Colfax CORP
Form 10-Q
July 23, 2015

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

FORM 10-Q

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

For the Quarterly Period Ended June 26, 2015
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number - 001-34045
Colfax Corporation
(Exact name of registrant as specified in its charter)

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

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

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

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

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

Large accelerated filer þ Accelerated filer ¨

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

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

As of June 26, 2015, there were 124,225,831 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 26, 2015	June 27, 2014	June 26, 2015	June 27, 2014
Net sales	$1,025,375	$1,199,336	$1,936,445	$2,253,667
Cost of sales	697,338	811,165	1,313,970	1,539,864
Gross profit	328,037	388,171	622,475	713,803
Selling, general and administrative expense	222,629	279,029	435,861	510,611
Restructuring and other related charges	8,834	13,474	12,587	19,786
Operating income	96,574	95,668	174,027	183,406
Interest expense	14,249	13,624	26,293	25,946
Income before income taxes	82,325	82,044	147,734	157,460
Provision for (benefit from) income taxes	23,496	(116,300)	32,630	(95,721)
Net income	58,829	198,344	115,104	253,181
Less: income attributable to noncontrolling interest, net of taxes	5,702	6,559	9,921	14,606
Net income attributable to Colfax Corporation	53,127	191,785	105,183	238,575
Dividends on preferred stock	—	—	—	2,348
Preferred stock conversion inducement payment	—	—	—	19,565
Net income available to Colfax Corporation common shareholders	$53,127	$191,785	$105,183	$216,662
Net income per share - basic	$0.43	$1.55	$0.85	$1.83
Net income per share - diluted	$0.42	$1.53	$0.84	$1.81

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended		Six Months Ended	
	June 26, 2015	June 27, 2014	June 26, 2015	June 27, 2014
Net income	$58,829	$198,344	$115,104	$253,181
Other comprehensive income (loss):				
Foreign currency translation	117,484	46,531	(72,241)	40,882
Unrealized (loss) gain on hedging activities, net of tax of $11,638, $258, $14,428 and $125	(9,922)	3,292	12,259	3,124
Changes in deferred tax related to pension and other postretirement benefit cost	1,707	1,934	3,817	1,934
Amounts reclassified from Accumulated other comprehensive loss:				
Net pension and other postretirement benefit cost, net of tax of $1,733, $132, $2,671 and $305	1,858	1,741	4,074	3,634
Other comprehensive income (loss)	111,127	53,498	(52,091)	49,574
Comprehensive income	169,956	251,842	63,013	302,755
Less: comprehensive income attributable to noncontrolling interest	4,013	8,691	5,356	13,510
Comprehensive income attributable to Colfax Corporation	$165,943	$243,151	$57,657	$289,245

See Notes to Condensed Consolidated Financial Statements.

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

	June 26, 2015	December 31, 2014
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$212,210	$305,448
Trade receivables, less allowance for doubtful accounts of $24,338 and $27,256	1,024,816	1,029,150
Inventories, net	447,305	442,732
Other current assets	320,895	323,148
Total current assets	2,005,226	2,100,478
Property, plant and equipment, net	671,991	727,435
Goodwill	2,860,075	2,873,023
Intangible assets, net	983,294	1,043,583
Other assets	489,431	491,842
Total assets	$7,010,017	$7,236,361
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	$6,738	$9,855
Accounts payable	738,493	780,287
Accrued liabilities	458,110	496,207
Total current liabilities	1,203,341	1,286,349
Long-term debt, less current portion	1,376,932	1,526,955
Other liabilities	1,001,104	1,070,613
Total liabilities	3,581,377	3,883,917
Equity:		
Common stock, $0.001 par value; 400,000,000 shares authorized; 124,225,831 and 123,730,578 issued and outstanding	124	124
Additional paid-in capital	3,215,963	3,200,832
Retained earnings	494,744	389,561
Accumulated other comprehensive loss	(491,217)	(443,691)
Total Colfax Corporation equity	3,219,614	3,146,826
Noncontrolling interest	209,026	205,618
Total equity	3,428,640	3,352,444
Total liabilities and equity	$7,010,017	$7,236,361

See Notes to Condensed Consolidated Financial Statements.

