Colfax CORP
Form 10-K
February 16, 2016

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

Form 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 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 No. 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)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, par value $0.001 per share	The New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Act. Yes ¨ No þ

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 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

The aggregate market value of common shares held by non-affiliates of the Registrant on June 26, 2015 was $4.172 billion based upon the aggregate price of the registrant's common shares as quoted on the New York Stock Exchange composite tape on such date.

As of February 2, 2016, the number of shares of the Registrant's common stock outstanding was 122,746,447.
EXHIBIT INDEX APPEARS ON PAGE
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DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates certain information by reference from the Registrant's definitive proxy statement for its 2016 annual meeting of stockholders to be filed pursuant to Regulation 14A within 120 days after the end of the Registrant's fiscal year covered by this report. With the exception of the sections of the 2016 Proxy Statement specifically incorporated herein by reference, the 2016 Proxy Statement is not deemed to be filed as part of this Form 10-K.

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Unless otherwise indicated, references in this Annual Report on Form 10-K (this "Form 10-K") to "Colfax," "the Company," "we," "our," and "us" refer to Colfax Corporation and its subsidiaries.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements contained in this Form 10-K 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-K 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," "stra "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 credit agreement entered into on June 5, 2015 by and among the Company, as the borrower, certain U.S. subsidiaries of the Company identified therein, as guarantors, each of the lenders party thereto and Deutsche Bank AG New York Branch, as administrative agent, swing line lender and global coordinator (the "2015 Deutsche Bank Credit Agreement") that may limit our flexibility in operating our business;
- impairment in the value of intangible assets;
- the funding requirements or obligations of our defined benefit pension plans and other post-retirement benefit plans;
- significant movements in foreign currency exchange rates;
- availability and cost of raw materials, parts and components used in our products;
- new regulations and customer preferences reflecting an increased focus on environmental, social and governance issues, including new regulations related to the use of conflict minerals;
- service interruptions, data corruption, cyber-based attacks or network security breaches affecting our information technology infrastructure;
- risks arising from changes in technology;
- the competitive environment in our industry;
- changes in our tax rates or exposure to additional income tax liabilities;
- our ability to manage and grow our business and execution of our business and growth strategies;
- the level of capital investment and expenditures by our customers in our strategic markets;
- our financial performance; and
- other risks and factors, listed in Item 1A. "Risk Factors" in Part I of this 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-K 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 Item 1A. "Risk Factors" in Part I of this Form 10-K for a further discussion regarding some of the factors that may cause actual results to differ materially from those that we anticipate.

PART I

Item 1. Business

General

Colfax Corporation is a diversified global industrial manufacturing and engineering company that provides gas- and fluid-handling and fabrication technology products and services to commercial and governmental customers around the world under the Howden, ESAB and Colfax Fluid Handling brand names. Our business has been built through a series of acquisitions, as well as organic growth, since its founding in 1995. We seek to build an enduring premier global enterprise by applying the Colfax Business System (“CBS”) to pursue growth in revenues and improvements in operating margins and cash flow.

Colfax began with a series of acquisitions in the fluid-handling and mechanical power transmission sectors, most notably those of Imo and Allweiler in 1997 and 1998, respectively. In 2004, we divested our mechanical power transmission operations and focused on fluid handling. Through the end of 2011, we made a series of strategic acquisitions in this sector, including: Lubrication Systems Company (“LSC”), PD-Technik Ingenieurbüro GmbH (“PD-Technik”), Rosscor Holding B.V. (“Rosscor”) and COT-Puritech, Inc. (“COT-Puritech”).

On January 13, 2012, we closed the acquisition of Charter International plc (“Charter”) (the “Charter Acquisition”), which transformed Colfax from a fluid-handling business into a multi-platform enterprise with a broad global footprint. This acquisition provided an additional growth platform in the fragmented fabrication technology industry, while broadening the scope of our fluid-handling platform to include air- and gas-handling products.

Following the Charter Acquisition, and during the most recent three year period, we completed the following additional acquisitions that we expect will grow and strengthen our business:

Gas and Fluid Handling

In July 2013, we acquired Clarus Fluid Intelligence, LLC (“Clarus”), a domestic supplier of flushing services for marine applications primarily to U.S. government agencies, with primary operations in Bellingham, Washington.

In September 2013, we acquired certain business units of The New York Blower Company, including TLT-Babcock Inc. (“TLT-Babcock”) and Alphair Ventilating Systems Inc. (“Alphair”), suppliers of heavy duty and industrial fans in Akron, Ohio and Winnipeg, Manitoba, respectively.

In November 2013, we acquired ČKD Kompresory a.s. (“ČKDK”), a leading supplier of multi-stage centrifugal compressors to the oil & gas, petrochemical, power and steel industries, based in Prague, Czech Republic.

In November 2013, we acquired the remaining ownership of Sistemas Centrales de Lubrication S.A. de C.V. (“Sicelub”), previously a less than wholly owned subsidiary in which the Company did not have a controlling interest. Sicelub provides flushing services to Central and South American customers primarily in the oil, gas and petrochemical end market.

In November 2013, we acquired the global infrastructure and industry division of Fläkt Woods Group (“GII”), an international supplier of heavy duty industrial and cooling fans.

In May 2014, we acquired the remaining ownership of Howden Thomassen Middle East FCZO (“Howden Middle East”), increasing our ownership from 90% to 100%.

In June 2015, we acquired the Roots™ blowers and compressors business unit (“Roots”), also known as Industrial Air & Gas Technologies, from GE Oil & Gas. Roots is a leading supplier of blower and compressor technologies, which service a broad range of end markets.

In October 2015, we acquired Simsmart Technologies, Inc. (“Simsmart”). Simsmart provides a software product that controls ventilation conditions and increases fan efficiency.

Fabrication Technology

In April 2014, we acquired Victor Technologies Holdings, Inc. (“Victor”), a global manufacturer of cutting, gas control and specialty welding solutions (the “Victor Acquisition”).
In July 2014, we acquired the remaining ownership of ESAB-SVEL (“Svel”), increasing our ownership from 51% to 100%.
We employ a comprehensive set of tools that we refer to as CBS. CBS, modeled on the Danaher Business System, 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.

Each year, Colfax associates in every business are asked to develop aggressive strategic plans which are based on the Voice of the Customer. In these plans, we are very clear about our market realities, our threats, our risks, our opportunities and most importantly, our vision forward. Execution and measurement of our plans is important to the process. Our belief is that when we use the tools of CBS to drive the implementation of these plans, we are able to uniquely provide the customer with the world class quality, delivery, cost and growth they require. And that performance, we believe, is what ultimately helps our customers and Colfax grow and succeed on a sustainable basis.

Reportable Segments

We report our operations through the gas- and fluid-handling and fabrication technology segments. For certain financial information, including Net sales and long-lived assets by geographic area, see Note 16, “Segment Information” in the accompanying Notes to Consolidated Financial Statements in this Form 10-K.

Gas and Fluid Handling

Our gas- and fluid-handling segment is a global supplier of a broad range of products, including heavy-duty centrifugal and axial fans, rotary heat exchangers, gas compressors, pumps, fluid-handling systems and controls and specialty valves, which serves customers in the power generation, oil, gas and petrochemical, mining, marine (including defense) and general industrial and other end markets.

Our gas-handling products are principally marketed under the Howden brand name, and are manufactured and engineered in facilities located in Asia, Europe, North and South America, Australia and Africa. Our fluid-handling products are marketed by Colfax Fluid Handling under a portfolio of brands including Allweiler and Imo. We manufacture and assemble our fluid-handling products at locations in Europe, North America and Asia.

Our gas- and fluid-handling products and services are generally sold directly, though independent representatives and distributors are also used.

Fans

Howden fans primarily consist of heavy-duty axial, centrifugal and industrial cooling fans. Axial fans include non-variable pitch, variable pitch, OEM and mixed flow axial fans. Centrifugal fans consist of custom engineered, pre-engineered and OEM centrifugal fans. Ranging in diameter from 200mm to over 5m, and with a variety of impeller designs, control systems and layout options, our comprehensive series of axial and centrifugal fans satisfy virtually all industrial applications. Howden industrial cooling fans are designed for cooling towers, heat exchangers and steam condensers. They range in size from fans for packaged cooling systems to fans up to 25m diameter for cooling towers. Each of our cooling fan designs has its own unique characteristics in terms of efficiency, noise levels and application. We have developed our cooling fans over the last 50 years, and we believe that we offer the most reliable and quietest cooling fans available. We have fans operating in over 90 countries in a wide range of applications and uses that require the movement of large volumes of air in harsh applications, including the world’s largest power stations and latest high-speed locomotives. We believe that the experience gained from our wide range of applications is beneficial to our global engineers in meeting customer specifications.

Compressors

Howden process compressors and complete compressor packages are used in the petroleum, petrochemical, refrigeration and other markets where performance and reliability are crucial. Our product line includes screw, piston (reciprocating) diaphragm and multi-stage centrifugal process gas compressors as well as highly efficient turbo blowers capable of the most demanding end market conditions. Howden designed and supplied the first diaphragm compressor and was the first company to commercialize screw compressor technology.

Rotary Heat Exchangers

Rotary regenerative heat exchangers provide a compact, cost effective and reliable solution for heat recovery in power plant and flue gas desulfurization systems. With over 80 years of experience, Howden supplies highly efficient and reliable air preheaters for power boiler applications, rotary regenerative heat exchangers and replacement element baskets for rotary regenerative heat exchangers.

Pumps

Rotary Positive Displacement Pumps - We believe that we are a leading manufacturer of rotary positive displacement pumps with a broad product portfolio and globally recognized brands. Rotary positive displacement pumps consist of a casing containing screws, gears, vanes or similar components that are actuated by the relative rotation of that component to the casing, which results in the physical movement of the liquid from the inlet to the discharge at a constant rate. Positive displacement pumps generally offer precise, quiet and highly efficient transport of viscous fluids.

Specialty Centrifugal Pumps - Centrifugal pumps use the kinetic energy imparted by rotating an impeller inside a configured casing to create pressure. While traditionally used to transport large quantities of thin liquids, our centrifugal pumps use specialty designs and materials to offer customers high quality, reliability and customized solutions for a wide range of viscosities, temperatures and applications. We position our specialty centrifugal pumps for applications where customers clearly recognize our brand value or in markets where centrifugal and rotary pumps are complimentary.

Fluid-Handling Systems

We manufacture complete fluid-handling systems used primarily in the oil and gas, power generation, commercial marine and global defense markets. We offer turnkey systems and support, including design, manufacture, installation, commission and service. Our systems include:

- lubrication systems, which are used in rotating equipment in oil refineries and other process industries;
- custom designed packages used in crude oil pipeline applications;
- lubrication and fuel forwarding systems used in power generation turbines; and
- complete packages for commercial marine engine rooms.

Specialty Valves

Our specialty valves are used primarily in naval applications. Our valve business has specialized machining, welding and fabrication capabilities that enable us to serve as a supplier to the U.S. Navy. In addition to designing and manufacturing valves, we also offer repair and retrofit services for products manufactured by other valve suppliers through our aftermarket support centers located in Virginia Beach, Virginia and San Diego, California.

Reliability Services

Our reliability services offering provides lubrication system equipment and services to customers in end markets where lubrication system performance is critical, including: petroleum refining, petrochemical production, natural gas transmission, power generation, and military and commercial marine vessels. Our products include LubriMist® oil mist generators, Mistlock™ bearing lubrication cartridges and ThermoJet® oil purifiers. Our services include high velocity oil flushing, leakage oil reclamation and condition monitoring. We sell lubrication equipment globally, and provide reliability services primarily in North and South America.

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. For the year ended December 31, 2015, welding consumables represented approximately 37% of our total Net sales. Our fabrication technology products are marketed under several brand names, most notably ESAB and Victor, which we believe are well known in the international welding industry. ESAB's comprehensive range of welding consumables includes electrodes, cored and solid wires and fluxes. ESAB's fabrication technology equipment ranges from portable welding machines to large customized automated cutting and welding systems. The Victor Acquisition complemented the geographic footprint of our fabrication technology segment and expanded our cutting equipment and consumables, gas control and specialty welding product lines. Products are sold into a wide range of end markets, including oil & gas, power generation, wind power, shipbuilding, pipelines, mobile/off-highway equipment and mining.

Many of our fabrication technology manufacturing facilities are located in low cost locations, in particular Central and Eastern Europe, South America and Asia. Our fabrication technology products are sold both through independent distributors and direct salespeople, depending on geography and end market.

The following discussions of Industry and Competition, International Operations, Research and Development, Intellectual Property, Raw Materials and Backlog, Seasonality, Working Capital, Associates and Company Information and Access to SEC Reports include information that is common to both of our reportable segments, unless indicated otherwise.

Industry and Competition

Our products and services are marketed worldwide. The markets served by our gas- and fluid-handling segment are highly fragmented and competitive. Because we compete in selected niches of these markets and due to the diversity of our products and services, no single company competes directly with us across all of our markets. We encounter a wide variety of competitors that differ by product line, including well-established regional competitors, competitors who are more specialized than we are in particular markets, as well as larger companies or divisions of companies that are larger than we are. The markets that our fabrication technology segment competes in are also served by the welding segments of Lincoln Electric and Illinois Tool Works, Inc.

Our customer base is broadly diversified across many sectors of the economy, and we believe customers place a premium on quality, reliability, availability, design and application engineering support. We believe the principal elements of competition in our served markets are the technical ability to meet customer specifications, product quality and reliability, brand names, price, application expertise and engineering capabilities and timely delivery and strong aftermarket support. Our management believes that we are a leading competitor in each of our markets.

Additionally, we utilize CBS to continuously improve our business. CBS is our business system designed to drive a culture of continuous improvement in all aspects of our operations and strategic planning. We believe that our management team's access to and experience in the application of the CBS methodology is one of our primary competitive strengths.

International Operations

Our products and services are available worldwide. We believe this geographic diversity allows us to draw on the skills of a worldwide workforce, provides stability to our operations, allows us to drive economies of scale, provides revenue streams that may offset economic trends in individual economies and offers us an opportunity to access new markets for products. In addition, we believe that our exposure to developing economies will provide additional opportunities for growth in the future. Our principal markets outside the U.S. are in Europe, Asia, the Middle East and South America, and for the year ended December 31, 2015, approximately 45% of our Net sales were shipped to locations in emerging markets.

Our international operations subject us to certain risks. See Item 1A. "Risk Factors—Risks Related to Our Business—The majority of our sales are derived from international operations. We are subject to specific risks associated with international operations."

Research and Development

Our research and development activities vary by operating segment. We closely integrate research and development with marketing, manufacturing and product engineering in meeting the needs of our customers. Our research and development efforts focus on innovation and developing new product applications, lowering the cost of manufacturing our existing products and redesigning existing product lines to increase efficiency and enhance performance. Our business product engineering teams are continuously enhancing our existing products and developing new product applications for our growing base of customers that require custom solutions. We believe these capabilities provide a significant competitive advantage in the development of high quality products.

Research and development expense was $41.5 million, $43.0 million and $27.4 million in 2015, 2014 and 2013, respectively. We expect to continue making significant expenditures for research and development in order to maintain and improve our competitive position.

Intellectual Property

We rely on a combination of intellectual property rights, including patents, trademarks, copyrights, trade secrets and contractual provisions to protect our intellectual property. Although we highlight recent additions to our patent portfolio as part of our marketing efforts, we do not consider any one patent or trademark or any group thereof essential to our business as a whole or to any of our business operations. We also rely on proprietary product knowledge and manufacturing processes in our operations.

Raw Materials and Backlog

We obtain raw materials, component parts and supplies from a variety of sources, generally each from more than one supplier. Our principal raw materials are metals, castings, motors, seals and bearings. Our suppliers and sources of raw materials are globally based. We believe that our sources of raw materials are adequate for our needs for the foreseeable future and the loss of any one supplier would not have a material adverse effect on our business or results of operations.

Manufacturing turnaround time for our gas- and fluid-handling operating segment is generally sufficiently short to allow us to manufacture to order for most of our products, which helps to limit inventory levels. Backlog generally is a function of requested customer delivery dates and may range from days to several years. Backlog of gas- and fluid-handling orders as of December 31, 2015 was $1.1 billion, compared with $1.4 billion as of December 31, 2014. A substantial majority of the gas- and fluid-handling order backlog as of December 31, 2015 is expected to be filled within the current fiscal year.

Seasonality

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

Working Capital

We maintain an adequate level of working capital to support our business needs. There are no unusual industry practices or requirements related to working capital items.

Associates

The following table presents our worldwide associate base as of the dates indicated:

	December 31,		
	2015	2014	2013
North America	3,451	3,340	2,667
Europe	5,969	6,415	6,761
Asia and Middle East	4,131	4,696	4,722
Central and South America	2,991	3,255	2,963
Other	545	645	646
Total associates	17,087	18,351	17,759

Approximately 2% of associates are covered by collective bargaining agreements with U.S. trade unions. In addition, approximately 41% of our associates are represented by foreign trade unions and work councils in Europe, Asia, Central and South America, Canada, Africa and Australia, which subjects us to arrangements very similar to collective bargaining agreements. We have not experienced any work stoppages or strikes that have had a material adverse impact on operations. We consider our relations with our associates to be good.

Company Information and Access to SEC Reports

We were organized as a Delaware corporation in 1998. Our principal executive offices are located at 420 National Business Parkway, 5th Floor, Annapolis Junction, MD 20701, and our main telephone number at that address is (301)

323-9000. Our corporate website address is www.colfaxcorp.com.

We make available, free of charge through our website, our annual and quarterly reports on Form 10-K and Form 10-Q (including related filings in XBRL format), current reports on Form 8-K and any amendments to those reports as soon as practicable after filing or furnishing the material to the SEC. You may also request a copy of these filings, at no cost, by writing or telephoning us at: Investor Relations, Colfax Corporation, 420 National Business Parkway, 5th Floor, Annapolis Junction, MD 20701, telephone (301) 323-9000. Information contained on our website is not incorporated by reference in this report.

Item 1A. Risk Factors

An investment in our Common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below, together with the information included elsewhere in this Form 10-K and other documents we file with the SEC. The risks and uncertainties described below are those that we have identified as material, but may not be the only risks to which Colfax might be exposed. Additional risks and uncertainties, which are currently unknown to us or that we do not currently consider to be material, may materially affect the business of Colfax and could have material adverse effects on our business, financial condition and results of operations. If any of the following risks were to occur, our business, financial condition and results of operations could be materially adversely affected, the value of our Common stock could decline and investors could lose all or part of the value of their investment in Colfax shares. Our business is also subject to general risks and uncertainties that affect many other companies, such as overall U.S. and non-U.S. economic and industry conditions, a global economic slowdown, geopolitical events, changes in laws or accounting rules, fluctuations in interest rates, terrorism, international conflicts, natural disasters or other disruptions of expected economic or business conditions. We operate in a continually changing business environment, and new risk factors emerge from time to time which we cannot predict. Additional risks and uncertainties not currently known to us or that we currently believe are immaterial also may impair our business, including our results of operations, liquidity and financial condition.

Risks Related to Our Business

Changes in the general economy and the cyclical nature of the markets that we serve could negatively impact the demand for our products and services and harm our operations and financial performance.

Colfax’s financial performance depends, in large part, on conditions in the markets we serve and on the general condition of the global economy, which impacts these markets. Any sustained weakness in demand for our products and services resulting from a downturn of or uncertainty in the global economy could reduce our sales and profitability.

In addition, we believe that many of our customers and suppliers are reliant on liquidity from global credit markets and, in some cases, require external financing to purchase products or finance operations. If our customers lack liquidity or are unable to access the credit markets, it may impact customer demand for our products and services and we may not be able to collect amounts owed to us.

Further, our products are sold in many industries, some of which are cyclical and may experience periodic downturns. Cyclical weakness in the industries that we serve could lead to reduced demand for our products and affect our profitability and financial performance.

The occurrence of any of the foregoing could have a material adverse effect on our business, financial condition and results of operations.

A continued significant or sustained decline in commodity prices, including oil, has and could continue to negatively impact the levels of capital investment and maintenance expenditures by certain of our customers, which in turn has and could continue to reduce the demand for our products and services and harm our operations and financial performance.

Demand for our products and services depends, in part, on the level of new capital investment and planned maintenance expenditures by certain of our customers. The level of capital expenditures by our customers is dependent, amongst other factors, on general economic conditions, availability of credit, economic conditions within their respective industries and expectations of future market behavior. We are currently in the midst of a sustained decline in commodity prices. Continued volatility in commodity prices, including oil, can negatively affect the level of these activities and can result in postponement of capital spending decisions or the delay or cancellation of existing orders. In particular, conditions in the oil and gas industry are highly cyclical and subject to factors beyond our control. We believe demand for our products and services by many of our customers, particularly those within the oil, gas and petrochemical end market, to be primarily profit-driven, and historically these customers have tended to delay large capital projects, including expensive maintenance and upgrades, when the markets in which they participate experience volatility, as they have recently. A further reduction in demand for our products and services could result in the delay or cancellation of existing orders or lead to excess manufacturing capacity, which unfavorably impacts our absorption of fixed manufacturing costs. This reduced demand could have a material adverse effect on our business, financial condition and results of operations.

Acquisitions have formed a significant part of our growth strategy in the past and are expected to continue to do so. If we are unable to identify suitable acquisition candidates or successfully integrate the businesses we acquire, our growth strategy may not succeed.

Historically, our business strategy has relied on acquisitions. We expect to derive a significant portion of our growth by acquiring businesses and integrating those businesses into our existing operations. We intend to seek acquisition opportunities both to expand into new markets and to enhance our position in our existing markets. However, our ability to do so will depend on a number of steps, including our ability to:

- obtain debt or equity financing that we may need to complete proposed acquisitions;
- identify suitable acquisition candidates;
- negotiate appropriate acquisition terms;
- complete the proposed acquisitions; and
- integrate the acquired business into our existing operations.

If we fail to achieve any of these steps, our growth strategy may not be successful. In particular, a decline in our stock price has and may continue to make debt or equity financing more challenging to obtain. This may inhibit our ability to acquire new businesses in the future.

Acquisitions involve numerous risks, including risks related to integration, and we may not realize the anticipated benefits of our acquisitions.

Acquisitions involve numerous risks, including difficulties in the assimilation of the operations, systems, controls, technologies, personnel, services and products of the acquired company, the potential loss of key employees, customers and distributors of the acquired company and the diversion of our management's attention from other business concerns. This is the case particularly in the fiscal quarters immediately following the completion of an acquisition because the operations of the acquired business are integrated into the acquiring business' operations during this period. We may not accurately anticipate all of the changing demands that any future acquisition may impose on our management, our operational and management information systems and our financial systems. The failure to successfully integrate acquired businesses in a timely manner, or at all, could have an adverse effect on our business, financial condition and results of operations.

In addition, the anticipated benefits of an acquisition may not be realized fully or at all, or may take longer to realize than we expect. Actual operating, technological, strategic and sales synergies, if achieved at all, may be less significant than we expect or may take longer to achieve than anticipated. If we are not able to realize the anticipated benefits and synergies expected from our acquisitions within a reasonable time, our business, financial condition and results of operations may be adversely affected.

Acquisitions may result in significant integration costs, and unanticipated integration expense may harm our business, financial condition and results of operations.

Integration efforts associated with our acquisitions may require significant capital and operating expense. Such expenses may include information technology integration fees, legal compliance costs, facility closure costs and other restructuring expenses. Significant unanticipated expenses associated with integration activities may harm our business, financial condition and results of operations.

