------|------------------|--------------|
|  | June 30, 2017         | July 1, 2016 | June 30, 2017    | July 1, 2016 |
|  | (Dollars in millions) |              |                  |              |
| Net sales  | \$494.8               | \$473.5      | \$954.9          | \$917.7      |
| Gross profit   | 169.9                 | 164.7        | 333.3            | 320.6        |
| Gross profit margin  | 34.3 %                | 34.8 %       | 34.9 %           | 34.9 %       |
| Selling, general and administrative expense                              | \$109.1               | \$110.2      | \$216.8          | \$220.2      |
| Selling, general and administrative expense as a percentage of Net sales | 22.0 %                | 23.3 %       | 22.7 %           | 24.0 %       |
| Segment operating income   | \$60.8                | \$54.5       | \$116.5          | \$100.4      |
| Segment operating income margin  | 12.3 %                | 11.5 %       | 12.2 %           | 10.9 %       |
| Restructuring and other related items                                    | \$7.9                 | \$7.4        | \$10.6           | \$14.5       |

Net sales from existing businesses increased \$10.2 million in the second quarter of 2017 in comparison to the second quarter of 2016 led by growth in South America and Russia and a strengthening North American market.

Acquisition-related growth provided another \$10.8 million of incremental sales for the second quarter of 2017. Gross profit increased in the second quarter of 2017 due to the increased sales from existing businesses and acquisition-related growth, partially offset by higher material prices. The decrease in gross profit margin for the quarter was due to higher material prices. However, gross profit margin remained consistent on a year to date basis. Selling, general and administrative expense decreased in the second quarter of 2017 as compared to the second quarter of 2016 primarily due to cost control activities and restructuring savings of approximately \$4.5 million, offset by approximately \$3 million of acquisition-related growth. Restructuring and other related items for the second quarter of 2017 includes a \$4 million non-cash impairment change associated with a previously closed facility as part of our restructuring activities.

Net sales from existing business increased \$14.9 million during the six months ended June 30, 2017 in comparison to the six months ended July 1, 2016 with continued growth in most markets, partly offset by a decline in the Middle East market. Acquisition-related growth provided \$17.3 million of incremental sales during the six months ended June 30, 2017. Foreign exchange impact was negligible. Gross profit increased during the six months ended June 30, 2017 primarily due to approximately \$6 million of cost savings associated with restructuring programs and acquisition-related growth of \$8.5 million. Gross profit margin remained consistent during the six months ended June 30, 2017 in comparison to the six months ended July 1, 2016 as the positive impact of price and volume mix offset the increased commodity cost. Selling, general and administrative expense decreased during the six months ended June 30, 2017 as compared to the six months ended July 1, 2016 primarily due to restructuring savings totaling approximately \$9 million, partially offset by \$6 million of acquisition-related growth. Restructuring and other related items decreased during the six months ended June 30, 2017 in comparison to the six months ended July 1, 2016,

consistent with management's previously stated operational planning, partially offset by the incremental facility charge discussed previously.

## 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.

### Borrowing Arrangements

We are 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 "DB Credit Agreement"). As of June 30, 2017, the weighted-average interest rate of borrowings under the DB Credit Agreement was 2.73%, excluding accretion of original issue discount and deferred financing fees, and there was \$1.1 billion available on the revolving credit facility.

On April 19, 2017, we issued senior unsecured notes with an aggregate principal amount of €350 million (the "Euro Notes"). The Euro Notes are due in April 2025 and have an interest rate of 3.25%. The proceeds from the Euro Notes offering were used to repay borrowings under our DB Credit Agreement and bilateral credit facilities totaling €283.5 million, as well as for general corporate purposes, and are guaranteed by certain of our domestic subsidiaries (the "Guarantees"). The Euro Notes and the Guarantees have not been, and will not be, registered under the Securities Act of 1933, as amended (the "Securities Act"), or the securities laws of any other jurisdiction.

In addition, we are party to various bilateral credit facilities with a borrowing capacity of \$212.3 million. As of June 30, 2017, outstanding borrowings under these facilities total \$18.9 million, with a weighted average borrowing rate of 2.25%.

We are also party to letter of credit facilities with total capacity of \$774.7 million. Total letters of credit of \$369.8 million were outstanding as of June 30, 2017.

We are 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, which is \$80 million as of June 30, 2017. As of June 30, 2017, the total outstanding borrowings under the receivables financing facility were \$68.6 million and the interest rate was 2.00%. The scheduled termination date for the receivables financing facility is December 19, 2017 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 of our U.S. subsidiaries have agreed to guarantee the obligations of the Company under the DB Credit Agreement. The DB 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 DB 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 DB Credit Agreement contains various events of default (including failure to comply with the covenants under the DB 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 June 30, 2017. We believe that our sources of liquidity, including the DB Credit Agreement, are adequate to fund our operations for the next twelve months.



## Cash Flows

As of June 30, 2017, we had \$272.2 million of Cash and cash equivalents, an increase of \$50.5 million from \$221.7 million as of December 31, 2016. The following table summarizes the change in Cash and cash equivalents during the periods indicated:

|   | Six Months<br>Ended |                 |
|---|---------------------|-----------------|
|   | June<br>30,<br>2017 | July 1,<br>2016 |
|   | (In millions)       |                 |
| Net cash provided by operating activities                     | \$98.6              | \$56.4          |
| Purchases of fixed assets, net                                | (10.6 )             | (25.5 )         |
| Acquisitions, net of cash received                            | (50.0 )             | —               |
| Net cash used in investing activities                         | (60.6 )             | (25.5 )         |
| Proceeds from (repayments of) borrowings, net                 | 10.1                | (21.5 )         |
| Repurchases of common stock                                   | —                   | (20.8 )         |
| Other   | (5.2 )              | (4.7 )          |
| Net cash provided by (used in) financing activities           | 4.9                 | (47.0 )         |
| Effect of foreign exchange rates on Cash and cash equivalents | 7.7                 | 3.4             |
| Increase (decrease) in Cash and cash equivalents              | \$50.5              | \$(12.7)        |

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 inflows of \$10.8 million during the six months ended June 30, 2017 and net cash outflows of \$21.4 million during the six months ended July 1, 2016. Net cash inflows for the six months ended June 30, 2017 include \$26.0 million of reimbursements from insurance companies on our asbestos insurance receivable.