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

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total
	Shares	$ Amount					
Balance at January 1, 2015	123,730,578	$124	$3,200,832	$389,561	$(443,691)	$205,618	$3,352,444
Net income	—	—	—	105,183	—	9,921	115,104
Distributions to noncontrolling owners	—	—	—	—	—	(1,948)	(1,948)
Other comprehensive loss, net of tax of $13.3 million	—	—	—	—	(47,526)	(4,565)	(52,091)
Common stock-based award activity	429,253	—	11,703	—	—	—	11,703
Contribution to defined benefit pension plan	66,000	—	3,428	—	—	—	3,428
Balance at June 26, 2015	124,225,831	$124	$3,215,963	$494,744	$(491,217)	$209,026	$3,428,640

See Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended			
	June 26, 2015		June 27, 2014	
Cash flows from operating activities:				
Net income	$115,104		$253,181	
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation, amortization and impairment charges	71,113		86,754	
Stock-based compensation expense	8,716		8,362	
Non-cash interest expense	8,294		4,574	
Deferred income tax provision (benefit)	1,168		(152,208	)
Changes in operating assets and liabilities:				
Trade receivables, net	(35,117	)	(49,468	)
Inventories, net	(21,522	)	(19,620	)
Accounts payable	(13,596	)	(65,352	)
Changes in other operating assets and liabilities	(67,291	)	(29,151	)
Net cash provided by operating activities	66,869		37,072	
Cash flows from investing activities:				
Purchases of fixed assets, net	(18,318	)	(42,209	)
Acquisition, net of cash acquired	—		(948,800	)
Net cash used in investing activities	(18,318	)	(991,009	)
Cash flows from financing activities:				
Borrowings under term credit facility	750,000		150,000	
Payments under term credit facility	(1,214,122	)	—	
Proceeds from borrowings on revolving credit facilities and other	966,403		997,442	
Repayments of borrowings on revolving credit facilities and other	(637,136	)	(760,454	)
Proceeds from issuance of common stock, net	2,987		612,663	
Preferred stock conversion inducement payment	—		(19,565	)
Payments of dividend on preferred stock	—		(3,853	)
Other	(3,625	)	(9,776	)
Net cash (used in) provided by financing activities	(135,493	)	966,457	
Effect of foreign exchange rates on Cash and cash equivalents	(6,296	)	10,148	
(Decrease) increase in Cash and cash equivalents	(93,238	)	22,668	
Cash and cash equivalents, beginning of period	305,448		311,301	
Cash and cash equivalents, end of period	$212,210		$333,969	

See Notes to Condensed Consolidated Financial Statements.

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COLFAX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. General

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

The Condensed Consolidated Financial Statements included in this quarterly report have been prepared by the Company in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC") and accounting principles generally accepted in the United States of America ("GAAP") for interim financial statements.

The Condensed Consolidated Balance Sheet as of December 31, 2014 is derived from the Company's audited financial statements. During the six months ended June 26, 2015, adjustments were made retrospectively to provisional amounts recorded as of December 31, 2014, primarily due to the Company's valuation of specific items related to an acquisition that occurred in the three months ended June 27, 2014. See Note 3, "Acquisitions" for additional information regarding these adjustments. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted in accordance with the SEC's rules and regulations for interim financial statements. The Condensed Consolidated Financial Statements included herein should be read in conjunction with the audited financial statements and related footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 (the "2014 Form 10-K"), filed with the SEC on February 17, 2015.

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

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

The results of operations for the three and six months ended June 26, 2015 are not necessarily indicative of the results of operations that may be achieved for the full year. Quarterly results are affected by seasonal variations in the Company's business. As our gas- and fluid-handling customers seek to fully utilize capital spending budgets before the end of the year, historically our shipments have peaked during the fourth quarter. Also, all of our European operations typically experience a slowdown during the July and August and December holiday seasons. General economic conditions may, however, impact future seasonal variations.

2. Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU No. 2014-09"). ASU No. 2014-09 clarifies the principles for recognizing revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance affects entities that enter into contracts with customers to transfer goods or services, and supersedes prior GAAP guidance, namely Accounting Standards Codification Topic 605—Revenue Recognition. On July 9, 2015, the FASB voted and approved to defer the effective date of ASU 2014-09 by one year. As a result, ASU No. 2014-09 will be effective for fiscal years beginning after December 15, 2017, with early adoption permitted but not prior to the original effective date of annual periods beginning after December 15, 2016. ASU 2014-09 is to be applied retrospectively, or on a modified retrospective basis. The Company is currently evaluating the impact of adopting ASU No. 2014-09 on its Consolidated Financial Statements.

In April 2015, the FASB issued ASU No. 2015-03, "Interest—Imputation of Interest (Subtopic 835-30)" ("ASU No. 2015-03"). ASU No. 2015-03 aims to simplify the presentation of debt issuance costs by requiring debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Currently, debt issuance costs are presented as a deferred charge under GAAP. ASU No. 2015-03 is effective for fiscal years beginning after December 15, 2015, and is to be applied retrospectively, with early adoption permitted. The Company has early adopted ASU No. 2015-03 during the three months ended June 26, 2015 resulting in $2.8 million of debt issuance costs presented as a direct deduction to the Company's Long-term debt in the Condensed Consolidated Balance Sheet as of June 26, 2015. The retrospective application of ASU No. 2015-03 decreased Other assets and Long-term debt by $2.4 million in the Condensed Consolidated Balance Sheet as of December 31, 2014.

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

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

3. Acquisitions

Subsequent to quarter-end, on June 30, 2015, Colfax completed the acquisition of the Roots™ blowers and compressors business unit ("Roots"), also known as Industrial Air & Gas Technologies, from GE Oil & Gas (the "Roots Acquisition") for approximately $185 million. Roots is a leading supplier of blower and compressor technologies which service a broad range of end markets, including wastewater treatment, chemical production, and power generation. The acquisition of Roots, with expected annual sales of approximately $120 million, will build on Howden's global strength in compressors and blowers and will add important application expertise and product solutions to the portfolio. Due to the timing of the Roots Acquisition, the Company is in the process of determining the purchase price allocation and thus, certain disclosures, including a reasonable estimate of Goodwill, are impracticable at this time.

On April 14, 2014, Colfax completed the acquisition of Victor Technologies Holdings, Inc. (the "Victor Acquisition"). During the six months ended June 26, 2015, the Company retrospectively adjusted provisional amounts with respect to the Victor Acquisition that were recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date. The aggregate adjustments for the six months ended June 26, 2015 increased the Goodwill balance by $0.1 million, primarily due to finalization of the Company's valuation of certain deferred tax assets and liabilities offset by finalization of the valuation of certain fixed assets and an adjustment to a VAT tax position in a specific foreign entity.

4. Net Income Per Share

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

	Three Months Ended		Six Months Ended	
	June 26, 2015	June 27, 2014	June 26, 2015	June 27, 2014
	(In thousands, except share data)			
Computation of Net income per share - basic:				
Net income available to Colfax Corporation common shareholders	$53,127	$191,785	$105,183	$216,662
Weighted-average shares of Common stock outstanding - basic	124,250,487	123,808,859	124,103,220	118,279,102
Net income per share - basic	$0.43	$1.55	$0.85	$1.83

Computation of Net income per share - diluted:				
Net income available to Colfax Corporation common shareholders	$53,127	$191,785	$105,183	$216,662
Weighted-average shares of Common stock outstanding - basic	124,250,487	123,808,859	124,103,220	118,279,102
Net effect of potentially dilutive securities - stock options and restricted stock units	1,011,251	1,676,621	1,078,247	1,638,638
Weighted-average shares of Common stock outstanding - diluted(1)	125,261,738	125,485,480	125,181,467	119,917,740
Net income per share - diluted	$0.42	$1.53	$0.84	$1.81