Our acquisitions may expose us to significant unanticipated liabilities and could adversely affect our business, financial condition and results of operations.

We may underestimate or fail to discover liabilities relating to acquisitions during our due diligence investigations, and we, as the successor owner of an acquired company, might be responsible for those liabilities. Such liabilities could include employment, retirement or severance-related obligations under applicable law or other benefits arrangements, legal claims, tax liabilities, warranty or similar liabilities to customers, product liabilities and personal injury claims, environmental liabilities and claims by or amounts owed to vendors. The indemnification and warranty provisions in our acquisition agreements may not fully protect us from the impact of undiscovered liabilities. Indemnities or warranties are often limited in scope, amount or duration, and may not fully cover the liabilities for which they were intended. The liabilities that are not covered by the limited indemnities or warranties could have a material adverse effect on our business, financial condition and results of operations.

We may require additional capital to finance our operating needs and to finance our growth. If the terms on which the additional capital is available are unsatisfactory, if the additional capital is not available at all or if we are not able to fully access credit under the 2015 Deutsche Bank Credit Agreement, we may not be able to pursue our growth strategy.

Our growth strategy will require additional capital investment to complete acquisitions, integrate the completed acquisitions into our existing operations and expand into new markets.

We intend to pay for future acquisitions using cash, capital stock, notes, assumption of indebtedness or any combination of the foregoing. To the extent that we do not generate sufficient cash internally to provide the capital we require to fund our growth strategy and future operations, we will require additional debt or equity financing. This additional financing may not be available or, if available, may not be on terms acceptable to us. Further, high volatility in the capital markets and in our stock price may make it difficult for us to access the capital markets at attractive prices, if at all. If we are unable to obtain sufficient additional capital in the future, it may limit our ability to implement fully our growth strategy. Even if future debt financing is available, it may result in (i) increased interest expense, (ii) increased term loan payments, (iii) increased leverage and (iv) decreased income available to fund further acquisitions and expansion. It may also limit our ability to withstand competitive pressures and make us more vulnerable to economic downturns. If future equity financing is available, issuances of our equity securities may significantly dilute our existing stockholders.

In addition, our credit facility agreement includes restrictive covenants which could limit our financial flexibility. See "—The 2015 Deutsche Bank Credit Agreement contains restrictions that may limit our flexibility in operating our business." below.

Our restructuring activities may subject us to additional uncertainty in our operating results.

We have implemented, and plan to continue to implement, restructuring programs designed to facilitate key strategic initiatives and maintain long-term sustainable growth. As such, we have incurred and expect to continue to incur expense relating to restructuring activities. We may not achieve or sustain the anticipated benefits of these programs. Further, restructuring efforts are inherently risky, and we may not be able to predict the cost and timing of such actions accurately or properly estimate their impact. We also may not be able to realize the anticipated savings we expect from restructuring activities.

Available insurance coverage, the number of future asbestos-related claims and the average settlement value of current and future asbestos-related claims of certain subsidiaries could be different than we have estimated, which could materially and adversely affect our business, financial condition and results of operations.

Certain subsidiaries are each one of many defendants in a large number of lawsuits that claim personal injury as a result of exposure to asbestos from products manufactured with components that are alleged to have contained asbestos. Such components were acquired from third-party suppliers and were not manufactured by any of our subsidiaries nor were the subsidiaries producers or direct suppliers of asbestos. For the purposes of our financial statements, we have estimated the future claims exposure and the amount of insurance available based upon certain assumptions with respect to future claims and liability costs. We estimate the liability costs to be incurred in resolving pending and forecasted claims for the next 15-year period.

Our decision to use a 15-year period is based on our belief that this is the extent of our ability to forecast liability costs. We also estimate the amount of insurance proceeds available for such claims based on the current financial strength of the various insurers, our estimate of the likelihood of payment and applicable current law. We reevaluate these estimates regularly. Although we believe our current estimates are reasonable, a change in the time period used for forecasting our liability costs, the actual number of future claims brought against us, the cost of resolving these claims, the likelihood of payment by, and the solvency of, insurers and the amount of remaining insurance available could be substantially different than our estimates, and future revaluation of our liabilities and insurance recoverables could result in material adjustments to these estimates, any of which could materially and adversely affect our business, financial condition and results of operations. In addition, we incur defense costs related to those claims, a portion of which has historically been reimbursed by our insurers. We also incur litigation costs in connection with actions against certain of the subsidiaries' insurers relating to insurance coverage. While these costs may be significant, we may not be able to predict the amount or duration of such costs. Additionally, we may experience delays in receiving reimbursement from insurers, during which time we may be required to pay cash for settlement or legal defense costs. Any increase in the actual number of future claims brought against us, the defense costs of resolving these claims, the cost of pursuing claims against our insurers, the likelihood and timing of payment by, and the solvency of, insurers and the amount of remaining insurance available, could materially and adversely affect our business, financial condition and results of operations.

A material disruption at any of our manufacturing facilities could adversely affect our ability to generate sales and meet customer demand.

If operations at any of our manufacturing facilities were to be disrupted as a result of a significant equipment failure, natural disaster, power outage, fire, explosion, terrorism, cyber-based attack, adverse weather conditions, labor disputes or other reason, our financial performance could be adversely affected as a result of our inability to meet customer demand for our products. Interruptions in production could increase our costs and reduce our sales. Any interruption in production capability could require us to make substantial capital expenditures to remedy the situation, which could negatively affect our profitability and financial condition. Any recovery under our property damage and business interruption insurance policies may not offset the lost sales or increased costs that may be experienced during the disruption of operations, which could adversely affect our business, financial condition and results of operations.

Failure to comply with the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act or other applicable anti-bribery laws could have an adverse effect on our business.

The U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act and similar anti-bribery laws in other jurisdictions generally prohibit companies and their intermediaries from making improper payments for the purpose of obtaining or retaining business. Recent years have seen a substantial increase in anti-bribery law enforcement activity with more frequent and aggressive investigations and enforcement proceedings by both the Department of Justice and the U.S. Securities and Exchange Commission, increased enforcement activity by non-U.S. regulators and increases in criminal and civil proceedings brought against companies and individuals. Our policies mandate compliance with all anti-bribery laws. However, we operate in certain countries that are recognized as having governmental and commercial corruption. Our internal control policies and procedures may not always protect us from reckless or criminal acts committed by our employees or third-party intermediaries. Violations of these anti-bribery laws may result in criminal or civil sanctions, which could have a material adverse effect on our business, financial condition and results of operations. Furthermore, in the event that we believe or have reason to believe that our employees or agents have or may have violated applicable laws, including anti-corruption laws, we may be required to investigate or have outside counsel investigate the relevant facts and circumstances, which can be expensive and require significant time and attention from senior management.

We have done and may continue to do business in countries subject to U.S. sanctions and embargoes, and we may have limited managerial oversight over those activities. Failure to comply with various sanction and embargo laws may result in enforcement or other regulatory actions.

Certain of our independent foreign subsidiaries have conducted and may continue to conduct business in countries subject to U.S. sanctions and embargoes or may engage in business dealings with parties whose property or property interests may be blocked under non-country-specific U.S. sanctions programs, and we have limited managerial oversight over those activities. Failure to comply properly with various sanction and embargo laws to which we and our operations may be subject may result in enforcement or other regulatory actions. Specifically, from time to time, certain of our independent foreign subsidiaries sell products to companies and entities located in, or controlled by the governments of, certain countries that are or have previously been subject to sanctions and embargoes imposed by the U.S. government, United Nations or other countries where we maintain operations. With the exception of the U.S. sanctions against Cuba, the applicable sanctions and embargoes generally do not prohibit our foreign subsidiaries from selling non-U.S.-origin products and services to countries that are or have previously been subject to sanctions and embargoes. However, our U.S. personnel, each of our domestic subsidiaries, as well as our employees of foreign subsidiaries who are U.S. citizens, are prohibited from participating in, approving or otherwise facilitating any aspect of the business activities in those countries, including Syria. These constraints impose compliance cost and risk on our operations and may negatively affect the financial or operating performance of such business activities.

Our efforts to comply with U.S. and other applicable sanction and embargo laws may not be effective, and as a consequence we may face enforcement or other actions if our compliance efforts are not or are perceived as not being wholly effective. Actual or alleged violations of these laws could lead to substantial fines or other sanctions which could result in substantial costs. In addition, Syria, Iran and certain other sanctioned countries currently are identified by the U.S. State Department as state sponsors of terrorism, and have been subject to restrictive sanctions. Because certain of our independent foreign subsidiaries have contact with and transact limited business in certain U.S. sanctioned countries, including sales to enterprises controlled by agencies of the governments of such countries, our reputation may suffer due to our association with these countries, which may have a material adverse effect on the price of our shares and our business, financial condition and results of operations. In addition, certain U.S. states and municipalities have enacted legislation regarding investments by pension funds and other retirement systems in companies that have business activities or contacts with countries that have been identified as state sponsors of terrorism and similar legislation may be pending in other states. As a result, pension funds and other retirement systems may be subject to reporting requirements with respect to investments in companies such as Colfax or may be subject to limits or prohibitions with respect to those investments that may have a material adverse effect on the price of our shares and our business, financial condition and results of operations.

During the 2012 fiscal year a few of our independently-operated foreign subsidiaries which we acquired in 2012 made the final shipments necessary to wind down four sales agreements involving parties identified in section 560.304 of title 31 of the Code of Federal Regulations, which transactions were conducted in accordance with applicable U.S. and E.U. economic sanctions, statutes and regulations in effect at that time.

If we fail to comply with export control regulations, we could be subject to substantial fines or other sanctions.

Some of our products manufactured or assembled in the U.S. are subject to the U.S. Export Administration Regulations, administered by the U.S. Department of Commerce, Bureau of Industry and Security, which require that an export license is obtained before such products can be exported to certain countries. Additionally, some of our products are subject to the International Traffic in Arms Regulations, which restrict the export of certain military or intelligence-related items, technologies and services to non-U.S. persons. Failure to comply with these laws could harm our business by subjecting us to sanctions by the U.S. government, including substantial monetary penalties, denial of export privileges and debarment from U.S. government contracts. The occurrence of any of the foregoing could have a material and adverse effect on our business, financial condition and results of operations.

The majority of our sales are derived from international operations. We are subject to specific risks associated with international operations.
In the year ended December 31, 2015, we derived approximately 72% of our sales from operations outside of the U.S. and we have principal manufacturing facilities in 29 non-U.S. countries. Sales from international operations, export sales and the use of manufacturing facilities outside of the U.S. by us are subject to risks inherent in doing business outside the U.S. These risks include:

- economic or political instability;
- partial or total expropriation of international assets;
- limitations on ownership or participation in local enterprises;
- trade protection measures, including tariffs or import-export restrictions;
- currency exchange rate fluctuations and restrictions on currency repatriation;
- labor and employment laws that may be more restrictive than in the U.S.;
- significant adverse changes in taxation policies or other laws or regulations;
- unanticipated changes in laws and regulations or in how such provisions are interpreted or administered;
- difficulties in hiring and maintaining qualified staff; and
- the disruption of operations from political disturbances, terrorist activities, insurrection or war.

If any of these risks were to materialize, they may have a material adverse effect on our business, financial condition and results of operations.

If our employees represented by trade unions or works councils engage in a strike, work stoppage or other slowdown or if the representation committees responsible for negotiating with such trade unions or works councils are unsuccessful in negotiating new and acceptable agreements when the existing agreements with employees covered by collective bargaining expire, we could experience business disruptions or increased costs.

As of December 31, 2015, approximately 43% of our employees were represented by a number of different trade unions and works councils. Further, as of that date, we had approximately 13,800 employees, representing 81% of our worldwide employee base, in foreign locations. In Canada, Australia and various countries in Europe, Asia, and Central and South America, by law, certain of our employees are represented by a number of different trade unions and works councils, which subject us to employment arrangements very similar to collective bargaining agreements. Further, the laws of certain foreign countries may place restrictions on our ability to take certain employee-related actions or require that we conduct additional negotiations with trade unions, works councils or other governmental authorities before we can take such actions.

If our employees represented by trade unions or works councils were to engage in a strike, work stoppage or other slowdown in the future, we could experience a significant disruption of our operations. Such disruption could interfere with our business operations and could lead to decreased productivity, increased labor costs and lost revenue. The representation committees that negotiate with the foreign trade unions or works councils on our behalf may not be successful in negotiating new collective bargaining agreements or other employment arrangements when the current ones expire. Furthermore, future labor negotiations could result in significant increases in our labor costs. The occurrence of any of the foregoing could have a material adverse effect on our business, financial condition and results of operations.

Our manufacturing business is subject to the possibility of product liability lawsuits, which could harm our business.

As the manufacturer of equipment for use in industrial markets, we face an inherent risk of exposure to product liability claims. Our products may not be free from defects. In addition, some of our products contain components manufactured by third parties, which may also have defects. Our product liability insurance policies have limits that may not be sufficient to cover claims made. In addition, this insurance may not continue to be available at a reasonable cost. With respect to components manufactured by third-party suppliers, the contractual indemnification that we seek from our third-party suppliers may be limited and thus insufficient to cover claims made against us. If insurance coverage or contractual indemnification is insufficient to satisfy product liability claims made against us, the claims could have an adverse effect on our business and financial condition. Even claims without merit could harm our reputation, reduce demand for our products, cause us to incur substantial legal costs and distract the attention of our management. The occurrence of any of the foregoing could have a material and adverse effect on our business, financial condition and results of operations.

As manufacturers, we are subject to a variety of environmental and health and safety laws for which compliance, or liabilities that arise as a result of noncompliance, could be costly.

Our businesses are subject to international, federal, state and local environmental and safety laws and regulations, including laws and regulations governing emissions of: regulated air pollutants; discharges of wastewater and storm water; storage and handling of raw materials; generation, storage, transportation and disposal of regulated wastes; and laws and regulations governing worker safety. These requirements impose on our businesses certain responsibilities, including the obligation to obtain and maintain various environmental permits. If we were to fail to comply with these requirements or fail to obtain or maintain a required permit, we could be subject to penalties and be required to undertake corrective action measures to achieve compliance. In addition, if our noncompliance with such regulations were to result in a release of hazardous materials into the environment, such as soil or groundwater, we could be required to remediate such contamination, which could be costly. Moreover, noncompliance could subject us to private claims for property damage or personal injury based on exposure to hazardous materials or unsafe working conditions. In addition, changes in applicable requirements or stricter interpretation of existing requirements may result in costly compliance requirements or otherwise subject us to future liabilities. The occurrence of any of the foregoing could have a material adverse effect on our business, financial condition and results of operations.

As the present or former owner or operator of real property, or generator of waste, we could become subject to liability for environmental contamination, regardless of whether we caused such contamination.

Under various federal, state and local laws, regulations and ordinances, and, in some instances, international laws, relating to the protection of the environment, a current or former owner or operator of real property may be liable for the cost to remove or remediate contamination on, under, or released from such property and for any damage to natural resources resulting from such contamination. Similarly, a generator of waste can be held responsible for contamination resulting from the treatment or disposal of such waste at any off-site location (such as a landfill), regardless of whether the generator arranged for the treatment or disposal of the waste in compliance with applicable laws. Costs associated with liability for removal or remediation of contamination or damage to natural resources could be substantial and liability under these laws may attach without regard to whether the responsible party knew of, or was responsible for, the presence of the contaminants. In addition, the liability may be joint and several. Moreover, the presence of contamination or the failure to remediate contamination at our properties, or properties for which we are deemed responsible, may expose us to liability for property damage or personal injury, or materially adversely affect our ability to sell our real property interests or to borrow using the real property as collateral. We could be subject to environmental liabilities in the future as a result of historic or current operations that have resulted or will result in contamination. The occurrence of any of the foregoing could have a material adverse effect on our business, financial condition and results of operations.

Failure to maintain and protect our intellectual property rights or challenges to these rights by third parties may affect our operations and financial performance.

The market for many of our products is, in part, dependent upon patent, trademark, copyright and trade secret laws, agreements with employees, customers and other third parties to establish and maintain our intellectual property rights, and the goodwill engendered by our trademarks and trade names. The protection of these intellectual property rights is therefore material to a portion of our businesses. The failure to protect these rights may have a material adverse effect on our business, financial condition and results of operations. Litigation may be required to enforce our intellectual property rights, protect our trade secrets or determine the validity and scope of proprietary rights of others. It may be particularly difficult to enforce our intellectual property rights in countries where such rights are not highly developed or protected. Any action we take to protect our intellectual property rights could be costly and could absorb significant management time and attention. As a result of any such litigation, we could lose any proprietary rights we have.

In addition, third parties may claim that we or our customers are infringing upon their intellectual property rights. Claims of intellectual property infringement may subject us to costly and time-consuming defense actions and, should defenses not be successful, may result in the payment of damages, redesign of affected products, entry into settlement or license agreements, or a temporary or permanent injunction prohibiting us from manufacturing, marketing or selling certain of our products. It is also possible that others will independently develop technology that will compete with our patented or unpatented technology. The occurrence of any of the foregoing could have a material and adverse effect on our business, financial condition and results of operations.

The loss of key leadership could have a material adverse effect on our ability to run our business.

We may be adversely affected if we lose members of our senior leadership. We are highly dependent on our senior leadership team as a result of their expertise in our industry and our business. The loss of key leadership or the inability to attract, retain and motivate sufficient numbers of qualified management personnel could have a material adverse effect on our business, financial condition and results of operations.

The 2015 Deutsche Bank Credit Agreement contains restrictions that may limit our flexibility in operating our business.

The 2015 Deutsche Bank Credit Agreement contains various covenants that limit our ability to engage in specified types of transactions. These covenants limit our ability to, among other things:

- incur additional indebtedness;
- make certain investments;
- create liens on certain assets to secure debt; and
- consolidate, merge, sell or otherwise dispose of all or substantially all our assets.

In addition, under the 2015 Deutsche Bank Credit Agreement, we are required to satisfy and maintain compliance with a total leverage ratio and an interest coverage ratio. Limitations imposed by the 2015 Deutsche Bank Credit Agreement's various covenants could have a materially adverse effect on our business, financial condition and results of operations.

Any impairment in the value of our intangible assets, including Goodwill, would negatively affect our operating results and total capitalization.

Our Total assets reflect substantial intangible assets, primarily Goodwill. The Goodwill results from our acquisitions, representing the excess of cost over the fair value of the net assets we have acquired. We assess at least annually whether there has been impairment in the value of our indefinite-lived intangible assets. If future operating performance at one or more of our business units were to fall significantly below current levels, if competing or alternative technologies emerge, or if market conditions for an acquired business decline, we could incur, under current applicable accounting rules, a non-cash charge to operating earnings for Goodwill impairment. Any determination requiring the write-off of a significant portion of unamortized intangible assets would adversely affect our business, financial condition, results of operations and total capitalization, the effect of which could be material.

Our defined benefit pension plans and post-retirement medical and death benefit plans are or may become subject to funding requirements or obligations that could adversely affect our business, financial condition and results of operations.

We operate defined benefit pension plans and post-retirement medical and death benefit plans for our current and former employees worldwide. Each plan’s funding position is affected by the investment performance of the plan’s investments, changes in the fair value of the plan’s assets, the type of investments, the life expectancy of the plan’s members, changes in the actuarial assumptions used to value the plan’s liabilities, changes in the rate of inflation and interest rates, our financial position, as well as other changes in economic conditions. Furthermore, since a significant proportion of the plans’ assets are invested in publicly traded debt and equity securities, they are, and will be, affected by market risks. Any detrimental change in any of the above factors is likely to worsen the funding position of each of the relevant plans, and this is likely to require the plans’ sponsoring employers to increase the contributions currently made to the plans to satisfy our obligations. Any requirement to increase the level of contributions currently made could have a material adverse effect on our business, financial condition and results of operations.

Significant movements in foreign currency exchange rates may harm our financial results.

We are exposed to fluctuations in currency exchange rates. During the year ended December 31, 2015, approximately 72% of our sales were derived from operations outside the U.S. A significant portion of our revenues and income are denominated in foreign currencies. Large fluctuations in the rate of exchange between foreign currencies and the U.S. dollar could have a material adverse effect on our business, financial condition and results of operations. Changes in the currency exchange rates may impact the financial results positively or negatively in one period and not another, which may make it difficult to compare our operating results from different periods.

We also face exchange 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. Further, we may be subject to foreign currency translation losses depending upon whether foreign nations devalue their currencies, movements in exchange rates between highly inflationary currencies and our reporting currency and the amount of monetary assets and liabilities included in the balance sheets of our operations denominated in currencies considered to be highly inflationary.

We have generally accepted the exposure to exchange rate movements in translation 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 Consolidated Financial Statements.

We are dependent on the availability of raw materials, as well as parts and components used in our products.

While we manufacture many of the parts and components used in our products, we purchase a substantial amount of raw materials, parts and components from suppliers. The availability and prices for raw materials, parts and components may be subject to curtailment or change due to, among other things, suppliers’ allocations to other purchasers, interruptions in production by suppliers, changes in exchange rates and prevailing price levels. Any significant change in the supply of, or price for, these raw materials, parts or components could materially affect our business, financial condition and results of operations. In addition, delays in delivery of raw materials, parts or components by suppliers could cause delays in our delivery of products to our customers.

We are currently working to streamline our supplier base. However, this could exacerbate certain of the risks described above. For example, as a result of maintaining relationships with fewer suppliers, we may become more dependent on such suppliers having adequate quantities of raw materials, parts or components that satisfy our requirements at prices that we consider appropriate, and on the timely delivery of such raw materials, parts or components to us. In addition, as a result of maintaining relationships with fewer suppliers, it may be more difficult or impossible to obtain raw materials, parts or components from alternative sources when such components and raw materials are not available from our regular suppliers.

New regulations and customer preferences reflecting an increased focus on environmental, social and governance responsibility may impose additional costs on us and expose us to new risks, including with respect to the sourcing of our products.

Regulators, stockholders and other interested constituencies have focused increasingly on the environmental, social and governance practices of companies, which has resulted in new regulations that may impose costs on us and expose us to new risks.

We may be subject to additional regulations in the future arising from the increased focus on environmental, social and governance responsibility. In addition, our customers may require us to implement environmental, social or governance responsibility procedures or standards before they will continue to do business with us. The occurrence of any of the foregoing could have a material adverse effect on the price of our shares and our business, financial condition and results of operations.

In addition to the regulations noted above, our businesses are subject to extensive regulation by U.S. and non-U.S. governmental and self-regulatory entities at the supranational, federal, state, local and other jurisdictional levels. The regulations we are subject to have tended to become more stringent over time and may be inconsistent across jurisdictions. We, our representatives and the industries in which we operate may at times be under review and/or investigation by regulatory authorities. Failure to comply (or any alleged or perceived failure to comply) with the regulations referenced above or any other regulations could result in civil and criminal, monetary and non-monetary penalties, and any such failure or alleged failure (or becoming subject to a regulatory enforcement investigation) could also cause damage to our reputation, disrupt our business, limit our ability to manufacture, import, export and sell products and services, result in loss of customers and disbarment from selling to certain federal agencies and cause us to incur significant legal and investigatory fees. Compliance with these and other regulations may also affect our returns on investment, require us to incur significant expenses or modify our business model or impair our flexibility in modifying product, marketing, pricing or other strategies for growing our business.

Our information technology infrastructure could be subject to service interruptions, data corruption, cyber-based attacks or network security breaches, which could result in the disruption of operations or the loss of data confidentiality.