- 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 June 30, 2017 and six months ended July 1, 2016, cash contributions for defined benefit plans were \$15.0 million and \$18.1 million, respectively.
- During the six months ended June 30, 2017 and six months ended July 1, 2016, net cash payments of \$10.7 million and \$28.7 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; Inventories, net and customer retentions reduced by Accounts payable and Customer advances and billings in excess of costs incurred. During the six months ended June 30, 2017, net working capital consumed cash of \$73.3 million, before the impact of foreign exchange, primarily due to an increase in receivables and inventory levels, principally in the fabrication technology segment, offset by increase in payables. During the six months ended July 1, 2016, net working capital consumed cash of \$64.8 million, before the impact of foreign exchange, primarily due to an increase in receivable and inventory levels and a decrease in Customer advances and billings in excess of costs on long-term contracts.

Increased working capital for the second quarter of 2017 and second quarter of 2016 reflect normal seasonal changes.

Cash flows used in investing activities increased during six months ended June 30, 2017 as compared to the prior year as a result of acquisitions in our fabrication technology segment during the second quarter of 2017.

Cash flows from financing activities for the six months ended June 30, 2017 reflect net borrowings, inclusive of fees, of \$4 million. The inflow is attributable to the issuance of the Euro Notes during the second quarter of 2017, largely offset by repayments on our revolving credit facilities. Cash flows from financing activities for the six months ended July 1, 2016 reflect a net repayment

of \$21 million of the Company's outstanding debt. Cash flow from financing activities for the six months ended July 1, 2016 was also impacted by the repurchase of 1,000,000 shares of the Company's Common stock for approximately \$20.8 million.

Our Cash and cash equivalents as of June 30, 2017 include \$267.5 million held in jurisdictions outside the U.S., which may be subject to U.S. income and local withholding taxes if repatriated into the United States. Repatriation of cash may also be subject to other local statutory restrictions.

On March 8, 2017, the Company entered into a binding agreement to acquire Siemens Turbomachinery Equipment GmbH (STE) from Siemens AG for a cash consideration of approximately €195 million. The acquisition will be integrated into the gas and fluid handling reporting segment, broadening the segment's range of compression solutions and expanding its product offering into smaller steam turbines. Closing of the acquisition is expected to be completed during the three months ending December 31, 2017.

### 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 2016 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. The majority of our borrowings as of June 30, 2017, including the DB Credit Agreement and the receivables financing facility, 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 interest rates of 1.00% during the second quarter and six months ended June 30, 2017 would have increased Interest expense by approximately \$2.6 million and \$5.8 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 June 30, 2017, approximately 73% and 72% of our sales, respectively, were derived from operations outside the U.S. We have significant manufacturing operations in European countries that are not part of the Eurozone. Sales 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. Euro denominated borrowings under the DB Credit Agreement and Euro Notes 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 June 30, 2017 (net of the translation effect of our Euro denominated borrowings) would result in a reduction in Equity of approximately \$325 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 June 30, 2017, 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 June 30, 2017. 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 2016 Form 10-K.

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

None.

### Item 3. Defaults Upon Senior Securities

None.

### Item 4. Mine Safety Disclosures

None.

### Item 5. Other Information

Pursuant to Section 219 of the Iran Threat Reduction and Syrian Human Rights Act of 2012 and Section 13(r) of the Exchange Act, Colfax is required to disclose in its periodic reports if it or any of its affiliates knowingly engaged in certain activities, including certain activities involving Iran.

In January 2016, the Office of Foreign Assets Control ("OFAC") issued General License H to the Iranian Transactions and Sanctioned Regulations ("ITSR"), which authorized U.S.-owned or -controlled foreign entities to engage in certain business involving Iran. Pursuant to that authorization, one of our ESAB non-U.S. subsidiaries resumed certain business with Iran pursuant to General License H and the ITSR.

In the three months ended June 30, 2017, the ESAB subsidiary delivered non-U.S. origin welding products valued at \$413,000 to a distributor for end use in the petrochemical industry in Iran. In the 12 month period ending June 30, 2017, the ESAB subsidiary sold a total of \$1,236,800 of welding products for end use in the Iranian petrochemical sector. The total revenue generated from these sales over 12 months was \$1,236,800 with an aggregate net profit margin of 17 percent. The Company is disclosing these transactions pursuant to Section 13(r)(1)(A) of the Exchange Act.

The Company's non-U.S. subsidiaries may engage in additional transactions authorized under General License H that would require disclosure in future reports pursuant to Section 13(r) of the Exchange Act.

Item 6. Exhibits

| Exhibit No. | Exhibit Description   |
|-------------|---|
| 3.01*       | Amended and Restated Certificate of Incorporation.  |
| 3.02**      | Colfax Corporation Amended and Restated Bylaws.   |
| 10.02***    | Letter Agreement between Colfax Corporation and Shyam Kambeyanda  |
| 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, 2017 |

|                        |  |               |
|------------------------|--|---------------|
| /s/ Christopher M. Hix | Senior Vice President, Finance,              |               |
| Christopher M. Hix     | Chief Financial Officer and Treasurer        | July 28, 2017 |
|                        | (Principal Financial and Accounting Officer) |               |