(1) For the period from January 1, 2014 through February 12, 2014, Net income per share - diluted was calculated consistently with the if-converted method in accordance with GAAP until the outstanding shares of Series A Perpetual Convertible Preferred Stock were converted to Common stock on February 12, 2014. However, weighted-average shares outstanding - diluted for the six months ended June 27, 2014 excludes the weighted average effect of 2.8 million Common stock equivalents for the period from January 1, 2014 through February 12, 2014, as their inclusion would be anti-dilutive.

The weighted-average computation of the dilutive effect of potentially issuable shares of Common stock under the treasury stock method for the three months ended June 26, 2015 and June 27, 2014 excludes approximately 2.2 million and 0.7 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 26, 2015 and June 27, 2014 excludes approximately 2.1 million and 0.6 million of outstanding stock-based compensation awards, respectively, as their inclusion would be anti-dilutive.

5. Income Taxes

During the three months ended June 26, 2015, Income before income taxes was $82.3 million and the Provision for income taxes was $23.5 million. The effective tax rate of 28.5% for the three months ended June 26, 2015 differs from the U.S. federal statutory rate primarily due to international tax rates, which are lower than the U.S. tax rate, offset in part by losses in certain jurisdictions where a tax benefit is not expected to be recognized in 2015.

During the six months ended June 26, 2015, Income before income taxes was $147.7 million and the Provision for income taxes was $32.6 million. The effective tax rate of 22.1% for the six months ended June 26, 2015 differs from the U.S. federal statutory rate primarily due to a tax benefit of $13.0 million associated with the resolution of a certain liability for unrecognized tax benefits and international tax rates, which are lower than the U.S. tax rate, offset in part by losses in certain jurisdictions where a tax benefit is not expected to be recognized in 2015.

Income before income taxes was $82.0 million and $157.5 million and the Benefit from income taxes was $116.3 million and $95.7 million for the three and six months ended June 27, 2014, respectively. The Benefit from income taxes for both periods was impacted by the reassessment of the realizability of certain deferred tax assets as a result of the effect of the Victor Acquisition on expected future income. This reassessment resulted in a decrease in the Company's valuation allowance against U.S. deferred tax assets. The reduction in the valuation allowance created a non-cash income tax benefit for the three and six months ended June 27, 2014 of $113.1 million. Additionally, a tax benefit of $19.4 million was included in Benefit from income taxes in the Condensed Consolidated Statements of Income for the three and six months ended June 27, 2014 associated with the resolution of a liability for unrecognized tax benefits. These items are the principal reasons for a tax benefit rather than a tax provision, which would result from the application of the U.S. federal statutory rate to the reported Income before income taxes for the three and six months ended June 27, 2014.

6. Equity

Common Stock

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

Accumulated Other Comprehensive (Loss) Income

The following tables present the changes in the balances of each component of Accumulated other comprehensive (loss) income including reclassifications out of Accumulated other comprehensive (loss) income for the six months ended June 26, 2015 and June 27, 2014. All amounts are net of tax and noncontrolling interest.

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

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

	Accumulated Other Comprehensive (Loss) Income Components			
	Net Unrecognized Pension And Other Post-Retirement Benefit Cost (In thousands)	Foreign Currency Translation Adjustment	Unrealized Loss On Hedging Activities	Total
Balance at January 1, 2014	$(163,092)	$123,021	$(6,529)	$(46,600)
Other comprehensive income before reclassifications:				
Foreign currency translation adjustment	(512)	32,974	19	32,481
Gain on long-term intra-entity foreign currency transactions	—	9,531	—	9,531
Gain on net investment hedges	—	—	4,773	4,773
Unrealized loss on cash flow hedges	—	—	(1,683)	(1,683)
Other	1,934	—	—	1,934
Other comprehensive income before reclassifications	1,422	42,505	3,109	47,036
Amounts reclassified from Accumulated other comprehensive (loss) income	3,634	—	—	3,634
	5,056	42,505	3,109	50,670