We rely on information technology networks and systems, including the Internet, to process, transmit and store electronic information, and to manage or support a variety of business processes and activities, including procurement, manufacturing, distribution, invoicing and collection. These technology networks and systems may be susceptible to damage, disruptions or shutdowns due to failures during the process of upgrading or replacing software, databases or components, power outages, hardware failures or computer viruses. If these information technology systems suffer severe damage, disruption or shutdown and business continuity plans do not effectively resolve the issues in a timely manner, our business, financial condition and results of operations could be materially adversely affected.

In addition, information technology security threats and sophisticated computer crime, including advanced persistent threats such as attempts to gain unauthorized access to our systems, are increasing in sophistication and frequency. We have experienced, and expect to continue to confront attempts from hackers and other third parties to gain unauthorized access to our information technology systems and networks. Although these attacks to date have not had a material impact on us, we could in the future experience attacks that could have a material adverse effect on our financial condition, results of operations or liquidity. While we actively manage information technology risks within our control, we can provide no assurance that our actions will be successful in eliminating or mitigating risks to our systems, networks and data. A failure of or breach in information technology security of our own systems, or those of our third-party vendors, could expose us and our customers, dealers and suppliers to risks of misuse of information or systems, the compromise of confidential information, manipulation and destruction of data, defective products, production downtimes and operations disruptions. Any of these events in turn could adversely affect our reputation, competitive position, business and results of operations. In addition, such breaches in security could result in litigation, regulatory action and potential liability, as well as the costs and operational consequences of implementing further data protection measures.

We may be subject to risks arising from changes in technology.

The supply chains in which we operate are subject to technological changes and changes in customer requirements. We may not successfully develop new or modified types of products or technologies that may be required by our customers in the future. Further, the development of new technologies by competitors that may compete with our technologies could reduce demand for our products and affect our financial performance. Should we not be able to maintain or enhance the competitive values of our products or develop and introduce new products or technologies successfully, or if new products or technologies fail to generate sufficient revenues to offset research and development costs, our business, financial condition and operating results could be materially adversely affected.

The markets we serve are highly competitive and some of our competitors may have superior resources. If we are unable to respond successfully to this competition, this could reduce our sales and operating margins.

We sell most of our products in highly fragmented and competitive markets. We believe that the principal elements of competition in our markets are:

- the ability to meet customer specifications;
- application expertise and design and engineering capabilities;
- product quality and brand name;
- timeliness of delivery;
- price; and
- quality of aftermarket sales and support.

In order to maintain and enhance our competitive position, we intend to continue investing in manufacturing quality, marketing, customer service and support and distribution networks. We may not have sufficient resources to continue to make these investments and we may not be able to maintain our competitive position. Our competitors may develop products that are superior to our products, develop methods of more efficiently and effectively providing products and services, or adapt more quickly than us to new technologies or evolving customer requirements. Some of our competitors may have greater financial, marketing and research and development resources than we have. As a result, those competitors may be better able to withstand the effects of periodic economic downturns. In addition, pricing pressures could cause us to lower the prices of some of our products to stay competitive. We may not be able to compete successfully with our existing competitors or with new competitors. If we fail to compete successfully, the failure may have a material adverse effect on our business, financial condition and results of operations.

Changes in our tax rates or exposure to additional income tax liabilities could adversely affect our financial results.

Our future effective income tax rates could be unfavorably affected by various factors including, among others, changes in the tax rates, rules and regulations in jurisdictions in which we generate income or the repatriation of income held in foreign jurisdictions. Our Cash and cash equivalents as of December 31, 2015 includes $186.9 million held in jurisdictions outside the U.S., which may be subject to U.S. income tax if repatriated into the U.S. and other restrictions. In addition, the U.S. and foreign countries have considered changes to existing tax laws, including allowing existing provisions to expire, that could significantly impact the treatment of income earned outside the U.S. An increase in our effective tax rate could have a material adverse effect on our after-tax results of operations.

In addition, the amount of income taxes we pay is subject to ongoing audits by U.S. federal, state and local tax authorities and by non-U.S. tax authorities. If these audits result in assessments different from amounts recorded, our future financial results may include unfavorable tax adjustments.

Risks and Other Considerations Related to our Common Stock

The issuances of additional Common and Preferred stock or the resale of previously restricted Common stock may adversely affect the market price of Colfax Common stock.

Pursuant to certain registration rights agreements we have entered with Mitchell P. Rales, Steven M. Rales, BDT CF Acquisition Vehicle, LLC, and Markel Corporation (collectively, the “Investors”), the Investors and their permitted transferees have registration rights for the resale of certain shares of Colfax Common stock. These registration rights would facilitate the resale of such securities into the public market, and any such resale would increase the number of shares of Colfax Common stock available for public trading. Sales by the Investors or their permitted transferees of a substantial number of shares of Colfax Common stock in the public market, or the perception that such sales might occur, could have a material adverse effect on the price of Colfax Common stock.

Additionally, under our Amended and Restated Certificate of Incorporation, there are additional authorized shares of Colfax Common stock. Furthermore, we may issue a significant number of additional shares, in connection with acquisitions or otherwise. We also may issue a significant number of additional shares, either through an existing shelf registration statement or through other mechanisms. Additional shares issued would have a dilutive effect on our earnings per share.

Provisions in our governing documents and Delaware law, and the percentage of Common stock owned by our largest stockholders, may delay or prevent an acquisition of Colfax that may be beneficial to our stockholders.

Our Amended and Restated Certificate of Incorporation, Amended and Restated Bylaws, and Delaware law contain provisions that may make it difficult for a third party to acquire us without the consent of our Board of Directors. These include provisions prohibiting stockholders from taking action by written consent, prohibiting special meetings of stockholders called by stockholders, prohibiting stockholder nominations and approvals without complying with specific advance notice requirements, and mandating certain procedural steps for stockholders who wish to introduce business or nominate a director candidate. In addition, our Board of Directors has the right to issue Preferred stock without stockholder approval, which our Board of Directors could use to effect a rights plan or "poison pill" that could dilute the stock ownership of a potential hostile acquirer and may have the effect of delaying, discouraging or preventing an acquisition of Colfax. Delaware law also imposes some restrictions on mergers and other business combinations between Colfax and any holder of 15% or more of its outstanding voting stock.

In addition, the percentage of Colfax Common stock owned Mitchell P. Rales, Steven M. Rales, and BDT Capital Partners, LLC and its affiliates could discourage a third party from proposing a change of control or other strategic transaction concerning Colfax.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate headquarters are located in Annapolis Junction, Maryland in a facility that we lease. As of December 31, 2015, our gas- and fluid-handling reportable segment had 9 principal production facilities in the U.S. representing approximately 982,000 and 38,000 square feet of owned and leased space, respectively, and 47 principal production facilities in 22 different countries in Asia, Europe, the Americas, Australia and South Africa, representing a total of 2.9 million and 0.7 million square feet of owned and leased space, respectively. Additionally, as of December 31, 2015, our fabrication technology operating segment had a total of 6 production facilities in the U.S., representing a total of 1.3 million and 0.4 million square feet of owned and leased space, and 31 production facilities outside the U.S., representing a total of 7.5 million and 2.0 million square feet of owned and leased space, respectively, in 17 countries in Australia, Central and Eastern Europe, Central and South America and Asia.

Item 3. Legal Proceedings

Discussion of legal matters is incorporated by reference to Part II, Item 8, Note 15, "Commitments and Contingencies," in the Notes to the Consolidated Financial Statements.

Item 4. Mine Safety Disclosures

None.

EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below are the names, ages, positions and experience of our executive officers. All of our executive officers hold office at the pleasure of our Board of Directors.

Name	Age	Position
Matthew L. Trerotola	48	President and Chief Executive Officer and Director, Colfax Corporation
		President and Chief Executive Officer, ESAB Global
C. Scott Brannan	57	Senior Vice President, Finance, Chief Financial Officer and Treasurer
Daniel A. Pryor	47	Executive Vice President, Strategy and Business Development
Ian Brander	54	Chief Executive Officer, Howden
Lynn Clark	58	Senior Vice President, Global Human Resources
Darryl Mayhorn	51	Senior Vice President, President and CEO of Colfax Fluid Handling
A. Lynne Puckett	53	Senior Vice President, General Counsel and Secretary
Stephen J. Wittig	53	Senior Vice President, Colfax Business System and Supply Chain Strategy

Matthew L. Trerotola has been President and Chief Executive Office since July 2015. Prior to joining Colfax, Mr. Trerotola was an Executive Vice President and a member of DuPont's Office of the Chief Executive, responsible for DuPont's Electronics & Communications and Safety & Protection segments. Mr. Trerotola also had corporate responsibility for DuPont's Asia-Pacific business. Many of Mr. Trerotola's roles at DuPont involved applying innovation to improve margins and accelerate organic growth in global businesses. Prior to rejoining DuPont in 2013, Mr. Trerotola had served in leadership roles at Danaher since 2007, and was most recently Vice President and Group Executive for Life Sciences. Previously, Mr. Trerotola was Group Executive for Product Identification from 2009 to 2012, and President of the Videojet business from 2007 to 2009. While at McKinsey & Company from 1995 to 1999, Mr. Trerotola focused primarily on helping industrial companies accelerate growth. Mr. Trerotola earned his M.B.A. from Harvard Business School and his B.S. in Chemical Engineering from the University of Virginia.

C. Scott Brannan has been the Senior Vice President, Finance, Chief Financial Officer and Treasurer since October 2010. Mr. Brannan served on the Colfax Board of Directors and was Chairman of the Audit Committee from 2008 to September 2010. Prior to joining Colfax in his current role, he was a partner at Aronson & Company, a public accounting firm, from 2003 to 2010. He was also previously employed at Danaher Corporation for 12 years in roles of increasing responsibility, including Chief Accounting Officer, Controller and Vice President of Administration. Prior to Danaher Corporation, he spent 8 years with Arthur Andersen & Co. He holds bachelors and masters degrees in accounting from Loyola University Maryland and is a certified public accountant.

Daniel A. Pryor has served as our Executive Vice President, Strategy and Business Development since July 2013. Mr. Pryor was Senior Vice President, Strategy and Business Development from January 2011 through July 2013. Prior to joining Colfax, he was a Partner and Managing Director with The Carlyle Group, a global alternative asset manager, where he focused on industrial leveraged buyouts and led numerous portfolio company and follow-on acquisitions. While at The Carlyle Group, he served on the boards of portfolio companies Veyance Technologies, Inc., John Maneely Co., and HD Supply Inc. Prior to The Carlyle Group, he spent 11 years at Danaher Corporation in roles of increasing responsibility, most recently as Vice President - Strategic Development. Mr. Pryor earned his M.B.A. from Harvard Business School and his B.A. in Economics from Williams College.

Ian Brander has been the Chief Executive Officer of Howden since August 1, 2011. Prior to becoming Chief Executive Officer of Howden, he served as Operations Director beginning in 2008. His experience includes over 20 years at Howden in various roles in technical, project, commercial and general management positions associated with a wide range of products. He holds a Mechanical Engineering degree from the University of Strathclyde.

Lynn Clark has been the Senior Vice President, Global Human Resources since January 2013. Prior to joining Colfax, she served as senior vice president, global human resources for Mead Johnson Nutrition. Ms. Clark held roles of increasing responsibility in human resources at Bristol-Myers Squibb from 2001 to 2009, and prior to this, with Lucent Technologies and Allied Signal Corporation. Prior to her experience in human resources, she worked for 15 years in sales and marketing. Ms. Clark has a bachelor of science in education and a master of science in college student personnel from Bowling Green University in Ohio.

Darryl Mayhorn has been the Senior Vice President, President and CEO of Colfax Fluid Handling since July 2014. Prior to joining Colfax, Mr. Mayhorn was President of the Rexnord Aerospace Group from 2008 to 2014 and was previously the Chief Human Resources Officer of Rexnord Corporation. His professional career includes leadership roles at various global industrial companies, including Danaher Corporation and Eaton Corporation. Mr. Mayhorn is an alumnus of the University of Missouri, where he earned a Bachelor of Science degree in Business Administration. He has a master’s degree in business administration from St. Louis University.

A. Lynne Puckett has served as our Senior Vice President, General Counsel and Secretary since September 2010. Prior to joining Colfax, she was a Partner with the law firm of Hogan Lovells US LLP from 1999 to 2010. Her experience includes a broad range of corporate and transactional matters, including mergers and acquisitions, venture capital financings, debt and equity offerings, and general corporate and securities law matters. Before entering the practice of law, Ms. Puckett worked for the U.S. Central Intelligence Agency and a major U.S. defense contractor. Ms. Puckett holds a J.D. from the University of Maryland School of Law and a B.S. degree from James Madison University.

Stephen J. Wittig has been the Senior Vice President, Colfax Business System and Supply Chain Strategy since August 2011. Prior to joining Colfax, he was the Vice President of Lean Manufacturing and Six Sigma for the Masco Cabinet Group of Masco Corporation. His experience includes over 20 years of experience in engineering, manufacturing, logistics and supply chain management and held a number of operations positions with Lear Corporation, Preferred Technical Group, Sumitomo Electric and United Technologies. He has also been a member of the adjunct faculty in the School of Management with the University of Michigan where he taught a number of operations management courses. Mr. Wittig is a Six Sigma Master Black Belt with a certification from the Juran Institute. He holds his M.S. in Engineering from the University of Michigan and his B.S. in Industrial Engineering from Kettering University (formerly General Motors Institute).

PART II
Item 5. Market for the Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our Common stock began trading on the New York Stock Exchange under the symbol CFX on May 8, 2008. As of February 2, 2016, there were 30,600 holders of record of our Common stock. The high and low sales prices per share of our Common stock, as reported on the New York Stock Exchange, for the fiscal periods presented are as follows:

	Year Ended December 31,			
	2015		2014	
	High	Low	High	Low
First Quarter	$53.59	$42.86	$72.56	$58.30
Second Quarter	$53.17	$46.32	$75.37	$67.16
Third Quarter	$46.92	$30.21	$75.26	$56.23
Fourth Quarter	$32.23	$21.76	$58.63	$45.48

We have not paid any dividends on our Common stock since inception, and we do not anticipate the declaration or payment of dividends at any time in the foreseeable future.

Performance Graph

The graph below compares the cumulative total stockholder return on our Common stock with the cumulative total return of the Russell 2000 Index and the Standard & Poor’s (“S&P”) Industrial Machinery Index. The graph assumes that $100 was invested on December 31, 2010 in each of our Common stock, the Russell 2000 Index and the S&P Industrial Machinery Index, and that all dividends were reinvested.

Issuer Purchase of Equity Securities

On October 11, 2015, the Company's Board of Directors authorized the repurchase of up to $100.0 million of the Company's Common stock from time-to-time on the open market or in privately negotiated transactions. The repurchase program is authorized until December 31, 2016 and is being conducted pursuant to SEC Rule 10b-18. The timing and amount of shares repurchased is to be determined by management based on its evaluation of market conditions and other factors. For the period January 1, 2016 to February 3, 2016 the Company repurchased 1,000,000 shares of the Company's Common stock at an average price paid per share of $20.81 under a plan complying with Rule 10b5-1 under the Securities Exchange Act of 1934 ("10b5-1 Plan").

The following table presents certain information with respect to our common stock repurchases during the fourth quarter of 2015:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs
9/26/15 - 10/23/15	480,539	27.84	480,539	86,621,794
10/24/15 - 11/20/15	505,740	27.66	505,740	72,633,026
11/21/15 - 12/31/15	—	—	—	72,633,026
Total	986,279	27.75 [1]	986,279	72,633,026 [2]

(1) Represents the weighted-average price paid per share during the fourth quarter of 2015.
(2) Represents the repurchase program limit authorized by the Board of Directors of $100.0 million less the value of purchases made during the fourth quarter of 2015.

There were no Common stock repurchases during 2014 or 2013.

Item 6. Selected Financial Data

	Year Ended and As of December 31, 2015[1]	2014[2]	2013[3]	2012[4]	2011[5]
	(In thousands, except per share data)				
Statement of Income Data:					
Net sales	$3,967,053	$4,624,476	$4,207,209	$3,913,856	$693,392
Cost of sales	2,715,279	3,145,631	2,900,987	2,761,731	453,293
Gross profit	1,251,774	1,478,845	1,306,222	1,152,125	240,099
Selling, general and administrative expense	905,952	1,011,171	864,328	908,439	173,461
Charter acquisition-related expense	—	—	—	43,617	31,052
Restructuring and other related charges	61,177	58,121	35,502	60,060	9,680
Operating income	284,645	409,553	406,392	140,009	25,906
Interest expense	47,743	51,305	103,597	91,570	5,919
Provision for (benefit from) income taxes	49,724	(62,025)	93,652	90,703	15,432
Net income (loss)	187,178	420,273	209,143	(42,264)	4,555
Less: income attributable to noncontrolling interest, net of taxes	19,439	28,175	30,515	22,138	—
Dividends on preferred stock	—	2,348	20,396	18,951	—
Preferred stock conversion inducement payment	—	19,565	—	—	—
Net income (loss) available to Colfax Corporation common shareholders	$167,739	$370,185	$158,232	$(83,353)	$4,555
Net income (loss) per share—basic	$1.35	$3.06	$1.56	$(0.92)	$0.10
Net income (loss) per share—diluted	$1.34	$3.02	$1.54	$(0.92)	$0.10
Balance Sheet Data:					
Cash and cash equivalents	$197,469	$305,448	$311,301	$482,449	$75,108
Goodwill and Intangible assets, net	3,813,399	3,916,606	3,242,252	2,853,279	245,873
Total assets	6,732,919	7,211,517	6,593,679	6,122,092	1,087,531
Total debt, including current portion	1,417,547	1,536,810	1,479,586	1,720,676	110,506

(1) During 2015, we completed the acquisitions of Roots and Simsmart. See Note 4, "Acquisitions" in the accompanying Notes to Consolidated Financial Statements in this Form 10-K for additional information. In October 2015, we authorized the repurchase of up to $100.0 million of our Common Stock and we refinanced our debt in June 2015. See Note 11, "Equity" in the accompanying Notes to Consolidated Financial Statements in this Form 10-K and Part I, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" for additional information.

(2) During 2014, we completed the Victor Acquisition. See Note 4, "Acquisitions" in the accompanying Notes to Consolidated Financial Statements in this Form 10-K for additional information. In February 2014, we sold newly issued Common stock and entered into a Conversion Agreement with BDT CF Acquisition Vehicle, LLC (the "BDT Investor") pursuant to which the BDT Investor exercised its option to convert its shares of Series A Perpetual Convertible Preferred Stock into shares of our Common stock plus cash. See Note 11, "Equity" in the accompanying Notes to Consolidated Financial Statements in this Form 10-K for additional information.

(3) During 2013, we completed the acquisitions of GII, Clarus, TLT-Babcock, Alphair, ČKDK and Sicelub and increased our ownership of Soldex. In February 2013 and November 2013, we refinanced our Debt, and in May 2013 we sold newly issued Common stock. See Note 4, "Acquisitions" in the accompanying Notes to Consolidated Financial Statements in this Form 10-K and Part I, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" for additional information.

(4) During 2012, we completed the acquisitions of Charter, Soldex and Co-Vent and increased our ownership of ESAB India Limited ("ESAB India") and CJSC Sibes. The Charter Acquisition transformed Colfax from a fluid-handling business into a multi-platform enterprise with a broad global footprint, which makes financial comparison to previous periods difficult. Additionally, in conjunction with the Charter Acquisition in January 2012, we refinanced our Debt and sold newly issued Common stock and Series A Preferred Stock. In March 2012, we sold newly issued Common stock. See Part I, Item 1. "Business," Note 4, "Acquisitions" in the accompanying Notes to Consolidated Financial Statements in this Form 10-K and Part I, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" for additional information.

(5) During 2011, we completed the acquisitions of Rosscor and COT-Puritech in February and December, respectively. See Part I, Item 1. "Business" and Note 4, "Acquisitions" in the accompanying Notes to Consolidated Financial Statements in this Form 10-K for additional information.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is designed to provide a reader of our financial statements with a narrative from the perspective of Company's management. This MD&A is divided into four main sections:

- Overview
- Results of Operations
- Liquidity and Capital Resources
- Critical Accounting Policies

The following MD&A should be read together with Item 6. "Selected Financial Data", Part I, Item 1A. "Risk Factors" and the accompanying Consolidated Financial Statements and Notes to Consolidated Financial Statements included in this Form 10-K. The MD&A includes forward-looking statements. For a discussion of important factors that could cause actual results to differ materially from the results referred to in these forward-looking statements, see "Special Note Regarding Forward-Looking Statements."

Overview

Please see Part I, Item 1. "Business" for a discussion of Colfax's objectives and methodologies for delivering shareholder value. We report our operations through the following reportable segments:

- Gas and Fluid Handling - a global supplier of a broad range of gas- and fluid-handling products, including heavy-duty centrifugal and axial fans, rotary heat exchangers, gas compressors, pumps, fluid-handling systems and controls and specialty valves, which serves customers in the power generation, oil, gas and petrochemical, mining, marine (including defense) and general industrial and other end markets; and
- Fabrication Technology - a global supplier of welding equipment and consumables, cutting equipment and consumables and automated welding and cutting systems.

Certain amounts not allocated to the two reportable segments and intersegment eliminations are reported under the heading "Corporate and other."

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

We employ a comprehensive set of tools that we refer to as 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.

Outlook

We believe that we are well positioned to grow our businesses organically over the long term by enhancing our product offerings and expanding our customer base. Our business mix is expected to be well balanced between long- and short-cycle businesses, sales in emerging markets and developed nations and fore- and aftermarket products and services. Given this balance, management does not use indices other than general economic trends to predict the overall outlook for the Company. Instead, the individual businesses monitor key competitors and customers, including to the extent possible their sales, to gauge relative performance and outlook for the future.

We face a number of challenges and opportunities, including the successful integration of new acquisitions, application and expansion of our CBS tools to improve margins and working capital management, rationalization of assets and back office functions, and consolidation of manufacturing facilities.

We expect to continue to grow as a result of strategic acquisitions. We believe that the extensive experience of our leadership team in acquiring and effectively integrating acquisition targets should enable us to capitalize on opportunities in the future.

Results of Operations

The following discussion of Results of Operations addresses the comparison of the periods presented. The Company's management evaluates the operating results of each of its reportable segments based upon Net sales and segment operating income (loss), which represents Operating income (loss) before Restructuring and other related charges.

Items Affecting Comparability of Reported Results

Our financial performance and growth are driven by many factors, principally our ability to serve global markets, fluctuations in the relationship of foreign currencies to the U.S. dollar, general economic conditions, the global economy and capital spending levels, the availability of capital, our estimates concerning the availability of insurance proceeds to cover asbestos litigation expense and liabilities, the amount of asbestos liabilities and litigation expense, the impact of restructuring initiatives, our ability to pass cost increases on through pricing, the impact of sales mix, and our ability to continue to grow through acquisitions. These key factors have impacted our results of operations in the past and are likely to affect them in the future.

Global Operations

Our products and services are available worldwide. The manner in which our products and services are sold differs by region. During 2015, approximately 74% of our sales were shipped to locations outside of the U.S. Accordingly, we are affected by levels of industrial activity and economic and political factors in countries throughout the world. Our ability to grow and our financial performance will be affected by our ability to address a variety of challenges and opportunities that are a consequence of our global operations, including efficiently utilizing our global sales, manufacturing and distribution capabilities, the expansion of market opportunities in Asia, successfully completing global strategic acquisitions and engineering innovative new product applications for end users in a variety of geographic markets. However, we believe that our geographic, end market and product diversification may limit the impact that any one country or economy could have on our consolidated results.

Foreign Currency Fluctuations

A significant portion of our Net sales, approximately 72% for the year ended December 31, 2015, 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.

In February 2015, the Venezuelan government introduced a marginal foreign exchange system ("SIMADI") which replaces an auction-based foreign exchange system that began operating on March 24, 2015 ("SICAD II"), which we previously used to remeasure our Venezuelan operations. During the year ended December 31, 2015, we have determined the SIMADI to be the most appropriate rate with which to remeasure or Venezuelan operations from the multiple current legal mechanisms in Venezuela to exchange currency. As of and for the year ended December 31, 2015, our Venezuelan operation represented less than 1% of our Total assets and Net sales. The foreign currency transaction loss recognized related to the adoption of the SIMADI did not have a material impact on our Consolidated Statement of Income for the year ended December 31, 2015.

The lift of currency controls in Argentina in December 2015 has caused the Argentine peso to devalue relative to the U.S. dollar. We may be subject to additional foreign currency losses depending on whether Argentina further devalues the peso. As of and for the year ended December 31, 2015, our Argentine operations represented less than 1% of our Total assets and approximately 2% of our Net sales.

We expect the impact of changes in foreign exchange rates to continue to negatively impact our overall results of operations in 2016 as a result of the strengthening of the U.S. dollar against most currencies.

Economic Conditions

Demand for our products depends on the level of new capital investment and planned maintenance by our customers. The level of capital expenditures depends, in turn, on the general economic conditions as well as access to capital at reasonable cost. Additionally, volatility in commodity prices, including oil, can negatively affect the level of these activities and can result in postponement of capital spending decisions or the delay or cancellation of existing orders. While demand can be cyclical, we believe that our diversified operations generally limit the impact of a downturn in any one market on our consolidated results. However, we are currently in the midst of a sustained decline in commodity prices, including oil, which has had a negative impact on the levels of capital invested and maintenance expenditures by certain of our customers which in turn has reduced the demand for our products and services.

Seasonality

As our gas- and fluid-handling customers seek to fully utilize capital spending budgets before the end of the year, historically our shipments have peaked during the fourth quarter. Also, all of our European operations typically experience a slowdown during the July and August and December holiday season. General economic conditions may, however, impact future seasonal variations.

Pricing

We believe our customers place a premium on quality, reliability, availability, design and application engineering support. Our highly engineered gas- and fluid-handling products typically have higher margins than products with commodity-like qualities. However, we are sensitive to price movements in our raw materials supply base. Our largest material purchases are for components and raw materials including steel, iron, copper and aluminum. Historically, we have been generally successful in passing raw material price increases on to our customers. While we seek to take actions to manage this risk, including commodity hedging where appropriate, such increased costs may adversely impact earnings.

Sales and Cost Mix

Our profit margins vary in relation to the relative mix of many factors, including the type of product, the geographic location in which the product is manufactured, the end market for which the product is designed, and the percentage of total revenue represented by consumables and aftermarket sales and services. Consumables are generally sold at lower margins in comparison to our foremarket products and equipment, whereas our aftermarket business, including spare parts and other value added services, is generally a higher margin business.

The mix of sales was as follows for the periods presented:

	Year Ended December 31,					
	2015		2014		2013	
Foremarket and equipment	45	%	47	%	47	%
Aftermarket and consumables	55	%	53	%	53	%

Strategic Acquisitions

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

Gas and Fluid Handling

On July 9, 2013, Colfax completed the acquisition of the common stock of Clarus for $13.2 million, which included the fair value of an estimated additional contingent cash payment of $2.5 million at the acquisition date. The additional contingent payment would be paid during the year ending December 31, 2016 subject to the achievement of certain performance goals. However, we do not expect the performance goals to be achieved. Clarus is a domestic supplier of flushing services for marine applications primarily to U.S. government agencies, with primary operations based in Bellingham, Washington.

On September 30, 2013, the Company completed the acquisitions of TLT-Babcock and Alphair for an aggregate purchase price of $55.7 million. TLT-Babcock and Alphair are suppliers of heavy duty and industrial fans in Akron, Ohio and Winnipeg, Manitoba, respectively.

On November 1, 2013, the Company completed the acquisition of ČKDK for $69.4 million, including the assumption of debt. ČKDK is a leading supplier of multi-stage centrifugal compressors to the oil & gas, petrochemical, power and steel industries, based in Prague, Czech Republic.

On November 25, 2013, the Company increased its ownership of Sicelub, previously a less than wholly owned subsidiary in which the Company did not have a controlling interest, from 44% to 100%. Sicelub provides flushing services to Central and South American customers primarily in the oil, gas and petrochemical end market.

On November 29, 2013, the Company completed the acquisition of GII for $246.0 million, including the assumption of debt, subject to certain adjustments. GII has operations around the world and expanded the Company's product offerings in the heavy duty industrial and cooling fan market.

On June 30, 2015, the Company completed the acquisition of Roots for $180.7 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 builds on Howden's global strength in compressors and blowers and adds important application expertise and product solutions to the portfolio.

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

Fabrication Technology

On April 14, 2014, Colfax completed the Victor Acquisition for net cash consideration of $948.8 million, subject to certain adjustments. Victor is a pre-eminent global manufacturer of cutting, gas control and specialty welding solutions. The acquisition complemented the geographic footprint of our fabrication technology segment and expanded our product portfolio into new applications.

Sales, Orders and Backlog

Our Net sales increased from $4.2 billion in 2013 to $4.6 billion in 2014. In 2015, our Net sales decreased to $4.0 billion. The following table presents the components of changes in consolidated Net sales and, for our gas- and fluid-handling segment, orders and order backlog:

	Net Sales		Orders[1]		Backlog at Period End	
	$	%	$	%	$	%
	(In millions)					
As of and for the year ended December 31, 2013	$4,207.2		$2,061.4		$1,577.4	
Components of Change:						
Existing businesses[2]	(79.0)	(1.9)%	(0.1)	— %	(42.9)	(2.7)%
Acquisitions[3]	635.2	15.1 %	251.7	12.2 %	—	— %
Foreign currency translation[4]	(138.9)	(3.3)%	(26.3)	(1.3)%	(132.2)	(8.4)%
	417.3	9.9 %	225.3	10.9 %	(175.1)	(11.1)%
As of and for the year ended December 31, 2014	$4,624.5		$2,286.7		$1,402.3	
Components of Change:						
Existing businesses[2]	(304.5)	(6.6)%	(287.1)	(12.6)%	(145.4)	(10.4)%
Acquisitions[3]	171.2	3.7 %	57.9	2.5 %	43.3	3.1 %
Foreign currency translation[4]	(524.1)	(11.3)%	(221.1)	(9.6)%	(159.3)	(11.3)%
	(657.4)	(14.2)%	(450.3)	(19.7)%	(261.4)	(18.6)%
As of and for the year ended December 31, 2015	$3,967.1		$1,836.4		$1,140.9	

[1] Represents contracts for products or services, net of cancellations for the period, for our gas- and fluid-handling segment.
[2] 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.
[3] Represents the incremental sales, orders and order backlog as a result of our acquisitions.
[4] Represents the difference between prior year sales, orders and order backlog valued at the actual prior year foreign exchange rates and prior year sales, orders and order backlog valued at current year foreign exchange rates.

The decrease in Net sales from existing businesses during 2015 compared to 2014 was attributable to decreases of $170.3 million and $134.2 million in our gas- and fluid-handling and fabrication technology segments, respectively. Orders, net of cancellations, from existing businesses for our gas- and fluid-handling segment decreased during 2015 in comparison to 2014 due to declining demand in all end markets from unfavorable domestic and international macroeconomic conditions.

The decrease in Net sales from existing businesses during 2014 compared to 2013 was attributable to decreases of $47.7 million and $31.3 million in our fabrication technology and gas- and fluid-handling segments, respectively. Orders, net of cancellations, from existing businesses for our gas- and fluid-handling segment were flat during 2014 in comparison to 2013 as declines in demand from the oil, gas and petrochemical, power generation and mining end markets were offset by growth in demand from the marine and general industrial and other end markets.

Business Segments

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

	Year Ended December 31,		
	2015	2014	2013
	(In millions)		
Gas and Fluid Handling	$1,981.8	$2,329.6	$2,104.0
Fabrication Technology	1,985.3	2,294.9	2,103.2
Total Net sales	$3,967.1	$4,624.5	$4,207.2

Gas and Fluid Handling

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

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

	Year Ended December 31,					
	2015		2014		2013	
	(Dollars in millions)					
Net sales	$1,981.8		$2,329.6		$2,104.0	
Gross profit	594.4		696.7		626.7	
Gross profit margin	30.0	%	29.9	%	29.8	%
Restructuring and other related charges	$31.5		$26.5		$10.4	
Selling, general and administrative expense	399.9		438.9		355.9	
Selling, general and administrative expense as a percentage of Net sales	20.2	%	18.8	%	16.9	%
Segment operating income	194.5		254.2		270.7	
Segment operating income margin	9.8	%	10.9	%	12.9	%

The $170.3 million Net sales decrease due to existing businesses, as discussed and defined under "Sales, Orders and Backlog" above, during 2015 in comparison to 2014 was primarily due to declines in the power generation, mining, and general industrial and other end markets, partially offset by growth in the marine and oil, gas, and petrochemical end markets. Additionally, changes in foreign exchange rates had a negative impact of $225.4 million, partially offset by acquisition related growth of $47.9 million. Gross profit decreased during 2015, which was primarily the result of changes in foreign exchange rates and lower volumes. Gross profit margin increased during 2015 in comparison to 2014 as improved margins through cost control and restructuring savings were more than sufficient to offset the impact of lower volumes. Restructuring and other related charges increased during 2015 primarily due to accelerated cost reduction programs to eliminate excess in the cost structure of the Company in response to the current challenging, cyclical economic conditions. Selling, general and administrative expense for 2015 decreased compared to 2014 primarily due to changes in foreign exchange rates, cost control activities and the impact of lower volumes, partially offset by acquisition-related growth, $8.1 million of charges associated with uncollectible accounts of a specific customer in South America, $2.8 million of asset impairment charges which includes a $1.7 million impairment loss related to a finite-lived intangible asset, approximately $8.0 million of transaction costs and year-one amortization charges associated with 2015 acquisitions, and a $4.1 million charge for revaluation of net asbestos-related liabilities. Additionally, Selling, general and administrative expense for 2014 includes a $13.4 million impairment loss related to identifiable intangible assets, a $4.0 million loss on disposition of a small fluid-handling business line and a $1.3 million foreign currency loss from the use of the SICAD II exchange rate at our Venezuelan fluid-handling business, partially offset by an unrealized gain of $2.9 million related to the Clarus contingent payment liability.

The $31.3 million Net sales decrease due to existing businesses, as discussed and defined under "Sales, Orders and Backlog" above, during 2014 in comparison to 2013 was primarily due to declines in the oil, gas and petrochemical, power generation and marine end markets, partially offset by growth in the mining and general industrial and other end markets. Additionally, Net sales increased by $287.9 million due to acquisitions and changes in foreign exchange rates had a negative impact of $31.0 million. Gross profit increased during 2014 reflecting the impact of acquisitions. Gross profit margin increased during 2014 in comparison to 2013 as improved margins through cost control and restructuring savings in our gas-handling business were more than sufficient to offset the lower margins of the acquired entities. Restructuring and other related charges increased during 2014 primarily due to an increase in restructuring actions to reduce structural costs and integrate the acquisitions made during the fourth quarter of 2013. Selling, general and administrative expense for 2014 increased compared to 2013 primarily as a result of a $66.3 million increase due to acquisitions and the specific 2014 charges discussed previously.

Fabrication Technology

We formulate, develop, manufacture and supply consumable products and equipment for use in the cutting and joining of steels, aluminum and other metals and metal alloys. Our fabrication technology products are marketed under several brand names, most notably ESAB and Victor, which we believe are well known in the international cutting and welding industry. ESAB's comprehensive range of cutting and welding consumables includes electrodes, cored and solid wire and fluxes. ESAB's fabrication technology equipment ranges from portable welding machines to large customized cutting and automated welding systems. The Victor Acquisition complemented the geographic footprint of our fabrication technology segment and expanded our cutting equipment and consumables, gas control and specialty welding product lines. Products are sold into a wide range of end markets, including oil & gas, power generation, wind power, shipbuilding, pipelines, mobile/off-highway equipment and mining.

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

	Year Ended December 31,					
	2015		2014		2013	
	(Dollars in millions)					
Net sales	$1,985.3		$2,294.9		$2,103.2	
Gross profit	657.4		782.1		679.6	
Gross profit margin	33.1	%	34.1	%	32.3	%
Restructuring and other related charges	$29.7		$31.6		$25.1	
Selling, general and administrative expense	459.1		516.3		459.9	
Selling, general and administrative expense as a percentage of Net sales	23.1	%	22.5	%	21.9	%
Segment operating income	$198.3		$265.8		$219.6	
Segment operating income margin	10.0	%	11.6	%	10.4	%

The Net sales decrease during 2015 compared to 2014 was primarily the result of a decrease in existing businesses of $134.2 million and changes in foreign exchange rates which had a negative impact of $298.7 million, partially offset by acquisition-related growth of $123.3 million. The $134.2 million Net sales decline due to existing businesses, as discussed and defined under "Sales, Orders and Backlog" above, during 2015 in comparison to 2014 was primarily the result of decreases in equipment sales and consumable volumes in most regions. Gross profit and gross profit margin for 2015 decreased reflecting changes in foreign exchange rates, lower volumes, mix impact from oil and gas and lower overall capital equipment spending. The decrease in Selling, general and administrative expense during 2015 was primarily due to changes in foreign exchange rates, cost control activities and the impact of lower volumes, partially offset by an acquisition-related increase of $24.1 million, and a $1.5 million impairment loss related to an identifiable intangible asset during 2015. Additionally, Selling, general and administrative expense for 2014 includes a $5.0 million loss from the use of the SICAD II exchange rate at our Venezuelan fabrication technology business, which did not repeat in 2015.

The $191.7 million Net sales increase during 2014 compared to 2013 was primarily the result of acquisition-related growth of $347.3 million, partially offset by changes in foreign exchange rates which had a negative impact of $107.9 million. The $47.7 million Net sales decline due to existing businesses, as discussed and defined under "Sales, Orders and Backlog" above, during 2014 in comparison to 2013 was primarily the result of decreases in consumable volumes in most geographies. Gross profit and gross profit margin for 2014 increased reflecting the positive impact of cost control activities. Additionally, Gross profit and gross profit margin during 2014 were positively impacted by the higher gross margins at Victor, which were partially offset by acquisition-related inventory step up expense of $9.0 million. The increase in Selling, general and administrative expense during 2014 was primarily due to an acquisition-related increase of $95.5 million and the foreign currency loss at our Venezuelan fabrication technology business discussed previously.

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Gross Profit - Total Company

	Year Ended December 31,		
	2015	2014	2013
	(Dollars in millions)		
Gross profit	$1,251.8	$1,478.8	$1,306.2
Gross profit margin	31.6 %	32.0 %	31.0 %

The $227.0 million decrease in Gross profit during 2015 in comparison to 2014 was attributable to decreases of $102.3 million and $124.7 million in our gas- and fluid-handling segment and our fabrication technology segment, respectively. The decrease in gross profit in both of our segments during 2015 as compared to 2014 was primarily due to changes in foreign exchange rates and lower overall volumes, partially offset by acquisition related growth. The increase in gross profit margin in our gas- and fluid-handling segment during 2015 as compared to 2014 was more than offset by the lower gross profit margin at fabrication technology. Changes in foreign exchange rates during 2015 had a $169.0 million negative impact on Gross profit.

The $172.6 million increase in Gross profit during 2014 in comparison to 2013 was attributable to increases of $70.0 million and $102.6 million in our gas- and fluid-handling segment and our fabrication technology segment, respectively. The increase in gross profit margin in both of our segments during 2014 reflects the positive impact of cost control activities. Additionally, our fabrication technology segment was positively impacted during 2014 by the higher gross margins of Victor, which were partially offset by acquisition-related inventory step up expense. The increase in Gross profit in our gas- and fluid-handling segment during 2014 includes the impact of acquisitions, which also served to reduce gross profit margin. Changes in foreign exchange rates during 2014 had a $44.0 million negative impact on Gross profit.

Operating Expenses - Total Company

	Year Ended December 31,		
	2015	2014	2013
	(Dollars in millions)		
Selling, general and administrative expense	$906.0	$1,011.2	$864.3
Selling, general and administrative expense as a percentage of Net sales	22.8 %	21.9 %	20.5 %
Restructuring and other related charges	61.2	58.1	35.5

Selling, general and administrative expense decreased $105.2 million during 2015 in comparison to 2014. Changes in foreign exchange rates during 2015 decreased Selling, general, and administrative expenses by primarily $111.3 million. An overall decrease in acquisition integration costs and the positive benefit of restructuring actions to reduce structural costs and integrate acquisitions also contributed to the decrease. These items were partially offset by a $40.4 million acquisition-related increase in Selling, general and administrative expense during 2015. Additionally, Selling, general and administrative expense for 2015 includes an increase in the allowance for doubtful accounts of specific South American customers of $9.4 million, asset impairment charges of $4.3 million, and transaction costs and year-one amortization of approximately $8.0 million, as discussed previously. Selling, general and administrative expense as a percentage of Net sales increased primarily as a result of lower Net sales driven by reasons discussed above. Selling, general and administrative expense for 2014 includes a $13.4 million impairment loss related to identifiable intangible assets, a $4.0 million loss on disposition of a small fluid-handling business line and a $6.3 million loss from the use of the SICAD II exchange rate at our Venezuelan businesses. The increase in Restructuring and other related charges during 2015 is attributable to our gas- and fluid-handling segment due to accelerated cost reduction programs to eliminate excess in the cost structure of the Company in response to the current challenging, cyclical economic conditions.

Selling, general and administrative expense increased $146.9 million during 2014 in comparison to 2013 primarily due to an increase of $161.8 million attributable to the addition of the operations associated with the Victor

Acquisition and the gas- and fluid-handling acquisitions during 2013. Additionally, Selling, general and administrative expense for 2014 includes the specific charges discussed above associated with impairment, loss on disposition of a business line and foreign currency, partially offset by significant cost saving programs in both segments and an unrealized gain of $2.9 million related to the Clarus contingent payment liability, as the performance criteria are no longer expected to be met. Restructuring and other related charges increased compared to 2013 primarily due to an increase in restructuring actions to reduce structural costs and integrate the acquisitions made during 2014 and the fourth quarter of 2013.

Interest Expense - Total Company

	Year Ended December 31,		
	2015	2014	2013
	(Dollars in millions)		
Interest expense	$47.7	$51.3	$103.6

The decrease in Interest expense during 2015 was primarily due to decreases in weighted average interest rates, outstanding borrowing levels and amortization of deferred financing fees and original issue discount. These decreases were partially offset by a $4.7 million write-off of certain deferred financings fees during 2015 in connection with the refinancing of our principal credit facility.

The decrease in Interest expense during 2014 was primarily attributable to the amendments to the Deutsche Bank Credit Agreement (as defined and further discussed in "Liquidity and Capital Resources—Borrowing Arrangements") during 2013. During 2013, $29.4 million of certain deferred fees and original issue discount were written-off in connection with the amendments which reduced future accretion to Interest expense and did not reoccur in 2014. Additionally, the favorable impact of lower borrowing rates reduced Interest expense by $13.7 million and the lesser accretion of deferred fees and original issue discount decreased Interest expense by $6.2 million, which were also attributable to the amendments in 2013. A reduction of $3.1 million is included in Interest expense due to the change in expected settlement under the conditions specified in the contract of the mandatorily redeemable non-voting preferred stock of Sicelub, as the performance criteria were not met.

Provision for Income Taxes - Total Company

Income before income taxes was $236.9 million and the Provision for income taxes was $49.7 million for 2015. The Provision for income taxes was impacted by a tax benefit of $13.0 million associated with the resolution of a liability for unrecognized tax benefits and the effect of foreign earnings where international tax rates are lower than the U.S. tax rate.

Income before income taxes was $358.2 million and the Benefit from income taxes was $62.0 million for 2014. The Benefit from income taxes 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 U.S. 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 2014 of $145.4 million. Additionally, a tax benefit of $21.8 million was included in Benefit from income taxes in the Consolidated Statements of Income during 2014 associated with the resolution of a liability for unrecognized tax benefits. These items, as well as the impact of foreign earnings where international tax rates are lower than the U.S. tax rate, 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 2014.

Liquidity and Capital Resources

Overview

Historically, 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, share repurchases, asbestos-related cash outflows and funding of our pension plans. If additional funds are needed for strategic acquisitions or other corporate purposes, we believe we could raise additional funds in the form of debt or equity.

Equity Capital

On May 13, 2013, we sold 7,500,000 shares of newly issued Colfax Common stock to underwriters for public resale pursuant to a shelf registration statement for an aggregate purchase price of $331.9 million. In conjunction with this issuance, we recognized $12.0 million in equity issuance costs which were recorded as a reduction to Additional paid-in capital during 2013.

We entered into a Conversion Agreement with the BDT Investor, pursuant to which the BDT Investor exercised its option to convert 13,877,552 shares of Series A Perpetual Convertible Preferred Stock into 12,173,291 shares of the Company’s Common stock plus cash in lieu of a .22807018 share interest, which conversion occurred on February 12, 2014. As consideration for the BDT Investor’s agreement to exercise its optional conversion right, the Company paid approximately $23.4 million to the BDT

Investor, of which $19.6 million represents the Preferred stock conversion inducement payment in the Consolidated Statement of Income for 2014.

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

We contributed 66,000 shares, 183,000 shares, and 88,200 shares of newly issued Colfax Common stock to our U.S. defined benefit pension plan on May 21, 2015, January 15, 2014 and September 12, 2013, respectively.

On October 11, 2015, the Company’s Board of Directors authorized the repurchase of up to $100.0 million of the Company’s Common stock from time-to time on the open market or in privately negotiated transactions. The repurchase program is authorized until December 31, 2016. The timing and amount of shares repurchased is to be determined by management based on its evaluation of market conditions and other factors. During the fourth quarter of 2015 the Company repurchased 986,279 shares of the Company’s Common stock in open market transactions through the close of business on December 31, 2015. From January 1, 2016 through February 3, 2016, the Company has repurchased 1,000,000 shares of the Company’s Common stock under a 10b5-1 Plan. As of February 4, 2016, the remaining stock repurchase authorization provided by the Company’s Board of Directors is approximately $52 million.

Borrowing Arrangements

We entered into a credit agreement by and among the Company, Colfax UK Holdings Ltd, the other subsidiaries of the Company party thereto, the lenders party thereto and Deutsche Bank AG New York Branch, as administrative agent (the “Deutsche Bank Credit Agreement”) on September 12, 2011. In connection with the Charter Acquisition, the Deutsche Bank Credit Agreement was amended on January 13, 2012 and we terminated our existing credit agreement as well as Charter’s outstanding indebtedness.

We entered into a Second and Third amendment to the Deutsche Bank Credit Agreement on February 22, 2013 and November 7, 2013, respectively, which, among other things, reallocated our borrowing capacities of the tranches of loans and reduced our interest rate margins when compared to the terms of the amended Deutsche Bank Credit Agreement on January 13, 2012. In conjunction with the 2013 amendments, we recorded a charge to Interest expense in the Consolidated Statement of Income for the year ended December 31, 2013 of $29.4 million to write-off certain deferred financing fees and original issue discount and expensed approximately $1.2 million of costs incurred in connection with the refinancing.