Net current period Other comprehensive income				
Balance at June 27, 2014	$(158,036)	$165,526	$(3,420)	$4,070

The effect on Net income of amounts reclassified out of each component of Accumulated other comprehensive (loss) income for the three and six months ended June 26, 2015 and June 27, 2014 is as follows:

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

	Three Months Ended June 26, 2015			Six Months Ended June 26, 2015		
	Amounts Reclassified From Accumulated Other Comprehensive Loss	Tax Benefit	Total	Amounts Reclassified From Accumulated Other Comprehensive Loss	Tax Benefit	Total
	(In thousands)					
Pension and other post-retirement benefit cost:						
Amortization of net loss[1]	$3,522	$(1,733)	$1,789	$6,614	$(2,671)	$3,943
Amortization of prior service cost[1]	69	—	69	131	—	131
	$3,591	$(1,733)	$1,858	$6,745	$(2,671)	$4,074

	Three Months Ended June 27, 2014			Six Months Ended June 27, 2014		
	Amounts Reclassified From Accumulated Other Comprehensive (Loss) Income	Tax Benefit	Total	Amounts Reclassified From Accumulated Other Comprehensive (Loss) Income	Tax Benefit	Total
	(In thousands)					
Pension and other post-retirement benefit cost:						
Amortization of net loss[1]	$1,811	$(132)	$1,679	$3,815	$(305)	$3,510
Amortization of prior service cost[1]	62	—	62	124	—	124
	$1,873	$(132)	$1,741	$3,939	$(305)	$3,634

[1] Included in the computation of net periodic benefit cost (income). See Note 10, "Net Periodic Benefit Cost - Defined Benefit Plans" for additional details.

During the six months ended June 26, 2015 and June 27, 2014, Noncontrolling interest decreased by $4.6 million and $1.1 million, respectively, as a result of Other comprehensive loss, primarily due to foreign currency translation adjustment.

7. Inventories, Net

Inventories, net consisted of the following:

	June 26, 2015	December 31, 2014
	(In thousands)	
Raw materials	$159,068	$164,115
Work in process	80,566	81,110
Finished goods	258,158	239,808
	497,792	485,033

Less: customer progress payments	(14,647)	(7,728)
Less: allowance for excess, slow-moving and obsolete inventory	(35,840)	(34,573)
Inventories, net	$447,305	$442,732

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

8. Debt

Long-term debt consisted of the following:

	June 26, 2015	December 31, 2014
	(In thousands)	
Term loans	$730,538	$1,210,474
Trade receivables financing arrangement	80,000	80,000
Revolving credit facilities and other	573,132	246,336
Total Debt	1,383,670	1,536,810
Less: current portion	(6,738)	(9,855)
Long-term debt	$1,376,932	$1,526,955

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

The proceeds of the loans under the Credit Agreement were used by the Company to repay in full its preexisting senior secured credit facility, by and among the Company, Colfax UK Holdings Ltd, the other subsidiaries of the Company party thereto, the lenders party thereto and Deutsche Bank AG New York Branch, as administrative agent (the "Deutsche Bank Credit Agreement"), as well as for working capital and general corporate purposes. The Credit Agreement consists of a term loan in an aggregate amount of $750.0 million (the "Term Loan") and a revolving credit facility which totals $1.0 billion in commitments (the "Revolver"), each of which matures in five years. The Revolver contains a $50.0 million swing line loan sub-facility.