On May 14, 2014, we entered into an Incremental Amendment to the Term A-1 facility under the Deutsche Bank Credit Agreement, to increase the borrowing capacity of the Term A-1 facility by $150.0 million, upon the same terms as the existing Term A-1 facility.

On June 5, 2015, we entered into the 2015 Deutsche Bank Credit Agreement. The proceeds of the loans under the 2015 Deutsche Bank Credit Agreement were used by us to repay in full balances under our preexisting Deutsche Bank Credit Agreement, as well as for working capital and general corporate purposes. The 2015 Deutsche Bank Credit Agreement consists of a term loan in an aggregate amount of $750.0 million (the “Term Loan”) and a revolving credit facility (the “Revolver”), each of which matures in five years. The Revolver contains a $50.0 million swing line loan sub-facility.

On September 25, 2015, we entered into an Increase Agreement, as provided for under the terms of the 2015 Deutsche Bank Credit Agreement. Under the Increase Agreement, we increased the Revolver by $300.0 million, resulting in a total Revolver commitment under the 2015 Deutsche Bank Credit Agreement of $1.3 billion. The Term Loan and the

Revolver bear interest, at the election of the Company, at either the base rate (as defined in the 2015 Deutsche Bank Credit Agreement) or the Eurocurrency rate (as defined in the 2015 Deutsche Bank Credit Agreement), in each case, plus the applicable interest rate margin.

The Term Loan and the Revolver bear interest, at the election of the Company, at either the base rate (as defined in the 2015 Deutsche Bank Credit Agreement) or the Eurocurrency rate (as defined in the 2015 Deutsche Bank 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). Swing line loans bear interest at the applicable rate, as specified under the terms of the 2015 Deutsche Bank Credit Agreement, based upon the currency borrowed.

In conjunction with the 2015 Deutsche Bank Credit Agreement, we recorded a charge to Interest expense in the Consolidated Statement of Income for the year ended December 31, 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 2015 Deutsche Bank Credit Agreement. The Company had an original issue discount of $7.5 million and deferred financing fees of $8.1 million included in its Consolidated Balance Sheet as of December 31, 2015, which will be accreted to Interest expense primarily using the effective interest method, over the life of the 2015 Deutsche Bank Credit Agreement. As of December 31, 2015, the weighted-average interest rate of borrowings under the 2015 Deutsche Bank Credit Agreement was 1.83%, excluding accretion of original issue discount and amortization of deferred financing fees, and there was $688.8 million available on the revolving credit facility.

We are also party to additional letter of credit facilities with total capacity of $718.8 million. Total letters of credit of $360.4 million were outstanding as of December 31, 2015.

On December 22, 2014, we entered into a receivables financing facility, pursuant to which we established a wholly owned, special purpose bankruptcy-remote subsidiary which purchases trade receivables from certain of our 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. On December 21, 2015, the Company increased the receivables financing facility by $15 million to $95 million and extended the facility through December 20, 2016. As of December 31, 2015, the total outstanding borrowings under the receivables financing facility were $75.8 million and the interest rate was 1.2%. The scheduled termination date for the receivables financing facility 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 we view as materially constraining to the activities of our business.

Certain U.S. subsidiaries of the Company have agreed to guarantee the obligations of the Company under the 2015 Deutsche Bank Credit Agreement. The 2015 Deutsche Bank 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 2015 Deutsche Bank 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 2015 Deutsche Bank Credit Agreement contains various events of default (including failure to comply with the covenants under the 2015 Deutsche Bank 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 December 31, 2015. We believe that our sources of liquidity, including the 2015 Deutsche Bank Credit Agreement, are adequate to fund our operations for the next twelve months.

Cash Flows

As of December 31, 2015, we had $197.4 million of Cash and cash equivalents, a decrease of $108.0 million from $305.4 million as of December 31, 2014. The following table summarizes the change in Cash and cash equivalents during the periods indicated:

	Year Ended December 31,		
	2015	2014	2013
	(In millions)		
Net cash provided by operating activities	$303.8	$385.8	$362.2
Purchases of fixed assets, net	(69.9)	(84.5)	(71.5)
Acquisitions, net of cash received	(196.0)	(948.8)	(372.5)
Loans to non-trade creditors	—	—	(31.0)
Other, net	18.9	3.2	—
Net cash used in investing activities	(247.0)	(1,030.1)	(475.0)
(Repayments of) proceeds from borrowings, net	(88.9)	90.9	(309.0)
Proceeds from issuance of common stock, net	6.1	613.9	324.2
Repurchases of common stock	(27.4)	—	—
Acquisition of shares held by noncontrolling interest	—	(10.3)	(14.9)
Preferred stock conversion inducement payment	—	(19.6)	—
Other uses	(21.1)	(24.9)	(45.4)
Net cash (used in) provided by financing activities	(131.3)	650.0	(45.1)
Effect of exchange rates on Cash and cash equivalents	(33.5)	(11.6)	(13.2)
Decrease in Cash and cash equivalents	$(108.0)	$(5.9)	$(171.1)

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

- Net cash received or paid for asbestos-related costs, net of insurance proceeds, including the disposition of claims, defense costs and legal expenses related to litigation against our insurers, creates variability in our operating cash flows. We had net cash outflows of $22.7 million, $32.7 million and $39.6 million during 2015, 2014 and 2013, respectively.
- Funding requirements of our defined benefit plans, including pension plans and other post-retirement benefit plans, can vary significantly from period to period due to changes in the fair value of plan assets and actuarial assumptions. For 2015, 2014 and 2013 cash contributions for defined benefit plans were $44.1 million, $59.6 million and $46.9 million, respectively.
- During 2015, 2014 and 2013 cash payments of $57.7 million, $43.5 million and $47.3 million, respectively, were made related to our restructuring initiatives.
- Changes in net working capital also affected the operating cash flows for the periods presented. We define working capital as Trade receivables, net and Inventories, net reduced by Accounts payable. During 2015, net working capital decreased by $52.5 million due to improved collections in receivables, partially offset by a slight increase in inventory and decreases in payables. During 2014, net working capital increased by $16.7 million primarily due to seasonal increases in receivables and decreases in payables, partially offset by a decrease in inventory as we reduced the high inventory levels attributable to the Victor Acquisition, which reduced our cash flows from operating activities. During 2013, net working capital decreased by $110 million, primarily due to a decrease in inventory from our CBS initiatives and an increase in payables associated with the timing of year-end purchases partially offset by the seasonal increase in receivables, which increased our cash flows from operating activities.

Cash flows from investing activities during 2015 were impacted by the net cash outflows of $180.7 million associated with the Roots Acquisition and $15.3 million for the Simsmart acquisition. Cash flows from investing activities during 2014 were impacted by the net cash outflows of $948.8 million associated with the Victor Acquisition. During 2013, the acquisitions of GII, Clarus, ČKDK, TLT-Babcock, Alphair and Sicelub resulted in net cash outflows of $399.9 million.

Cash flows from financing activities during 2015 were impacted by the refinancing of the 2015 Deutsche Bank Credit Agreement further discussed under "—Borrowing Arrangements" above. Additionally, cash flows from financing activities during 2015 were impacted by the share repurchases discussed under “—Equity Capital”.

Cash flows from financing activities during 2014 were impacted by the funding of the Victor Acquisition. The Victor Acquisition was funded through net proceeds of $610.4 million from the sale of newly issued Common stock and $338.4 million of borrowings under our Deutsche Bank Credit Agreement. Cash flows from financing activities during 2014 were also impacted by the conversion of the Series A Perpetual Convertible Preferred Stock further discussed above under “—Equity Capital.” Cash flows from financing activities for 2013 were impacted by the amendments to the Deutsche Bank Credit Agreement further discussed above under “—Borrowing Arrangements” and the May 2013 sale of newly issued Common stock further discussed above under “—Equity Capital.” The sale of our Common stock in May 2013 generated $319.9 million cash inflows from financing activities.

Cash flows from financing activities were also impacted by acquisitions of shares of less than wholly owned subsidiaries. During 2014, cash flows from financing activities included the $10.3 million acquisition of the remaining ownership of Svel and Howden Middle East. During 2013, cash flows from financing activities included a $14.9 million acquisition of common and investment shares of Soldex resulting in an increase in our ownership of the subsidiary from approximately 91% to 99%.

Our Cash and cash equivalents as of December 31, 2015 included $186.9 million held in jurisdictions outside the U.S., which may be subject to tax penalties if repatriated into the U.S. and other restrictions.

Contractual Obligations

The following table summarizes our future contractual obligations as of December 31, 2015.

	Less Than One Year	1-3 Years	3-5 Years	More Than 5 Years	Total
	(In millions)				
Debt	$5.8	$9.1	$1,411.3	$—	$1,426.2
Interest payments on debt[1]	27.6	54.9	38.9	—	121.4
Operating leases	32.1	35.4	26.5	47.3	141.3
Capital leases	2.0	0.3	0.1	0.2	2.6
Purchase obligations[2]	340.7	9.7	0.7	0.3	351.4
Total	$408.2	$109.4	$1,477.5	$47.8	$2,042.9

(1) Variable interest payments are estimated using a static rate of 1.83%.

(2) Excludes open purchase orders for goods or services that are provided on demand, the timing of which is not certain.

We have funding requirements associated with our pension and other post-retirement benefit plans as of December 31, 2015, which are estimated to be $34.9 million for the year ending December 31, 2016. Other long-term liabilities, such as those for asbestos and other legal claims, employee benefit plan obligations, deferred income taxes and liabilities for unrecognized income tax benefits, are excluded from the above table since they are not contractually fixed as to timing and amount.

On December 25, 2015, the mandatorily redeemable preferred stock of a subsidiary was redeemed and settled by offset of the outstanding loan payable to the Company by the holders of the mandatorily redeemable preferred stock.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that provide liquidity, capital resources, market or credit risk support that expose us to any liability that is not reflected in our Consolidated Financial Statements at December 31, 2015 other than outstanding letters of credit of $360.4 million, unconditional purchase obligations with suppliers of $351.4 million, and $141.3 million of future operating lease payments.

The Company and its subsidiaries have in the past divested certain of its businesses and assets. In connection with these divestitures, certain representations, warranties and indemnities were made to purchasers to cover various risks or unknown liabilities. We cannot estimate the potential liability, if any, that may result from such representations, warranties and indemnities because they relate to unknown and unexpected contingencies; however, we do not believe that any such liabilities will have a material adverse effect on our financial condition, results of operations or liquidity.

Critical Accounting Policies

The methods, estimates and judgments 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.

We believe the following accounting policies are the most critical in that they are important to the financial statements and they require the most difficult, subjective or complex judgments in the preparation of the financial statements. For a detailed discussion on the application of these and other accounting policies, see Note 2, “Summary of Significant Accounting Policies” in the accompanying Notes to Consolidated Financial Statements in this Form 10-K.

Asbestos Liabilities and Insurance Assets

Certain subsidiaries are each one of many defendants in a large number of lawsuits that claim personal injury as a result of exposure to asbestos from products manufactured with components that are alleged to have contained asbestos. Such components were acquired from third-party suppliers, and were not manufactured by any of the Company’s subsidiaries nor were the subsidiaries producers or direct suppliers of asbestos. The manufactured products that are alleged to have contained asbestos generally were provided to meet the specifications of the subsidiaries’ customers, including the U.S. Navy.

We have projected each subsidiary’s future asbestos-related liability costs with regard to pending and future unasserted claims based upon the Nicholson methodology. The Nicholson methodology is a standard approach used by experts and has been accepted by numerous courts. This methodology is based upon risk equations, exposed population estimates, mortality rates, and other demographic statistics. In applying the Nicholson methodology for each subsidiary we performed: (1) an analysis of the estimated population likely to have been exposed or claim to have been exposed to products manufactured by the subsidiaries based upon national studies undertaken of the population of workers believed to have been exposed to asbestos; (2) a review of epidemiological and demographic studies to estimate the number of potentially exposed people that would be likely to develop asbestos-related diseases in each year; (3) an analysis of the subsidiaries’ recent claims history to estimate likely filing rates for these diseases and (4) an analysis of the historical asbestos liability costs to develop average values, which vary by disease type, jurisdiction and the nature of claim, to determine an estimate of costs likely to be associated with currently pending and projected asbestos claims. Our projections, based upon the Nicholson methodology, estimate both claims and the estimated cash outflows related to the resolution of such claims for periods up to and including the endpoint of asbestos studies referred to in item (2) above. It is our policy to record a liability for asbestos-related liability costs for the longest period of time that we can reasonably estimate. Accordingly, no accrual has been recorded for any costs which may be paid after the next 15 years.

Projecting future asbestos-related liability costs is subject to numerous variables that are difficult to predict, including, among others, the number of claims that might be received, the type and severity of the disease alleged by each claimant, the latency period associated with asbestos exposure, dismissal rates, costs of medical treatment, the financial resources of other companies that are co-defendants in the claims, funds available in post-bankruptcy trusts, uncertainties surrounding the litigation process from jurisdiction to jurisdiction and from case to case, including fluctuations in the timing of court actions and rulings, and the impact of potential changes in legislative or judicial standards, including potential tort reform. Furthermore, any projections with respect to these variables are subject to even greater uncertainty as the projection period lengthens. These trend factors have both positive and negative effects on the dynamics of asbestos litigation in the tort system and the related best estimate of our asbestos liability, and these effects do not move in linear fashion but rather change over multiple year periods. Accordingly, we monitor these trend factors over time and periodically assess whether an alternative forecast period is appropriate. Taking these factors into account and the inherent uncertainties, we believe that we can reasonably estimate the asbestos-related liability for pending and future claims that will be resolved in the next 15 years and have recorded that liability as our best estimate. While it is reasonably possible that the subsidiaries will incur costs after this period, we do not believe the reasonably possible loss or range of reasonably possible loss is estimable at the current time. Accordingly, no accrual has been recorded for any costs which may be paid after the next 15 years. Defense costs associated with asbestos-related liabilities as well as costs incurred related to litigation against the subsidiaries' insurers are expensed as incurred.

We assessed the subsidiaries' existing insurance arrangements and agreements, estimated the applicability of insurance coverage for existing and expected future claims, analyzed publicly available information bearing on the current creditworthiness and solvency of the various insurers, and employed such insurance allocation methodologies as we believed appropriate to ascertain the probable insurance recoveries for asbestos liabilities. The analysis took into account self-insurance retentions, policy exclusions, pending litigation, liability caps and gaps in coverage, existing and potential insolvencies of insurers as well as how legal and defense costs will be covered under the insurance policies.

Each subsidiary has separate insurance coverage acquired prior to our ownership of each independent entity. In our evaluation of the insurance asset, we use differing insurance allocation methodologies for each subsidiary based upon the applicable law pertaining to the affected subsidiary.

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 our financial condition, results of operations or cash flow.

See Note 15, "Commitments and Contingencies" in the accompanying Notes to Consolidated Financial Statements for additional information regarding our asbestos liabilities and insurance assets.

Retirement Benefits

Pension obligations and other post-retirement benefits are actuarially determined and are affected by several assumptions, including the discount rate, assumed annual rates of return on plan assets, and per capita cost of covered health care benefits. Changes in discount rate and differences from actual results for each assumption will affect the amounts of pension expense and other post-retirement expense recognized in future periods. These assumptions may also have an effect on the amount and timing of future cash contributions. See Note 13, "Defined Benefit Plans" in the accompanying Notes to Consolidated Financial Statements for further information.

Impairment of Goodwill and Indefinite-Lived Intangible Assets

Goodwill represents the costs in excess of the fair value of net assets acquired associated with our acquisitions.

We evaluate the recoverability of Goodwill and indefinite-lived intangible assets annually or more frequently if an event occurs or circumstances change in the interim that would more likely than not reduce the fair value of the asset below its carrying amount. Goodwill and indefinite-lived intangible assets are considered to be impaired when the net book value of a reporting unit or asset exceeds its implied fair value.

In the evaluation of Goodwill for impairment, we first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting entity is less than its carrying value. If we determine that it is not more likely than not for a reporting unit's fair value to be less than its carrying value, a calculation of the fair value is not performed. If we determine that it is more likely than not for a reporting unit's fair value to be less than its carrying value, a calculation of the reporting entity's fair value is performed and compared to the carrying value of that entity. In certain instances, we may skip the qualitative assessment and proceed directly to the first step of the quantitative impairment test. If the carrying value of a reporting unit exceeds its fair value, Goodwill of that reporting unit is potentially impaired and step two of the impairment analysis is performed. In step two of the analysis, an impairment loss is recorded equal to the excess of the carrying value of the reporting unit's Goodwill over its implied fair value should such a circumstance arise.

We measure fair value of reporting units based on a present value of future discounted cash flows and a market valuation approach. The discounted cash flows model indicates the fair value of the reporting units based on the present value of the cash flows that the reporting units are expected to generate in the future. Significant estimates in the discounted cash flows model include: the weighted average cost of capital; long-term rate of growth and profitability of our business; and working capital effects. The market valuation approach indicates the fair value of the business based on a comparison of the Company against certain market information. Significant estimates in the market approach model include identifying appropriate market multiples and assessing earnings before interest, income taxes, depreciation and amortization in estimating the fair value of the reporting units.

During 2015, based on the results of the qualitative assessment for each reporting unit, we concluded based on a preponderance of positive indicators and the weight of such indicators that the fair values of our Fluid Handling, Howden Compressors and Howden Heavy Fans & Heaters reporting units are more likely than not greater than their respective carrying amounts and as a result, quantitative analyses would not be needed. Therefore, no further testing of goodwill for impairment was performed for these reporting units.
For our Fabrication Technology reporting unit, we noted unfavorable domestic and international economic trends, particularly trading volumes, which are driven by overall macroeconomic conditions within the welding industry. As such, we did not perform a qualitative assessment of goodwill for our Fabrication Technology reporting unit and proceeded directly to performing the first step of the two-step quantitative goodwill impairment test for 2015. Our quantitative impairment assessment of Goodwill associated with the Fabrication Technology reporting unit, based on the methodologies identified above, resulted in a calculated fair value that exceeded the carrying value of the reporting unit. Although we believe our calculated fair value exceeds the carrying value of the reporting unit by a reasonably sufficient amount, future deterioration in our performance or continued decline in demand from the fabrication technology end markets that we serve could result in a lower projected fair value in future periods.
The annual Goodwill impairment analysis performed as of September 26, 2015, September 27, 2014 and September 28, 2013 indicated no impairment to be present.

In the evaluation of indefinite-lived intangible assets for impairment, we first assess qualitative factors to determine whether it is more likely than not that the fair value of the indefinite-lived intangible asset is less than its carrying value. If we determine that it is not more likely than not for the indefinite-lived intangible asset's fair value to be less than its carrying value, a calculation of the fair value is not performed. If we determine that it is more likely than not that the indefinite-lived intangible asset's fair value is less than its carrying value, a calculation is performed and compared to the carrying value of the asset. If the carrying amount of the indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. We measure the fair value of our indefinite-lived intangible assets using the "relief from royalty" method. Significant estimates in this approach include projected revenues and royalty and discount rates for each trade name evaluated.

From time-to-time, we have identified certain indefinite-lived intangible assets that, due to indicators present at the specific operation associated with the indefinite-lived intangible asset, should be tested for impairment prior to our annual impairment evaluation. During 2015, an analysis was performed to evaluate certain intangible assets related to a specific operation within the Company due to a decline in anticipated performance at the operation associated with those assets. The analysis determined an indefinite-lived trade name within the Company's fabrication technology segment was impaired based upon relief from royalty measurements and resulted in a $1.5 million impairment loss calculated as the difference between the fair value of the asset and its carrying value as of the date of the impairment test. The impairment loss was included in Selling, general and administrative expense in the Consolidated Statement of Income for 2015.

During 2014, an analysis was performed on a trade name related to a specific operation within the gas- and fluid-handling segment prior to the annual impairment analysis due to the decision to substantially reduce its operations. The analysis determined the trade name was no longer recoverable based upon relief from royalty measurements and resulted in a $2.9 million impairment loss included in Selling, general and administrative expense in the Consolidated Statement of Income for 2014.

The annual impairment analysis performed as of September 26, 2015, September 27, 2014 and September 28, 2013 indicated no impairment to be present, except for $0.2 million of impairment loss related to an indefinite-lived intangible asset included in the gas- and fluid-handling segment for the year ended December 31, 2013. This impairment results from a decline in anticipated revenue related to this asset. The impairment loss is included in Selling, general and administrative expense in the accompanying Consolidated Statement of Income and was calculated as the difference between the fair value of the asset under the relief from royalty method and its carrying value as of the date of the impairment test. See Note 2, "Summary of Significant Accounting Policies" in the accompanying Notes to Consolidated Financial Statements for further information.

Continuation of the decline in oil prices increases the risk of impairments next year. Actual results could differ from our estimates and projections, which would also affect the assessment of impairment. As of December 31, 2015, we have Goodwill of $2.8 billion and indefinite lived trade names of $395.3 million that are subject to at least annual review for impairment. See Note 7, “Goodwill and Intangible Assets” in the accompanying Notes to Consolidated Financial Statements for further information.

Income Taxes

We account for income taxes under the asset and liability method, which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that some portion of the deferred tax asset will not be realized. In evaluating the need for a valuation allowance, we take into account various factors, including the expected level of future taxable income and available tax planning strategies. If actual results differ from the assumptions made in the evaluation of our valuation allowance, we record a change in valuation allowance through income tax expense in the period such determination is made.

Accounting Standards Codification 740, “Income Taxes” prescribes a recognition threshold and measurement attribute for a position taken in a tax return. Under this standard, we must presume the income tax position will be examined by a relevant tax authority and determine whether it is more likely than not that the income tax position will be sustained upon examination based on its technical merits. An income tax position that meets the more-likely-than-not recognition threshold is then measured to determine the amount of the benefit to be recognized in the financial statements. Liabilities for unrecognized income tax benefits are reviewed periodically and are adjusted as events occur that affect our estimates, such as the availability of new information, the lapsing of applicable statutes of limitations, the conclusion of tax audits and, if applicable, the conclusion of any court proceedings. To the extent we prevail in matters for which liabilities for unrecognized tax benefits have been established or are required to pay amounts in excess of our liabilities for unrecognized tax benefits, our effective income tax rate in a given period could be materially affected. The Company recognizes interest and penalties related to unrecognized tax benefits in the Provision for (benefit from) income taxes in the Consolidated Statements of Income. Net liabilities for unrecognized income tax benefits, including accrued interest and penalties, were $52.8 million as of December 31, 2015 and are included in Other liabilities in the accompanying Consolidated Balance Sheet.

Revenue Recognition

We recognize revenue and costs from product sales when title passes to the buyer and all of the following criteria are met: persuasive evidence of an arrangement exists, the price is fixed or determinable, product delivery has occurred or services have been rendered, there are no further obligations to customers, and collectibility is probable. Product delivery occurs when title and risk of loss transfer to the customer. Our shipping terms vary based on the contract. If any significant obligations to the customer with respect to such sale remain to be fulfilled following shipment, typically involving obligations relating to installation and acceptance by the buyer, revenue recognition is deferred until such obligations have been fulfilled. Any customer allowances and discounts are recorded as a reduction in reported revenues at the time of sale because these allowances reflect a reduction in the sales price for the products sold. These allowances and discounts are estimated based on historical experience and known trends. Revenue related to service agreements is recognized as revenue over the term of the agreement.

We recognize revenue and cost of sales on gas-handling long-term contracts using the “percentage of completion method” in accordance with GAAP. Under this method, contract revenues are recognized over the performance period of the contract in direct proportion to the costs incurred as a percentage of total estimated costs for the entirety of the contract. Any recognized revenues that have not been billed to a customer are recorded as a component of Trade receivables and any billings of customers in excess of recognized revenues are recorded as a component of Accounts payable. As of December 31, 2015, there were $149.5 million of revenues in excess of billings and $146.3 million of billings in excess of revenues on long-term contracts in the Consolidated Balance Sheet.

We have contracts in various stages of completion. Such contracts require estimates to determine the appropriate cost and revenue recognition. Significant management judgments and estimates, including estimated costs to complete projects, must be made and used in connection with revenue recognized during each period. Current estimates may be revised as additional information becomes available. The revisions are recorded in income in the period in which they are determined using the cumulative catch-up method of accounting.

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. These allowances are based on recent trends of certain customers estimated to be a greater credit risk as well as general trends of the entire pool of customers. The allowance for doubtful accounts was $39.5 million and $27.3 million as of December 31, 2015 and 2014, respectively. The current year increase was primarily driven by an increase in the allowance for doubtful accounts of specific South American customers of $9.4 million. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances could be required.

Recently Issued Accounting Pronouncements

For detailed information regarding recently issued accounting pronouncements and the expected impact on our financial statements, see Note 3, “Recently Issued Accounting Pronouncements” in the accompanying Notes to Consolidated Financial Statements included in this Form 10-K.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rate Risk

We are subject to exposure from changes in short-term interest rates related to interest payments on our borrowing arrangements. Under the 2015 Deutsche Bank Credit Agreement, substantially all of our borrowings as of December 31, 2015 are variable rate facilities based on LIBOR or EURIBOR. In order to mitigate our interest rate risk, we periodically enter into interest rate swap or collar agreements. A hypothetical increase in the interest rate of 1.00% during 2015 would have increased Interest expense by approximately $14.8 million.

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 2015, approximately 72% of our sales were derived from operations outside the U.S. We have significant manufacturing operations in European countries that are not part of the Eurozone. Sales revenues are more highly weighted toward the Euro and U.S. dollar. We also have significant contractual obligations in U.S. dollars that are met with cash flows in other currencies as well as U.S. dollars. To better match revenue and expense as well as cash needs from contractual liabilities, we regularly enter into cross currency swaps and forward contracts.

We also face exchange rate risk from our investments in subsidiaries owned and operated in foreign countries. The Euro denominated borrowings under the 2015 Deutsche Bank Credit Agreement provide a natural hedge to a portion of our European net asset position. The effect of a change in currency exchange rates on our net investment in international subsidiaries, net of the translation effect of the Company’s Euro denominated borrowings, is reflected in the Accumulated other comprehensive loss component of Equity. A 10% depreciation in major currencies, relative to the U.S. dollar as of December 31, 2015 (net of the translation effect of our Euro denominated borrowings) would result in a reduction in Equity of approximately $300 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.

We have generally accepted the exposure to exchange rate movements in the translation of our financial statements into U.S. dollars 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 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 December 31, 2015, our open commodity futures contracts were not material.

See Note 14, “Financial Instruments and Fair Value Measurements” in the accompanying Notes to Consolidated Financial Statements included in this Form 10-K for additional information regarding our derivative instruments.

Item 8. Financial Statements and Supplementary Data

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm
Internal Control Over Financial Reporting

The Board of Directors and Shareholders of Colfax Corporation

We have audited Colfax Corporation's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Colfax Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in Item 9A, Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Colfax Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Colfax Corporation as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive (loss) income, equity and cash flows for each of the three years in the period ended December 31, 2015 of Colfax Corporation and our report dated February 16, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Baltimore, Maryland
February 16, 2016

Report of Independent Registered Public Accounting Firm
Consolidated Financial Statements

The Board of Directors and Shareholders of Colfax Corporation

We have audited the accompanying consolidated balance sheets of Colfax Corporation as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive (loss) income, equity and cash flows for each of the three years in the period ended December 31, 2015. Our audits also included the financial statement schedule referred to in the Index at Item 15(A)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Colfax Corporation at December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Colfax Corporation’s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 16, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Baltimore, Maryland
February 16, 2016

COLFAX CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
Dollars in thousands, except per share amounts

	Year Ended December 31, 2015	2014	2013
Net sales	$3,967,053	$4,624,476	$4,207,209
Cost of sales	2,715,279	3,145,631	2,900,987
Gross profit	1,251,774	1,478,845	1,306,222
Selling, general and administrative expense	905,952	1,011,171	864,328
Restructuring and other related charges	61,177	58,121	35,502
Operating income	284,645	409,553	406,392
Interest expense	47,743	51,305	103,597
Income before income taxes	236,902	358,248	302,795
Provision for (benefit from) income taxes	49,724	(62,025)	93,652
Net income	187,178	420,273	209,143
Less: income attributable to noncontrolling interest, net of taxes	19,439	28,175	30,515
Net income attributable to Colfax Corporation	167,739	392,098	178,628
Dividends on preferred stock	—	2,348	20,396
Preferred stock conversion inducement payment	—	19,565	—
Net income available to Colfax Corporation common shareholders	$167,739	$370,185	$158,232
Net income per share- basic	$1.35	$3.06	$1.56
Net income per share- diluted	$1.34	$3.02	$1.54

See Notes to Consolidated Financial Statements.

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

	Year Ended December 31,		
	2015	2014	2013
Net income	$187,178	$420,273	$209,143
Other comprehensive (loss) income:			
Foreign currency translation, net of tax of $751, $1,885 and $(3,634)	(317,909)	(356,243)	6,210
Unrealized gain (loss) on hedging activities, net of tax of $19,349, $4,141 and $404	11,659	30,404	(10,404)
Changes in unrecognized pension and other post-retirement benefit cost, net of tax of $6,373, $(20,117) and $575	29,323	(89,920)	77,071
Changes in deferred tax related to pension and other post-retirement benefit cost	3,817	1,934	—
Amounts reclassified from Accumulated other comprehensive loss:			
Net pension and other post-retirement benefit cost, net of tax of $3,859, $2,063 and $715	7,300	5,282	10,022
Other comprehensive (loss) income	(265,810)	(408,543)	82,899
Comprehensive (loss) income	(78,632)	11,730	292,042
Less: comprehensive (loss) income attributable to noncontrolling interest	(3,347)	15,781	13,039
Comprehensive (loss) income attributable to Colfax Corporation	$(75,285)	$(4,051)	$279,003

See Notes to Consolidated Financial Statements.

COLFAX CORPORATION
CONSOLIDATED BALANCE SHEETS
Dollars in thousands, except share amounts

	December 31, 2015	2014
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$197,469	$305,448
Trade receivables, less allowance for doubtful accounts of $39,505 and $27,256	888,166	1,029,150
Inventories, net	420,386	442,732
Other current assets	253,744	296,948
Total current assets	1,759,765	2,074,278
Property, plant and equipment, net	644,536	727,435
Goodwill	2,817,687	2,873,023
Intangible assets, net	995,712	1,043,583
Other assets	515,219	493,198
Total assets	$6,732,919	$7,211,517
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	$5,792	$9,855
Accounts payable	718,893	780,287
Accrued liabilities	391,659	489,983
Total current liabilities	1,116,344	1,280,125
Long-term debt, less current portion	1,411,755	1,526,955
Other liabilities	948,264	1,051,993
Total liabilities	3,476,363	3,859,073
Equity:		
Common stock, $0.001 par value; 400,000,000 shares authorized; 123,486,425 and 123,730,578 issued and outstanding	123	124
Additional paid-in capital	3,199,267	3,200,832
Retained earnings	557,300	389,561
Accumulated other comprehensive loss	(686,715)	(443,691)
Total Colfax Corporation equity	3,069,975	3,146,826
Noncontrolling interest	186,581	205,618
Total equity	3,256,556	3,352,444
Total liabilities and equity	$6,732,919	$7,211,517

See Notes to Consolidated Financial Statements.

COLFAX CORPORATION
CONSOLIDATED STATEMENTS OF EQUITY
Dollars in thousands, except share amounts and as noted

	Common Stock		Preferred Stock		Additional Paid-In Capital	(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total
	Shares	$ Amount	Shares	$ Amount					
Balance at January 1, 2013	94,067,418	$94	13,877,552	$14	$2,197,694	$(138,856)	$(146,594)	$243,934	$2,156,286
Net income	—	—	—	—	—	178,628	—	30,515	209,143
Distributions to noncontrolling owners	—	—	—	—	—	—	—	(14,260)	(14,260)
Acquisition of shares held by noncontrolling interest	—	—	—	—	955	—	(381)	(15,487)	(14,913)
Preferred stock dividend	—	—	—	—	—	(20,396)	—	—	(20,396)
Other comprehensive income (loss), net of tax of $(1.9) million	—	—	—	—	—	—	100,375	(17,476)	82,899
Common stock issuances, net of costs of $12.0 million	7,500,000	8	—	—	319,890	—	—	—	319,898
Common stock-based award activity	265,995	—	—	—	17,589	—	—	—	17,589
Contribution to defined benefit pension plan	88,200	—	—	—	4,877	—	—	—	4,877
Balance at December 31, 2013	101,921,613	102	13,877,552	14	2,541,005	19,376	(46,600)	227,226	2,741,123
Net income	—	—	—	—	—	392,098	—	28,175	420,273
Distributions to noncontrolling owners	—	—	—	—	—	—	—	(12,007)	(12,007)
Acquisition of shares held by noncontrolling interest	—	—	—	—	15,986	—	(942)	(25,382)	(10,338)
Preferred stock dividend	—	—	—	—	—	(2,348)	—	—	(2,348)

Preferred stock conversion	12,173,291	12	(13,877,552)	(14)	2	(19,565)	—	—	(19,565)
Other comprehensive loss, net of tax of $(13.8) million and $(0.2) million	—	—	—	—	—	—	(396,149)	(12,394)	(408,543)
Common stock issuance, net of costs of $22.1 million	9,200,000	9	—	—	610,354	—	—	—	610,363
Common stock-based award activity	252,674	—	—	—	21,636	—	—	—	21,636
Contribution to defined benefit pension plan	183,000	1	—	—	11,849	—	—	—	11,850
Balance at December 31, 2014	123,730,578	124	—	—	3,200,832	389,561	(443,691)	205,618	3,352,444
Net income	—	—	—	—	—	167,739	—	19,439	187,178
Distributions to noncontrolling owners	—	—	—	—	—	—	—	(15,690)	(15,690)
Other comprehensive loss, net of tax of $(26.2) million and $(0.4) million	—	—	—	—	—	—	(243,024)	(22,786)	(265,810)
Stock repurchase	(986,279)	(1)	—	—	(27,366)	—	—	—	(27,367)
Common stock-based award activity	676,126	—	—	—	22,373	—	—	—	22,373
Contribution to defined benefit pension plan	66,000	—	—	—	3,428	—	—	—	3,428
Balance at December 31, 2015	123,486,425	$123	—	$—	$3,199,267	$557,300	$(686,715)	$186,581	$3,256,556

See Notes to Consolidated Financial Statements.

COLFAX CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Dollars in thousands

	Year Ended December 31,		
	2015	2014	2013
Cash flows from operating activities:			
Net income	$187,178	$420,273	$209,143
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and impairment charges	154,542	174,724	119,258
Stock-based compensation expense	16,321	17,580	13,334
Non-cash interest expense	10,101	9,094	44,377
Gain on revaluation of Sicelub investment	—	—	(13,784)
Deferred income tax (benefit) provision	(22,717)	(139,488)	9,946
Changes in operating assets and liabilities, net of acquisitions:			
Trade receivables, net	64,048	(19,916)	(98,912)
Inventories, net	(390)	57,847	79,987
Accounts payable	(11,184)	(54,666)	128,889
Changes in other operating assets and liabilities	(94,086)	(79,690)	(130,069)
Net cash provided by operating activities	303,813	385,758	362,169
Cash flows from investing activities:			
Purchases of fixed assets	(69,877)	(84,458)	(71,482)
Acquisitions, net of cash received	(196,007)	(948,800)	(372,476)
Loans to non-trade creditors	—	—	(31,012)
Other, net	18,927	3,115	—
Net cash used in investing activities	(246,957)	(1,030,143)	(474,970)
Cash flows from financing activities:			
Borrowings under term credit facility	750,000	150,000	50,861
Payments under term credit facility	(1,232,872)	(15,542)	(679,755)
Proceeds from borrowings on revolving credit facilities and other	1,498,039	1,370,626	648,000
Repayments of borrowings on revolving credit facilities and other	(1,104,055)	(1,414,146)	(328,133)
Proceeds from issuance of common stock, net	6,052	613,927	324,153
Repurchases of common stock	(27,367)	—	—
Acquisition of shares held by noncontrolling interest	—	(10,338)	(14,913)
Preferred stock conversion inducement payment	—	(19,565)	—
Payments of dividend on preferred stock	—	(3,853)	(20,396)
Other	(21,066)	(21,060)	(24,870)
Net cash (used in) provided by financing activities	(131,269)	650,049	(45,053)
Effect of foreign exchange rates on Cash and cash equivalents	(33,566)	(11,517)	(13,294)
Decrease in Cash and cash equivalents	(107,979)	(5,853)	(171,148)
Cash and cash equivalents, beginning of period	305,448	311,301	482,449
Cash and cash equivalents, end of period	$197,469	$305,448	$311,301
Supplemental Disclosure of Cash Flow Information:			
Interest payments	$36,363	$42,041	$58,970
Income tax payments, net	79,540	82,694	93,856

See Notes to Consolidated Financial Statements.

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COLFAX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Nature of Operations

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.

During the year ended December 31, 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 4, “Acquisitions” for additional information regarding these adjustments.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The Company’s Consolidated Financial Statements include the accounts of the Company and its subsidiaries. Less than wholly owned subsidiaries, including joint ventures, are consolidated when it is determined that the Company has a controlling financial interest, which is generally determined when the Company holds a majority voting interest. When protective rights, substantive rights or other factors exist, further analysis is performed in order to determine whether or not there is a controlling financial interest. The Consolidated Financial Statements reflect the assets, liabilities, revenues and expenses of consolidated subsidiaries and the noncontrolling parties’ ownership share is presented as a noncontrolling interest. All significant intercompany accounts and transactions have been eliminated.

Equity Method Investments

Investments in joint ventures, where the Company has a significant influence but not a controlling interest, are accounted for using the equity method of accounting. Investments accounted for under the equity method are initially recorded at the amount of the Company’s initial investment and adjusted each period for the Company’s share of the investee’s income or loss and dividends paid. All equity investments are reviewed periodically for indications of other than temporary impairment, including, but not limited to, significant and sustained decreases in quoted market prices or a series of historic and projected operating losses by investees. If the decline in fair value is considered to be other than temporary, an impairment loss is recorded and the investment is written down to a new carrying value. Investments in joint ventures acquired in a business combination are recognized in the opening balance sheet at fair value.

Revenue Recognition

The Company generally recognizes revenues and costs from product sales when title passes to the buyer and all of the following criteria are met: persuasive evidence of an arrangement exists, the price is fixed or determinable, product delivery has occurred or services have been rendered, there are no further obligations to customers, and collectibility is reasonably assured. Product delivery occurs when title and risk of loss transfer to the customer. The Company’s shipping terms vary based on the contract. If any significant obligations to the customer with respect to such sale remain to be fulfilled following shipments, typically involving obligations relating to installation and acceptance by the buyer, revenue recognition is deferred until such obligations have been fulfilled. Any customer allowances and discounts are recorded as a reduction in reported revenues at the time of sale because these allowances reflect a reduction in the sales price for the products sold. These allowances and discounts are estimated based on historical experience and known trends. Revenue related to service agreements is recognized as revenue over the term of the agreement. Progress billings are generally shown as a reduction of Inventories, net unless such billings are in excess of accumulated costs, in which case such balances are included in Accrued liabilities in the Consolidated Balance Sheets.

The Company recognizes revenue and cost of sales on gas-handling long-term contracts using the “percentage of completion method” in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Under this method, contract revenues are recognized over the performance period of the contract in direct proportion to the costs incurred as a percentage of total estimated costs for the entirety of the contract. Any recognized revenues that have not been billed to a customer are recorded as a component of Trade receivables and any billings of customers in excess of recognized revenues are recorded as a component of Accounts payable. As of December 31, 2015, there were $149.5 million of revenues in excess of billings and $146.3 million of billings in excess of revenues on long-term contracts in the Consolidated Balance Sheet. As of December 31, 2014, there were $190.7 million of revenues in excess of billings and $175.3 million of billings in excess of revenues on long-term contracts in the Consolidated Balance Sheet.

COLFAX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company has contracts in various stages of completion. Such contracts require estimates to determine the appropriate cost and revenue recognition. Significant management judgments and estimates, including estimated costs to complete projects, must be made and used in connection with revenue recognized during each period. Current estimates may be revised as additional information becomes available. The revisions are recorded in income in the period in which they are determined using the cumulative catch-up method of accounting. See Note 16, "Segment Information" for sales by major product group.

Amounts billed for shipping and handling are recorded as revenue. Shipping and handling expenses are recorded as a component of Cost of sales.

Taxes Collected from Customers and Remitted to Governmental Authorities

The Company collects various taxes and fees as an agent in connection with the sale of products and remits these amounts to the respective taxing authorities. These taxes and fees have been presented on a net basis in the Consolidated Statements of Income and are recorded as a component of Accrued liabilities in the Consolidated Balance Sheets until remitted to the respective taxing authority.

Research and Development Expense

Research and development costs of $41.5 million, $43.0 million and $27.4 million for the years ended December 31, 2015, 2014 and 2013, respectively, are expensed as incurred and are included in Selling, general and administrative expense in the Consolidated Statements of Income.

Advertising Costs

Advertising costs of $14.5 million, $18.2 million and $17.0 million for the years ended December 31, 2015, 2014 and 2013, respectively, are expensed as incurred and are included in Selling, general and administrative expense in the Consolidated Statements of Income.

Cash and Cash Equivalents

Cash and cash equivalents include all financial instruments purchased with an initial maturity of three months or less.

Trade Receivables

Trade receivables are presented net of an allowance for doubtful accounts. The Company records an allowance for doubtful accounts based upon estimates of amounts deemed uncollectible and a specific review of significant delinquent accounts factoring in current and expected economic conditions. Estimated losses are based on historical collection experience, and are reviewed periodically by management. During the year ended December 31, 2015, the Company recorded an increase in the allowance for doubtful accounts of specific South American customers of $9.4 million.

Inventories

Inventories, net include the cost of material, labor and overhead and are stated at the lower of cost (determined under various methods including average cost, last-in, first-out and first-in, first-out, but predominantly first-in, first-out) or market. For gas-handling long-term contracts, cost is primarily determined based upon actual cost. The Company periodically reviews its quantities of inventories on hand and compares these amounts to the expected usage of each particular product. The Company records as a charge to Cost of sales any amounts required to reduce the carrying value of inventories to net realizable value.

Property, Plant and Equipment

Property, plant and equipment, net are stated at historical cost, which includes the fair values of such assets acquired. Depreciation of property, plant and equipment is recorded on a straight-line basis over estimated useful lives. Assets recorded under capital leases are amortized over the shorter of their estimated useful lives or the lease terms, which range from three to 15 years. Repair and maintenance expenditures are expensed as incurred unless the repair extends the useful life of the asset.

COLFAX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Impairment of Goodwill and Indefinite-Lived Intangible Assets

Goodwill represents the costs in excess of the fair value of net assets acquired associated with acquisitions by the Company. Indefinite-lived intangible assets consist of trade names.

The Company evaluates the recoverability of Goodwill and indefinite-lived intangible assets annually or more frequently if an event occurs or circumstances change in the interim that would more likely than not reduce the fair value of the asset below its carrying amount. Goodwill and indefinite-lived intangible assets are considered to be impaired when the net book value of a reporting unit or asset exceeds its implied fair value.

In the evaluation of Goodwill for impairment, the Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting entity is less than its carrying value. If the Company determines that it is not more likely than not for a reporting unit’s fair value to be less than its carrying value, a calculation of the fair value is not performed. If the Company determines that it is more likely than not for a reporting unit’s fair value to be less than its carrying value, a calculation of the reporting entity’s fair value is performed and compared to the carrying value of that entity. In certain instances, the Company may skip the qualitative assessment and proceed directly to the first step of the quantitative impairment test. If the carrying value of a reporting unit exceeds its fair value, Goodwill of that reporting unit is potentially impaired and step two of the impairment analysis is performed. In step two of the analysis, an impairment loss is recorded equal to the excess of the carrying value of the reporting unit’s Goodwill over its implied fair value should such a circumstance arise.

The Company measures fair value of reporting units based on a present value of future discounted cash flows and a market valuation approach. The discounted cash flows model indicates the fair value of the reporting units based on the present value of the cash flows that the reporting units are expected to generate in the future. Significant estimates in the discounted cash flows model include: the weighted average cost of capital; long-term rate of growth and profitability of our business; and working capital effects. The market valuation approach indicates the fair value of the business based on a comparison of the Company against certain market information. Significant estimates in the market approach model include identifying appropriate market multiples and assessing earnings before interest, income taxes, depreciation and amortization in estimating the fair value of the reporting units.

Based on the results of the qualitative assessment for each reporting unit performed as of September 26, 2015, the Company concluded based on a preponderance of positive indicators and the weight of such indicators that the fair values of our Fluid Handling, Howden Compressors and Howden Heavy Fans & Heaters reporting units are more likely than not greater than their respective carrying amounts and as a result, quantitative analyses would not be needed. Therefore, no further testing of goodwill for impairment was performed for these reporting units.
For the Fabrication Technology reporting unit, the Company noted unfavorable domestic and international economic trends, particularly trading volumes, which are driven by overall macroeconomic conditions within the welding industry. As such, the Company did not perform a qualitative assessment of goodwill for the Fabrication Technology reporting unit and proceeded directly to performing the first step of the two-step quantitative goodwill impairment test for the annual impairment analysis performed as of September 26, 2015. The Company’s quantitative impairment assessment of Goodwill associated with the Fabrication Technology reporting unit, based on the methodologies identified above, resulted in a calculated fair value that exceeded the carrying value of the reporting unit.
The annual Goodwill impairment analysis performed as of September 26, 2015, September 27, 2014 and September 28, 2013 indicated no impairment to be present.

In the evaluation of indefinite-lived intangible assets for impairment, the Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of the indefinite-lived intangible asset is less than its carrying value. If the Company determines that it is not more likely than not for the indefinite-lived intangible asset's fair value to be less than its carrying value, a calculation of the fair value is not performed. If the Company determines that it is more likely than not that the indefinite-lived intangible asset's fair value is less than its carrying value, a calculation is performed and compared to the carrying value of the asset. If the carrying amount of the indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. The Company measures the fair value of our indefinite-lived intangible assets using the "relief from royalty" method. Significant estimates in this approach include projected revenues and royalty and discount rates for each trade name evaluated.

From time-to-time, the Company has identified certain indefinite-lived intangible assets that, due to indicators present at the specific operation associated with the indefinite-lived intangible asset, should be tested for impairment prior to the annual impairment evaluation. During the three months ended September 25, 2015, an analysis was performed to evaluate certain intangible assets related to a specific operation within the Company due to a decline in anticipated performance at the operation associated with those assets. The analysis determined an indefinite-lived trade name within the Company’s fabrication technology segment was impaired based upon relief from royalty measurements and resulted in a $1.5 million impairment loss calculated as the difference between the fair value of the asset and its carrying value as of the date of the impairment test. The impairment loss was included in Selling, general and administrative expense in the Consolidated Statement of Income for the year ended December 31, 2015. The calculated fair value of the asset was $2.8 million and is included in Level Three of the fair value hierarchy.