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

In conjunction with the Credit Agreement, the Company recorded a charge to Interest expense in the Condensed Consolidated Statement of Income for the three months ended June 26, 2015 of $4.7 million to write-off certain deferred financing fees and original issue discount and expensed approximately $0.4 million of costs incurred in connection with the refinancing of the Deutsche Bank Credit Agreement. The Company had an original issue discount of $7.3 million and deferred financing fees of $10.5 million included in its Condensed Consolidated Balance Sheet as of June 26, 2015, which will be accreted to Interest expense primarily using the effective interest method, over the life of the Credit Agreement. As of June 26, 2015, the weighted-average interest rate of borrowings under the Credit Agreement was 1.64%, excluding accretion of original issue discount, and there was $467.3 million available on the revolving credit facility.

The Company is also party to letter of credit facilities with total capacity of $735.7 million. Total letters of credit of $364.0 million were outstanding as of June 26, 2015.

On December 22, 2014, the Company entered into a receivables financing facility, pursuant to which it established a wholly owned, special purpose bankruptcy-remote subsidiary which purchases trade receivables from certain of the Company's subsidiaries on an ongoing basis and pledges them to support its obligation as borrower under the receivables financing facility. This special purpose subsidiary has a separate legal existence from its parent and its assets are not available to satisfy the claims of creditors of the selling subsidiaries or any other member of the consolidated group. Availability of funds may fluctuate over time given changes in eligible receivable balances, but will not exceed the $80 million program limit. As of June 26, 2015, the total outstanding borrowings under the receivables financing facility were $80 million and the interest rate was 0.9%. The scheduled termination date for the receivables financing facility is December 21, 2015, which may be extended from time to time. The facility contains representations, warranties, covenants and indemnities customary for facilities of this type. The facility does not contain any covenants that the Company views as materially constraining to the activities of its business.

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

The contractual maturities of the Company's debt as of June 26, 2015 are as follows[1]:

	(In thousands)
Remainder of 2015	$5,877
2016	5,620
2017	4,452
2018	4,142
2019	131,166
2020	1,242,500
Total contractual maturities	1,393,757
Debt discount [2]	(10,087)
Total debt	$1,383,670

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[1] Represents scheduled payments required under the Credit Agreement through June 5, 2020, as well as the contractual maturities of other debt outstanding as of June 26, 2015, and reflects management's intention to repay scheduled maturities of the term loans outstanding under the Credit Agreement and the trade receivables financing arrangement (if not extended) with proceeds from the revolving credit facility.
[2] Includes $2.8 million of deferred debt issuance costs pursuant to the adoption of ASU 2015-03. See Note 2, "Recently Issued Accounting Pronouncements" for further discussion.

Certain U.S. subsidiaries of the Company have agreed to guarantee the obligations of the Company under the Credit Agreement. The Credit Agreement contains customary covenants limiting the ability of the Company and its subsidiaries to, among other things, incur debt or liens, merge or consolidate with others, dispose of assets, make investments or pay dividends. In addition, the Credit Agreement contains financial covenants requiring the Company to maintain a total leverage ratio, as defined therein, of not more than 3.5 to 1.0 and minimum interest coverage ratio, as defined therein, of 3.0 to 1.0, measured at the end of each quarter. The Credit Agreement contains various events of default (including failure to comply with the covenants under the Credit Agreement and related agreements) and upon an event of default the lenders may, subject to various customary cure rights, require the immediate payment of all amounts outstanding under the Term Loan and the Revolver. As of June 26, 2015, the Company is in compliance with the covenants under the Credit Agreement.

9. Accrued Liabilities

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

	June 26, 2015	December 31, 2014[1]
	(In thousands)	
Accrued payroll	$118,376	$120,068
Advance payments from customers	55,626	58,049
Accrued taxes and deferred tax liability - current portion	50,097	58,823
Accrued asbestos-related liability	52,259	50,175
Warranty liability - current portion	40,951	47,966
Accrued restructuring liability - current portion	11,873	21,846
Accrued third-party commissions	11,929	11,026

Other	116,999	128,254
Accrued liabilities	$458,110	$496,207

(1) During the six months ended June 26, 2015 the Company retrospectively adjusted provisional amounts with respect to an acquisition completed during the three months ended June 27, 2014 to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date. See Note 3, "Acquisitions" for further discussion regarding these adjustments.