During the year ended December 31, 2014, prior to the annual impairment evaluation, an analysis was performed to evaluate an indefinite-lived intangible asset related to a specific operation within the gas- and fluid-handling segment due to the decision to substantially reduce its operations. The analysis determined the indefinite-lived intangible asset, consisting of a trade name, was no longer recoverable based upon relief from royalty measurements and resulted in a $2.9 million impairment loss included in Selling, general and administrative expense in the Consolidated Statement of Income for the year ended December 31, 2014.

The analyses performed as of September 26, 2015, September 27, 2014 and September 28, 2013 resulted in no impairment charges, except for $0.2 million of an impairment loss related to an indefinite-lived intangible asset included in the gas- and fluid-handling segment for the year ended December 31, 2013. This impairment resulted from a decline in anticipated revenue related to this asset. The impairment loss is included in Selling, general and administrative expense in the Consolidated Statement of Income for the year ended December 31, 2013 and was calculated as the difference between the fair value of the asset under the relief from royalty method and its carrying value as of the date of the impairment test.

Impairment of Long-Lived Assets Other than Goodwill and Indefinite-Lived Intangible Assets

Intangibles primarily represent acquired customer relationships, acquired order backlog, acquired technology and software license agreements. Acquired order backlog is amortized in the same period the corresponding revenue is recognized. A portion of the Company’s acquired customer relationships is being amortized on an accelerated basis over periods ranging from seven to 30 years based on the present value of the future cash flows expected to be generated from the acquired customers. All other intangibles are being amortized on a straight-line basis over their estimated useful lives, generally ranging from two to 20 years.

The Company assesses its long-lived assets other than Goodwill and indefinite-lived intangible assets for impairment whenever facts and circumstances indicate that the carrying amounts may not be fully recoverable. To analyze recoverability, the Company projects undiscounted net future cash flows over the remaining lives of such assets. If these projected cash flows are less than the carrying amounts, an impairment loss would be recognized, resulting in a write-down of the assets with a corresponding charge to earnings. The impairment loss is measured based upon the difference between the carrying amounts and the fair values of the assets. Assets to be disposed of are reported at the lower of the carrying amounts or fair value less cost to sell. Management determines fair value using the discounted cash flow method or other accepted valuation techniques.

During the year ended December 31, 2015, an analysis was performed to evaluate certain long-lived intangible assets related to a specific operation within the gas- and fluid-handling segment due to a decline in projected cash flows associated with the asset group. The analysis determined the customer relationship finite-lived, intangible asset was impaired. The impairment was calculated as the difference between the fair value of the remaining expected future cash flows to be generated from the asset and its carrying value as of the measurement date. The $1.7 million impairment loss was included in Selling, general and administrative expense in the Consolidated Statement of Income for the year ended December 31, 2015. Subsequent to the impairment, the fair value of the asset was $0.8 million, which is included in Level Three of the fair value hierarchy and is not material to the Consolidated Financial Statements.

In addition, an analysis was performed during the year ended December 31, 2014 to evaluate certain long-lived intangible assets related to a specific operation within the gas- and fluid-handling segment due to the decision to substantially reduce its operations. The analysis determined the long-lived intangible assets, primarily consisting of acquired customer relationships and acquired technology, were no longer recoverable based upon projected undiscounted net cash flows. Further, as a result of management’s evaluation of projected cash flows related to another operation within the gas-and fluid-handling segment, an analysis was performed to evaluate the long-lived intangible assets related to that operation. The analysis determined certain long-lived intangible assets, primarily consisting of acquired customer relationships, were impaired. The impairment was calculated as the difference between the fair value of the remaining expected future cash flows to be generated from the asset group and its carrying value as of the measurement date. The Company recorded $10.5 million of intangible asset impairment losses related to these two operations as a component of Selling, general and administrative expense in the Consolidated Statement of Income for the year ended December 31, 2014. The fair value of these assets of $3.3 million as of December 31, 2014 are included in Level Three of the fair value hierarchy and are not material to the Consolidated Financial Statements.

The Company recorded asset impairment losses related to facility closures totaling $9.3 million, $4.6 million and $1.9 million during the years ended December 31, 2015, 2014 and 2013, respectively, as a component of Restructuring and other related charges in the Consolidated Statements of Income. The aggregate carrying value of these assets subsequent to impairment was $21.1 million, $15.1 million and $4.9 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Derivatives

The Company is subject to foreign currency risk associated with the translation of the net assets of foreign subsidiaries to United States (“U.S.”) dollars on a periodic basis. The Company’s 2015 Deutsche Bank Credit Agreement (as defined and further discussed in Note 10, “Debt”) includes debt denominated in the Euro of €263.5 million as of December 31, 2015, which has been designated as a net investment hedge in order to mitigate a portion of this risk.

Derivative instruments are generally recognized on a gross basis in the Consolidated Balance Sheets in either Other current assets, Other assets, Accrued liabilities or Other liabilities depending upon their respective fair values and maturity dates. The Company designates a portion of its foreign exchange contracts as cash flow hedges and fair value hedges. For all instruments designated as hedges, including net investment hedges, cash flow hedges and fair value hedges, the Company formally documents the relationship between the hedging instrument and the hedged item, as well as the risk management objective and the strategy for using the hedging instrument. The Company assesses whether the relationship between the hedging instrument and the hedged item is highly effective at offsetting changes in the fair value both at inception of the hedging relationship and on an ongoing basis. For cash flow hedges and net investment hedges, unrealized gains and losses are recognized as a component of Accumulated other comprehensive loss in the Consolidated Balance Sheets to the extent that it is effective at offsetting the change in the fair value of the hedged item and realized gains and losses are recognized in the Consolidated Statements of Income consistent with the underlying hedged instrument. Gains and losses related to fair value hedges are recorded as an offset to the fair value of the underlying asset or liability, primarily Trade receivables and Accounts payable in the Consolidated Balance Sheets.

The Company does not enter into derivative contracts for trading purposes.

See Note 14, “Financial Instruments and Fair Value Measurements” for additional information regarding the Company’s derivative instruments.

Warranty Costs

Estimated expenses related to product warranties are accrued as the revenue is recognized on products sold to customers and included in Cost of sales in the Consolidated Statements of Income. Estimates are established using historical information as to the nature, frequency, and average costs of warranty claims.

The activity in the Company’s warranty liability, which is included in Accrued liabilities and Other liabilities in the Company’s Consolidated Financial Statements, consisted of the following:

	Year Ended December 31,	
	2015	2014

	(In thousands)	
Warranty liability, beginning of period	$51,135	$65,512
Accrued warranty expense	21,092	23,019
Changes in estimates related to pre-existing warranties	(1,820)	(9,966)
Cost of warranty service work performed	(29,342)	(27,389)
Acquisitions	321	4,488
Foreign exchange translation effect	(3,979)	(4,529)
Warranty liability, end of period	$37,407	$51,135

Income Taxes

Income taxes for the Company are accounted for under the asset and liability method. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities in the Consolidated Financial Statements and their respective tax basis. Deferred income tax assets and liabilities are measured using enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is generally recognized in Provision for (benefit from) income taxes in the period that includes the enactment date.

Valuation allowances are recorded if it is more likely than not that some portion of the deferred income tax assets will not be realized. In evaluating the need for a valuation allowance, the Company takes into account various factors, including the expected level of future taxable income and available tax planning strategies. Any changes in judgment about the valuation allowance are recorded through Provision for (benefit from) income taxes and are based on changes in facts and circumstances regarding realizability of deferred tax assets.

The Company must presume that an income tax position taken in a tax return will be examined by the relevant tax authority and determine whether it is more likely than not that the tax position will be sustained upon examination based upon the technical merits of the position. An income tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The Company establishes a liability for unrecognized income tax benefits for income tax positions for which it is more likely than not that a tax position will not be sustained upon examination by the respective taxing authority to the extent such tax positions reduce the Company's income tax liability. The Company recognizes interest and penalties related to unrecognized income tax benefits in the Provision for (benefit from) income taxes in the Consolidated Statements of Income.

Foreign Currency Exchange Gains and Losses

The Company's financial statements are presented in U.S. dollars. The functional currencies of the Company's operating subsidiaries are generally the local currencies of the countries in which each subsidiary is located. Assets and liabilities denominated in foreign currencies are translated at rates of exchange in effect at the balance sheet date. The amounts recorded in each year in Foreign currency translation are net of income taxes to the extent the underlying equity balances in the entities are not deemed to be permanently reinvested. Revenues and expenses are translated at average rates of exchange in effect during the year.

Transactions in foreign currencies are translated at the exchange rate in effect at the date of each transaction. Differences in exchange rates during the period between the date a transaction denominated in a foreign currency is consummated and the date on which it is either settled or translated for inclusion in the Consolidated Balance Sheets are recognized in Selling, general and administrative expense or Interest expense in the Consolidated Statements of Income for that period.

The Company considers the Venezuelan bolivar fuerte ("bolivar") a highly inflationary currency. Therefore, financial statements of the Company's Venezuelan operations are remeasured into their parents' reporting currency. During the years ended December 31, 2014 and 2013, currency devaluations of approximately 87% and 32%, respectively, of the bolivar relative to the U.S. dollar resulted in foreign currency transaction losses of $6.3 million and $2.9 million recognized in Selling, general and administrative expense in the Consolidated Statements of Income for the years ended December 31, 2014 and 2013, respectively.

In February 2015, the Venezuelan government introduced a marginal foreign exchange system ("SIMADI") which replaces an auction-based foreign exchange system that began operating on March 24, 2014 ("SICAD II"), which was previously used to remeasure Venezuelan operations. During the year ended December 31, 2015, the Company determined the SIMADI to be the most appropriate rate with which to remeasure Venezuelan operations from the multiple current legal mechanisms in Venezuela to exchange currency. The foreign currency transaction loss recognized related to the adoption of the SIMADI did not have a material impact on our Consolidated Statement of Income for the year ended December 31, 2015. Future impacts to earnings of applying highly inflationary accounting for Venezuela on the Company's Consolidated Financial Statements will be dependent upon movements in the applicable exchange rates between the bolivar and the parents' reporting currency and the amount of monetary assets and liabilities included in the Company's Venezuelan operations' balance sheets. As of and for the years ended December 31, 2015 and 2014, the Company's Venezuelan operations represented less than 1% of the Company's Total assets and Net sales. The bolivar-denominated monetary net asset position, primarily related to cash and cash equivalents, was $0.1 million and $0.7 million in the Consolidated Balance Sheets as of December 31, 2015 and 2014, respectively.

During the year ended December 31, 2015, the Company recognized a net foreign currency transaction loss of $3.9 million and a gain of $2.1 million in Interest expense and Selling, general and administrative expense, respectively, in the Consolidated Statement of Income. During the year ended December 31, 2014, the Company recognized net foreign currency transaction losses of $5.1 million and $5.5 million in Interest expense and Selling, general and administrative expense, respectively, in the Consolidated Statement of Income, including the $6.3 million loss related to the devaluation of the bolivar discussed above. During the year ended December 31, 2013, net foreign currency transaction losses of $4.1 million and $5.2 million were recognized in Interest expense and Selling, general and administrative expense, respectively, in the Consolidated Statement of Income, including the $2.9 million loss related to the devaluation of the bolivar discussed above.

Debt Issuance Costs and Debt Discount

Costs directly related to the placement of debt are capitalized and amortized to Interest expense primarily using the effective interest method over the term of the related obligation. Net deferred issuance costs of $8.1 million and $9.9 million, respectively, were included in the Consolidated Balance Sheets as of December 31, 2015 and 2014, which includes $13.4 million and $8.6 million, respectively, of accumulated amortization. As of December 31, 2015, $6.9 million and $1.2 million of deferred issuance costs were included in Other assets and as a reduction of Long-term debt, respectively. As of December 31, 2014, $7.5 million and $2.4 million of deferred issuance costs were included in Other assets and as a reduction of Long-term debt, respectively. See further discussion of presentation of deferred issuance costs in the Consolidated Balance Sheets in Note 3, “Recently Issued Accounting Pronouncements” as a result of adoption of Accounting Standards Update No. 2015-03, “Interest—Imputation of Interest (Subtopic 835-30)”. During the years ended December 31, 2015, 2014 and 2013, the Company deferred $3.4 million, $0.3 million and $7.1 million, respectively, of debt issuance costs. Further, the carrying value of Long-term debt is reduced by an original issue discount, which is accreted to Interest expense using the effective interest method over the term of the related obligation. See Note 10, “Debt” for additional discussion regarding the Company’s borrowing arrangements.

Use of Estimates

The Company makes certain estimates and assumptions in preparing its 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 Consolidated Financial Statements and the reported amounts of revenues and expenses for the period presented. Actual results may differ from those estimates.

Reclassifications

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

3. Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASU No. 2014-09”). ASU No. 2014-09 clarifies the principles for recognizing revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance affects entities that enter into contracts with customers to transfer goods or services, and supersedes prior GAAP guidance, namely Accounting Standards Codification Topic 605—Revenue Recognition. In August 2015, the FASB issued ASU No. 2015-14, “Revenue from Contracts with Customers (Topic 606)”, which delays the effective date of ASU No. 2014-09 by one year. As a result, ASU No. 2014-09 will be effective for fiscal years beginning after

December 15, 2017, with early adoption permitted but not prior to the original effective date of annual periods beginning after December 15, 2016. ASU 2014-09 is to be applied retrospectively, or on a modified retrospective basis. The Company plans to apply ASU 2014-09 retrospectively as of January 1, 2018 and is currently evaluating the impact 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 year ended December 31, 2015 resulting in $1.2 million of debt issuance costs, net of accumulated amortization, presented as a direct deduction to the Company’s Long-term debt in the Consolidated Balance Sheet as of December 31, 2015. The retrospective application of ASU No. 2015-03 decreased Other assets and Long-term debt by $2.4 million in the Consolidated Balance Sheet as of December 31, 2014. The Company has applied the provisions of ASU No. 2015-15, “Interest—Imputation of Interest (Subtopic 835-30)” and presents deferred costs associated with its line-of-credit agreements as an asset in the Consolidated Balance Sheet.

In May 2015, the FASB issued ASU 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 has early adopted ASU No. 2015-07 in the Notes to Financial Statements as of December 31, 2015 and has applied the disclosure provisions of ASU No. 2015-07 to all investments measured using the net asset value per share practical expedient. See Note 13, “Defined Benefit Plans” for further discussion on the impact of ASU No. 2015-07.

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

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

In November 2015, the FASB issued ASU No. 2015-17, “Income Taxes (Topic 740)—Balance Sheet Classification of Deferred Taxes” (“ASU No. 2015-17”). ASU No. 2015-17 requires deferred tax assets and liabilities to be classified as noncurrent in the Consolidated Balance Sheets. The standard will be effective for fiscal years beginning after December 15, 2016. Early adoption is permitted for financial statements that have not been previously issued. ASU No. 2015-17 may be applied either prospectively or retrospectively to all periods presented. The Company has early adopted ASU No. 2015-17 during the year ended December 31, 2015. The retrospective application of ASU No.

2015-17 decreased Other current assets, Accrued liabilities and Other liabilities by $26.2 million, $6.2 million and $18.6 million, respectively, and increased Other assets by $1.4 million in the Consolidated Balance Sheet as of December 31, 2014.

4. Acquisitions

The following acquisitions were accounted for using the acquisition method of accounting, except as otherwise noted, and, accordingly, the Consolidated Financial Statements include the financial position and results of operations from the respective date of acquisition:

Gas and Fluid Handling

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

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

On May 21, 2014, the Company completed the $0.8 million acquisition of the remaining ownership of Howden Thomassen Middle East FCZO ("Howden Middle East"), which resulted in an increase in the Company's ownership of the subsidiary from 90% to 100% and was accounted for as an equity transaction, as the Company increased its controlling interest.

On November 29, 2013, the Company completed the acquisition of the global infrastructure and industry division of Fläkt Woods Group ("GII") for approximately $246.0 million, including the assumption of debt. GII has operations around the world and expanded the Company's product offerings in the heavy duty industrial and cooling fan market.

On November 25, 2013, the Company converted the common shares of Sistemas Centrales de Lubrication S.A. de C.V. ("Sicelub"), previously a less than wholly owned subsidiary in which the Company did not have a controlling interest, that were held by the majority owner into shares of mandatorily redeemable non-voting preferred stock of Sicelub valued at $31.7 million at the acquisition date, which resulted in an increase in the Company's ownership from 44% to 100%. On the date of the acquisition, the Company held a $7.4 million equity investment representing the Company's 44% investment in Sicelub and recognized a $13.8 million gain as a reduction in Selling, general and administrative expense in the Consolidated Statement of Income for the year ended December 31, 2013 to remeasure the investment to fair value at the acquisition date based upon the total enterprise value, adjusting for a control premium. Changes in settlement value of the mandatorily redeemable preferred stock are determined, in part, by the achievement of certain performance goals. The change in the settlement value of the mandatorily redeemable preferred stock for each period will be reflected in Interest expense. During the year ended December 31, 2014, a $3.1 million reduction to Interest expense was reflected in the Consolidated Statement of Income due to the change in expected settlement value under the conditions specified in the contract of the mandatorily redeemable preferred stock, as the performance criteria were not met. On December 25, 2015, the shares of the mandatorily redeemable preferred stock of Sicelub were redeemed and settled by offset of the outstanding loan payable to the Company by the holders of the mandatorily redeemable preferred stock.

On November 1, 2013, the Company completed the acquisition of ČKD Kompresory a.s. ("ČKDK") for approximately $69.4 million, including the assumption of debt. ČKDK is a leading supplier of multi-stage centrifugal compressors to the oil & gas, petrochemical, power and steel industries, based in Prague, Czech Republic.

On September 30, 2013, the Company completed the acquisition of certain business units of The New York Blower Company, including TLT-Babcock Inc. ("TLT-Babcock") and Alphair Ventilating Systems Inc. ("Alphair") for an approximate aggregate purchase price of $55.7 million. TLT-Babcock and Alphair are suppliers of heavy duty and industrial fans in Akron, Ohio and Winnipeg, Manitoba, respectively.

On July 9, 2013, the Company completed the acquisition of the common stock of Clarus Fluid Intelligence, LLC ("Clarus") for $13.2 million, which included the fair value of an estimated additional contingent cash payment of $2.5 million at the acquisition date. The additional contingent payment, if any, would be paid during the year ending December 31, 2016 subject to the achievement of certain performance goals. During the year ended December 31, 2014, the Company recognized an unrealized gain of $2.9 million, including accretion, related to the Clarus contingent payment liability, as the performance criteria are no longer expected to be met. The unrealized gain and accretion were recognized in Selling, general and administrative expense and Interest expense in the Consolidated Statements of Income, respectively. Clarus is a domestic supplier of flushing services for marine applications primarily to U.S. government agencies, with primary operations based in Bellingham, Washington.

Fabrication Technology

On July 1, 2014, the Company completed the $9.5 million acquisition of the remaining ownership of ESAB-SVEL ("Svel"), which resulted in an increase in the Company's ownership from 51% to 100% and was accounted for as an equity transaction, as the Company increased its controlling interest.

On April 14, 2014, Colfax completed the acquisition of the common stock of Victor Technologies Holdings, Inc. ("Victor") for total net cash consideration of $948.8 million (the "Victor Acquisition"). Victor is a global manufacturer of cutting, gas control and specialty welding solutions. The acquisition complemented the geographic footprint of the Company's fabrication technology segment and expanded its product portfolio into new segments and applications. During the year ended December 31, 2015, the Company retrospectively adjusted provisional amounts with respect to the 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 during the year ended December

31, 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.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of the acquisition for all acquisitions accounted for under the acquisition method of accounting and consummated during the years ended December 31, 2015, 2014 and 2013. For the acquisitions consummated during the year ended December 31, 2015, the amounts represent the Company's best estimate of the aggregate fair value of the assets acquired and liabilities assumed. These amounts are based upon certain valuations and studies that have yet to be finalized, and accordingly, the assets acquired and liabilities assumed, as detailed below, are subject to adjustment once the detailed analyses are completed. Substantially all of the Goodwill recognized for acquisitions consummated during the year ended December 31, 2015 is expected to be deductible for income tax purposes.

	2015	2014	2013
	(In thousands)		
Trade receivables	$15,680	$76,678	$74,387
Inventories	20,898	107,785	49,871
Property, plant and equipment	20,653	56,988	92,247
Goodwill	85,216	612,866	284,294
Intangible assets	85,113	389,700	104,272
Accounts payable	(9,909)	(34,271)	(70,122)
Debt	—	—	(10,942)
Other assets and liabilities, net	(21,644)	(260,946)	(99,205)
Consideration, net of cash acquired	$196,007	$948,800	$424,802

The Company incurred advisory, legal, valuation and other professional service fees of $2.7 million, $2.7 million and $4.3 million, during the years ended December 31, 2015, 2014 and 2013, respectively, in connection with completed acquisitions which are included in Selling, general and administrative expense in the Consolidated Statements of Income.

During the years ended December 31, 2015, 2014, and 2013, the Company's Consolidated Statements of Income included $47.9 million, $347.3 million, and $59.9 million of Net sales associated with acquisitions consummated during the respective period. During the period from April 14, 2014 through December 31, 2014, the Company's Consolidated Statements of Income included $35.9 million of Net income available to Colfax Corporation common shareholders, associated with the Victor Acquisition. Net Income (Loss) available to common shareholders associated with acquisitions consummated during the years ended December 31, 2015 and December 31, 2013 was not material.

COLFAX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

5. Net Income Per Share

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

	Year Ended December 31,		
	2015	2014	2013
	(In thousands, except share data)		
Computation of Net income per share - basic:			
Net income available to Colfax Corporation common shareholders	$167,739	$370,185	$158,232
Less: net income attributable to participating securities[(1)]	—	—	(3,740)
	$167,739	$370,185	$154,492
Weighted-average shares of Common stock outstanding - basic	124,101,033	121,143,790	99,198,570
Net income per share - basic	$1.35	$3.06	$1.56
Computation of Net income per share - diluted:			
Net income available to Colfax Corporation common shareholders	$167,739	$370,185	$158,232
Less: net income attributable to participating securities[(1)]	—	—	(3,740)
	$167,739	$370,185	$154,492
Weighted-average shares of Common stock outstanding - basic	124,101,033	121,143,790	99,198,570
Net effect of potentially dilutive securities - stock options and restricted stock units	768,616	1,522,502	1,167,885
Weighted-average shares of Common stock outstanding - diluted	124,869,649	122,666,292	100,366,455
Net income per share - diluted	$1.34	$3.02	$1.54

[(1)] Net income per share - diluted for the period from January 13, 2012 to April 23, 2013 was calculated consistently with the two-class method in accordance with GAAP, as further discussed below. Subsequent to April 23, 2013 and prior to February 12, 2014, Net income per share - diluted was calculated consistently with the if-converted method in accordance with GAAP, as further discussed below. However, for the year ended December 31, 2013, the calculation under this method was anti-dilutive.

On April 23, 2013, the Company and BDT CF Acquisition Vehicle, LLC (the “BDT Investor”) amended the Certificate of Designations of Series A Perpetual Convertible Preferred Stock of Colfax Corporation to eliminate the right of the Series A Perpetual Convertible Preferred Stock to share proportionately in any dividends or distributions made in respect of the Company’s Common stock. On February 12, 2014, the Company entered into a Conversion Agreement with the BDT Investor pursuant to which the BDT Investor exercised its option to convert 13,877,552 shares of Series A Perpetual Convertible Preferred Stock into 12,173,291 shares of Common stock plus cash. The BDT Investor was the sole holder of all issued and outstanding shares of the Company’s Series A Perpetual Convertible Preferred Stock. See Note 11, “Equity” for further discussion of the Series A Perpetual Convertible Preferred Stock conversion. For periods from January 13, 2012 to April 23, 2013, Net income available to Colfax Corporation common shareholders was allocated to participating securities, while any losses for those periods were not allocated to participating securities. Subsequent to April 23, 2013 and prior to February 12, 2014, the Company’s Net income per share - dilutive was computed using the “if-converted” method. Under the “if-converted” method, Net income per share - dilutive was calculated under the assumption that the shares of Series A Perpetual Convertible Preferred Stock had been converted into shares of Common stock as of the beginning of the respective period. For the years ended December 31, 2014 and

2013, the weighted-average computation of the dilutive effect of potentially issuable shares of Common stock excluded 1.4 million and 12.2 million, respectively, of Common stock equivalents, as inclusion of such shares 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 years ended December 31, 2015, 2014 and 2013 excludes approximately 3.0 million, 0.8 million and 0.6 million outstanding stock-based compensation awards, respectively, as their inclusion would be anti-dilutive.

6. Income Taxes

Income before income taxes and Provision for (benefit from) income taxes consisted of the following:

	Year Ended December 31,		
	2015	2014	2013
	(In thousands)		
Income (loss) before income taxes:			
Domestic operations	$(16,487)	$53,153	$(7,899)
Foreign operations	253,389	305,095	310,694
	$236,902	$358,248	$302,795
Provision for (benefit from) income taxes:			
Current:			
Federal	$465	$798	$(464)
State	1,076	2,047	871
Foreign	70,900	74,618	83,299
	72,441	77,463	83,706
Deferred:			
Domestic operations	$(1,231)	$(127,114)	$11,603
Foreign operations	(21,486)	(12,374)	(1,657)
	(22,717)	(139,488)	9,946
	$49,724	$(62,025)	$93,652

The Company’s Provision for (benefit from) income taxes differs from the amount that would be computed by applying the U.S. federal statutory rate as follows:

	Year Ended December 31,		
	2015	2014	2013
	(In thousands)		
Taxes calculated at the U.S. federal statutory rate	$82,940	$125,386	$105,978
State taxes	768	2,323	871
Effect of tax rates on international operations	(36,364)	(34,619)	(42,972)
Change in enacted international tax rates	(4,415)	(149)	(5,217)
Changes in valuation allowance and tax reserves	1,784	(156,071)	30,554
Other	5,011	1,105	4,438
Provision for (benefit from) income taxes	$49,724	$(62,025)	$93,652

COLFAX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Deferred income taxes, net reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. During the year ended December 31, 2015, adjustments were made retrospectively to provisional amounts recorded as of December 31, 2014, due to the finalization of the valuation of specific tax items related to the acquisition consummated during the three months ended June 27, 2014. The significant components of deferred tax assets and liabilities, in addition to the reconciliation of the beginning and ending amount of gross unrecognized tax benefits below, include the impact of these retrospective adjustments. Significant components of the deferred tax assets and liabilities are as follows:

	December 31, 2015	2014
	(In thousands)	
Deferred tax assets:		
Post-retirement benefit obligation	$75,045	$92,995
Expenses currently not deductible	109,283	116,247
Net operating loss carryforward	211,627	228,863
Tax credit carryforward	10,343	11,509
Depreciation and amortization	7,533	11,121
Other	25,379	22,285
Valuation allowance	(161,030)	(159,252)
Deferred tax assets, net	$278,180	$323,768
Deferred tax liabilities:		
Depreciation and amortization	$(317,464)	$(353,660)
Post-retirement benefit obligation	(13,581)	(12,116)
Inventory	(17,122)	(16,549)
Other	(174,367)	(193,618)
Total deferred tax liabilities	$(522,534)	$(575,943)
Total deferred tax liabilities, net	$(244,354)	$(252,175)

The Company evaluates the recoverability of its deferred tax assets on a jurisdictional basis by considering whether deferred tax assets will be realized on a more likely than not basis. To the extent a portion or all of the applicable deferred tax assets do not meet the more likely than not threshold, a valuation allowance is recorded. During the year ended December 31, 2015, the valuation allowance increased from $159.3 million to $161.0 million with a net increase of $8.6 million recognized in Provision for (benefit from) income taxes, a decrease of $3.9 million recognized in Other comprehensive (loss) income and a $3.0 million decrease related to changes in foreign currency rates. As a result of the effect of the Victor Acquisition on expected future income in the United States, the realizability of certain deferred assets were reassessed in 2014. The reduction of valuation allowances associated with this reassessment resulted in a non-cash income tax benefit of $145.4 million for the year ended December 31, 2014. Consideration was given to U.S. tax planning strategies and future U.S. taxable income as to how much of the relevant deferred tax asset could be realized on a more likely than not basis.

The Company has U.S. net operating loss carryforwards of $267.3 million expiring in years 2021 through 2032, and alternative minimum tax credits of $9.8 million that may be carried forward indefinitely. Tax credit carryforwards include foreign tax credits that have been offset by a valuation allowance. The Company’s ability to use these various carryforwards to offset any taxable income generated in future taxable periods may be limited under Section 382 and other federal tax provisions.

For the years ended December 31, 2015, 2014 and 2013, all undistributed earnings of the Company’s controlled international subsidiaries are considered to be permanently reinvested outside the U.S. and no tax expense in the U.S. has been recognized under the applicable accounting standard for these reinvested earnings. The amount of unremitted earnings from the Company’s international subsidiaries, subject to local statutory restrictions, as of December 31, 2015 is $1.3 billion. The amount of deferred tax liability that would have been recognized had such earnings not been indefinitely reinvested is not reasonably determinable.

COLFAX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company records a liability for unrecognized income tax benefits for the amount of benefit included in its previously filed income tax returns and in its financial results expected to be included in income tax returns to be filed for periods through the date of its Consolidated Financial Statements for income tax positions for which it is more likely than not that a tax position will not be sustained upon examination by the respective taxing authority. A reconciliation of the beginning and ending amount of gross unrecognized tax benefits is as follows (inclusive of associated interest and penalties):

	(In thousands)
Balance, December 31, 2013	$71,595
Acquisitions	37,328
Addition for tax positions taken in prior periods	3,752
Addition for tax positions taken in the current period	894
Reduction for tax positions taken in prior periods	(27,601)
Other, including the impact of foreign currency translation	(8,443)
Balance, December 31, 2014	77,525
Addition for tax positions taken in prior periods	3,924
Addition for tax positions taken in the current period	924
Reduction for tax positions taken in prior periods	(23,616)
Other, including the impact of foreign currency translation	(5,879)
Balance, December 31, 2015	$52,878

The Company is routinely examined by tax authorities around the world. Tax examinations remain in process in multiple countries, including but not limited to Sweden, China, Indonesia, France, Mexico, Brazil and various states. The Company files numerous group and separate tax returns in U.S. federal and state jurisdictions, as well as many international jurisdictions. In the U.S., tax years dating back to 2006 remain subject to examination, as well as the 2003 and 2005 tax years due to tax attributes available to be carried forward to open or future tax years. With some exceptions, other major tax jurisdictions generally are not subject to tax examinations for years beginning before 2008.

The Company’s total unrecognized tax benefits were $52.9 million and $77.5 million as of December 31, 2015 and 2014, respectively, inclusive of $11.2 million and $14.7 million, respectively, of interest and penalties. These amounts were offset by tax benefits of $0.1 million as of both December 31, 2015 and 2014. The net liabilities for uncertain tax positions as of December 31, 2015 and 2014 were $52.8 million and $77.4 million, respectively, and, if recognized, would favorably impact the effective tax rate. The Company records interest and penalties on uncertain tax positions as a component of Provision for (benefit from) income taxes, which was $1.8 million, $2.5 million and $4.0 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Due to the difficulty in predicting with reasonable certainty when tax audits will be fully resolved and closed, the range of reasonably possible significant increases or decreases in the liability for unrecognized tax benefits that may occur within the next 12 months is difficult to ascertain. Currently, the Company estimates that it is reasonably possible that the expiration of various statutes of limitations, resolution of tax audits and court decisions may reduce its tax expense in the next 12 months up to $0.9 million.

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COLFAX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

7. Goodwill and Intangible Assets

The following table summarizes the activity in Goodwill, by segment during the years ended December 31, 2015 and 2014:

	Gas and Fluid Handling	Fabrication Technology	Total
	(In thousands)		
Balance, January 1, 2014	$1,532,201	$877,498	$2,409,699
Goodwill attributable to acquisitions[1]	—	612,866	612,866
Impact of foreign currency translation and other	(103,843)	(45,699)	(149,542)
Balance, December 31, 2014	1,428,358	1,444,665	2,873,023
Goodwill attributable to acquisitions	85,216	—	85,216
Impact of foreign currency translation and other	(87,308)	(53,244)	(140,552)
Balance, December 31, 2015	$1,426,266	$1,391,421	$2,817,687

[1] During the year ended December 31, 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 4, “Acquisitions” for further discussion regarding these adjustments.

The following table summarizes the Intangible assets, excluding Goodwill:

	December 31, 2015		2014	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(In thousands)			
Trade names – indefinite life	$395,319	$—	$410,600	$—
Acquired customer relationships	573,589	(117,573)	593,799	(85,171)
Acquired technology	149,578	(37,012)	113,697	(27,681)
Acquired backlog	2,575	(2,220)	—	—
Other intangible assets	48,413	(16,957)	50,287	(11,948)
	$1,169,474	$(173,762)	$1,168,383	$(124,800)

Amortization expense related to intangible assets was included in the Consolidated Statements of Income as follows:

	Year Ended December 31,		
	2015	2014	2013
	(In thousands)		
Selling, general and administrative expense	$60,629	$67,052	$41,012

See Note 2, “Summary of Significant Accounting Policies” for discussion of impairment of Intangible assets.

As of December 31, 2015, total amortization expense for intangible assets is expected to be $59.9 million, $57.1 million, $54.5 million, $50.0 million and $47.3 million for the years ending December 31, 2016, 2017, 2018, 2019 and 2020, respectively.

8. Property, Plant and Equipment, Net

	Depreciable Life	December 31, 2015	2014[1]
	(In years)	(In thousands)	
Land	n/a	$44,746	$52,539
Buildings and improvements	5-40	327,122	363,716
Machinery and equipment	3-15	546,052	524,723
Software	3-5	95,556	98,069
		1,013,476	1,039,047
Accumulated depreciation		(368,940)	(311,612)
Property, plant and equipment, net		$644,536	$727,435

[1] During the year ended December 31, 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 4, “Acquisitions” for further discussion regarding these adjustments.

Depreciation expense, including the amortization of assets recorded under capital leases, for the years ended December 31, 2015, 2014 and 2013, was $90.7 million, $94.5 million and $78.1 million, respectively. Depreciation expense for the years ended December 31, 2015, 2014, and 2013 includes $9.3 million, $4.6 million and $1.9 million of non-cash impairment of fixed assets, respectively. These amounts also include depreciation expense related to software for the years ended December 31, 2015, 2014 and 2013 of $14.3 million, $15.7 million and $11.8 million, respectively.

9. Inventories, Net

Inventories, net consisted of the following:

	December 31, 2015	2014
	(In thousands)	
Raw materials	$160,640	$164,115
Work in process	68,541	81,110
Finished goods	243,209	239,808
	472,390	485,033
Less: customer progress payments	(15,876)	(7,728)
Less: allowance for excess, slow-moving and obsolete inventory	(36,128)	(34,573)
Inventories, net	$420,386	$442,732

COLFAX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

10. Debt

Long-term debt consisted of the following:

	December 31, 2015	2014
	(In thousands)	
Term loans	$713,175	$1,210,474
Trade receivables financing arrangement	75,800	80,000
Revolving credit facilities and other	628,572	246,336
Total Debt	1,417,547	1,536,810
Less: current portion	(5,792)	(9,855)
Long-term debt	$1,411,755	$1,526,955

The Company entered into a credit agreement by and among the Company, Colfax UK Holdings Ltd, the other subsidiaries of the Company party thereto, the lenders party thereto and Deutsche Bank AG New York Branch, as administrative agent (the "Deutsche Bank Credit Agreement") on September 12, 2011. In connection with the closing of the acquisition of Charter International plc, the Deutsche Bank Credit Agreement was amended on January 13, 2012 and the Company terminated its existing credit agreement as well as Charter's outstanding indebtedness. A Second Amendment and Third Agreement to the Deutsche Bank Credit Agreement was entered into on February 22, 2013 and November 7, 2013, respectively, which, among other things, reallocated borrowing capacities of the tranches of loans and reduced interest rate margins when compared to the terms of the amended Deutsche Bank Credit Agreement on January 13, 2012.

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

On June 5, 2015, the Company entered into a credit agreement (the "2015 Deutsche Bank 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 2015 Deutsche Bank Credit Agreement were used by the Company to repay in full balances under its preexisting Deutsche Bank Credit Agreement, as well as for working capital and general corporate purposes. The 2015 Deutsche Bank Credit Agreement consists of a term loan in an aggregate amount of $750.0 million (the "Term Loan") and a revolving credit facility (the "Revolver"), each of which matures in five years. The Revolver contains a $50.0 million swing line loan sub-facility.

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

billion.

The Term Loan and the Revolver bear interest, at the election of the Company, at either the base rate (as defined in the 2015 Deutsche Bank Credit Agreement) or the Eurocurrency rate (as defined in the 2015 Deutsche Bank 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). Swing line loans bear interest at the applicable rate, as specified under the terms of the 2015 Deutsche Bank Credit Agreement, based upon the currency borrowed.

In conjunction with the 2015 Deutsche Bank Credit Agreement, the Company recorded a charge to Interest expense in the Consolidated Statement of Income for the year ended December 31, 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 2015 Deutsche Bank Credit Agreement. The Company had an original issue discount of $7.5 million and deferred financing fees of $8.1 million included in its Consolidated Balance Sheet as of December 31, 2015, which will be accreted to Interest expense primarily using the effective interest method, over the life of the 2015 Deutsche Bank Credit Agreement. As of December 31,

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2015, the weighted-average interest rate of borrowings under the 2015 Deutsche Bank Credit Agreement was 1.83%, excluding accretion of original issue discount and amortization of deferred financing fees, and there was $688.8 million available on the revolving credit facility.

The Company is also party to letter of credit facilities with total capacity of $718.8 million. Total letters of credit of $360.4 million were outstanding as of December 31, 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 program limit. On December 21, 2015, the Company increased the receivables financing facility by $15 million to $95 million and extended the facility through December 20, 2016. As of December 31, 2015, the total outstanding borrowings under the receivables financing facility were $75.8 million and the interest rate was 1.2%. The scheduled termination date for the receivables financing facility may be extended from time to time. The facility contains representations, warranties, covenants and indemnities customary for facilities of this type. The facility does not contain any covenants that the Company views as materially constraining to the activities of its business.

The contractual maturities of the Company’s debt as of December 31, 2015 are as follows[(1)]:

	(In thousands)
2016	$5,792
2017	4,536
2018	4,598
2019	2,405
2020	1,408,916
Total contractual maturities	1,426,247
Debt discount[(2)]	(8,700)
Total debt	$1,417,547

[(1)] Represents scheduled payments required under the 2015 Deutsche Bank Credit Agreement through June 5, 2020, as well as the contractual maturities of other debt outstanding as of December 31, 2015, and reflects management’s intention to repay scheduled maturities of the term loans outstanding under the 2015 Deutsche Bank Credit Agreement and the trade receivables financing arrangement (if not extended) with proceeds from the revolving credit facility.
[(2)] Includes $1.2 million of deferred debt issuance costs pursuant to the adoption of ASU No. 2015-03. See Note 3, “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 2015 Deutsche Bank Credit Agreement. The 2015 Deutsche Bank 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 2015 Deutsche Bank 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 2015 Deutsche Bank Credit Agreement contains various events of default (including failure to comply with the covenants under the 2015 Deutsche Bank 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 December 31, 2015, the Company is in compliance with the covenants under the 2015 Deutsche Bank Credit Agreement.

11. Equity

Common and Preferred Stock

During the years ended December 31, 2015, 2014 and 2013, 676,126, 252,674 and 265,995 shares of Common stock, respectively, were issued in connection with stock option exercises and employee share-based payment arrangements that vested during the year.

On May 13, 2013, the Company sold 7,500,000 shares of newly issued Colfax Common stock to underwriters for public resale pursuant to a shelf registration statement for an aggregate purchase price of $331.9 million. In conjunction with this issuance, the Company recognized $12.0 million in equity issuance costs which were recorded as a reduction to Additional paid-in capital during the year ended December 31, 2013.

The Company entered into a Conversion Agreement with the BDT Investor, pursuant to which the BDT Investor exercised its option to convert 13,877,552 shares of Series A Perpetual Convertible Preferred Stock into 12,173,291 shares of the Company's Common stock plus cash in lieu of a .22807018 share interest, which conversion occurred on February 12, 2014. As consideration for the BDT Investor's agreement to exercise its optional conversion right, the Company paid approximately $23.4 million to the BDT Investor, of which $19.6 million represents the Preferred stock conversion inducement payment in the Consolidated Statement of Income for the year ended December 31, 2014.

On February 20, 2014, the Company sold 9,200,000 shares of newly issued Colfax Common stock to underwriters for public resale pursuant to a shelf registration statement for an aggregate purchase price of $632.5 million. In conjunction with this issuance, the Company recognized $22.1 million in equity issuance costs, which were recorded as a reduction to Additional paid-in capital during the year ended December 31, 2014.

The Company contributed 66,000 shares, 183,000 shares and 88,200 shares of newly issued Colfax Common stock to its U.S. defined benefit pension plan on May 21, 2015, January 15, 2014 and September 12, 2013, respectively.

Share Repurchase Program

On October 11, 2015, the Company's Board of Directors authorized the repurchase of up to $100.0 million of the Company's Common stock from time-to-time on the open market or in privately negotiated transactions, which will be retired upon repurchase. The repurchase program is authorized until December 31, 2016 and does not obligate the Company to acquire any specific number of shares. The timing and amount of shares repurchased is to be determined by management based on its evaluation of market conditions and other factors. The repurchase program is being conducted pursuant to SEC Rule 10b-18.

During the year ended December 31, 2015, the Company repurchased 986,279 shares of its common stock in open market transactions for approximately $27.4 million. From January 1, 2016 through February 3, 2016, the Company has repurchased 1,000,000 shares of the Company's Common stock under a plan complying with Rule 10b5-1 under the Securities Exchange Act of 1934. As of February 4, 2016, the remaining stock repurchase authorization provided by the Company’s Board of Directors is approximately $52 million.

Accumulated Other Comprehensive Loss

The following table presents the changes in the balances of each component of Accumulated other comprehensive loss including reclassifications out of Accumulated other comprehensive loss for the years ended December 31, 2015, 2014 and 2013. All amounts are net of tax and noncontrolling interest.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Accumulated Other Comprehensive Loss Components			
	Net Unrecognized Pension And Other Post-Retirement Benefit Cost (In thousands)	Foreign Currency Translation Adjustment	Unrealized Gain (Loss) On Hedging Activities	Total
Balance at January 1, 2013	$(247,332)	$96,877	$3,861	$(146,594)
Acquisition of shares held by noncontrolling interest	—	(381)	—	(381)
Other comprehensive income (loss) before reclassifications:				
Net actuarial gain	77,515	—	—	77,515
Foreign currency translation adjustment	(3,297)	24,349	39	21,091
Gain on long-term intra-entity foreign currency transactions	—	2,176	—	2,176
Loss on net investment hedges	—	—	(14,261)	(14,261)
Unrealized gain on cash flow hedges	—	—	3,832	3,832
Other comprehensive income (loss) before reclassifications	74,218	26,525	(10,390)	90,353
Amounts reclassified from Accumulated other comprehensive loss	10,022	—	—	10,022
Net current period Other comprehensive income (loss)	84,240	26,525	(10,390)	100,375
Balance at December 31, 2013	$(163,092)	$123,021	$(6,529)	$(46,600)
Acquisition of shares held by noncontrolling interest	—	(942)	—	(942)
Other comprehensive (loss) income before reclassifications:				
Net actuarial loss	(89,379)	—	—	(89,379)
Foreign currency translation adjustment	4,742	(351,234)	(32)	(346,524)
Gain on long-term intra-entity foreign currency transactions	—	2,096	—	2,096
Gain on net investment hedges	—	—	39,374	39,374
Unrealized loss on cash flow hedges	—	—	(8,932)	(8,932)
Other	1,934	—	—	1,934
Other comprehensive (loss) income before reclassifications	(82,703)	(349,138)	30,410	(401,431)
Amounts reclassified from Accumulated other comprehensive loss	5,282	—	—	5,282
	(77,421)	(349,138)	30,410	(396,149)

Net current period Other comprehensive (loss) income				
Balance at December 31, 2014	$(240,513)	$(227,059)	$23,881	$(443,691)
Other comprehensive income (loss) before reclassifications:				
Net actuarial gain	28,349	—	—	28,349
Foreign currency translation adjustment	7,747	(301,011)	(382)	(293,646)
Loss on long-term intra-entity foreign currency transactions	—	(550)	—	(550)
Gain on net investment hedges	—	—	14,537	14,537
Unrealized loss on cash flow hedges	—	—	(2,873)	(2,873)
Other	3,817	—	—	3,817
Other comprehensive income (loss) before reclassifications	39,913	(301,561)	11,282	(250,366)
Amounts reclassified from Accumulated other comprehensive loss	7,342	—	—	7,342
Net current period Other comprehensive income (loss)	47,255	(301,561)	11,282	(243,024)
Balance at December 31, 2015	$(193,258)	$(528,620)	$35,163	$(686,715)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The effect on Net income of amounts reclassified out of each component of Accumulated other comprehensive loss for the years ended December 31, 2015, 2014 and 2013 is as follows:

	Year Ended December 31, 2015 Amounts Reclassified From Accumulated Other Comprehensive Loss (In thousands)	Tax Benefit	Total
Pension and other post-retirement benefit cost:			
Amortization of net loss[1]	$10,953	$(3,744)	$7,209
Amortization of prior service cost[1]	248	(115)	133
	$11,201	$(3,859)	$7,342

	Year Ended December 31, 2014 Amounts Reclassified From Accumulated Other Comprehensive Loss (In thousands)	Tax Benefit	Total
Pension and other post-retirement benefit cost:			
Amortization of net loss[1]	$7,097	$(2,063)	$5,034
Amortization of prior service cost[1]	248	—	248
	$7,345	$(2,063)	$5,282

	Year Ended December 31, 2013 Amounts Reclassified From Accumulated Other Comprehensive Loss (In thousands)	Tax Benefit	Total
Pension and other post-retirement benefit cost:			
Amortization of net loss[1]	$10,489	$(715)	$9,774
Amortization of prior service cost[1]	248	—	248
	$10,737	$(715)	$10,022

[1] Included in the computation of net periodic benefit cost. See Note 13, “Defined Benefit Plans” for additional details.

During the years ended December 31, 2015