Colfax CORP
Form 10-Q
October 25, 2018
COLFAX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

FORM 10-Q

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

For the Quarterly Period Ended September 28, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number - 001-34045
Colfax Corporation
(Exact name of registrant as specified in its charter)

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

(301) 323-9000
(Registrant’s telephone number, including area code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically 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 such files). Yes þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.
Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨
Smaller reporting company ¨ Emerging growth company ¨
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act ¨

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

As of September 28, 2018, there were 117,199,449 shares of the registrant's common stock, par value $.001 per share, outstanding.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended		Nine Months Ended	
	September 28, 2018	September 29, 2017	September 28, 2018	September 29, 2017
Net sales	$875,373	$ 844,509	$2,681,586	$ 2,426,101
Cost of sales	604,444	580,610	1,852,603	1,664,309
Gross profit	270,929	263,899	828,983	761,792
Selling, general and administrative expense	194,833	181,835	600,136	533,550
Restructuring and other related charges	15,916	7,298	40,791	23,131
Operating income	60,180	74,766	188,056	205,111
Interest expense, net	9,885	11,328	29,153	29,106
Loss on short term investments	—	—	10,128	—
Income from continuing operations before income taxes	50,295	63,438	148,775	176,005
Provision for income taxes	12,397	13,816	11,490	46,128
Net income from continuing operations	37,898	49,622	137,285	129,877
(Loss) income from discontinued operations, net of taxes	(2,696)	2,082	(31,262)	21,790
Net income	35,202	51,704	106,023	151,667
Less: income attributable to noncontrolling interest, net of taxes	3,892	5,841	11,721	13,867
Net income attributable to Colfax Corporation	$31,310	$ 45,863	$94,302	$ 137,800
Net income (loss) per share - basic				
Continuing operations	$0.29	$ 0.36	$1.04	$ 0.94
Discontinued operations	$(0.02)	$ 0.01	$(0.26)	$ 0.18
Consolidated operations	$0.27	$ 0.37	$0.78	$ 1.12
Net income (loss) per share - diluted				
Continuing operations	$0.29	$ 0.35	$1.03	$ 0.94
Discontinued operations	$(0.03)	$ 0.02	$(0.26)	$ 0.17
Consolidated operations	$0.26	$ 0.37	$0.77	$ 1.11

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended		Nine Months Ended	
	September 28, 2018	September 29, 2017	September 28, 2018	September 29, 2017
Net income	$35,202	$ 51,704	$106,023	$ 151,667
Other comprehensive (loss) income:				
Foreign currency translation, net of tax of $(2,689), $(551), $1,880 and $(1,633)	(46,437)	89,771	(187,235)	257,682
Unrealized gain (loss) on hedging activities, net of tax of $252, $(6,249), $3,352 and $(14,872)	136	(7,755)	7,156	(22,108)
Amounts reclassified from Accumulated other comprehensive income:				
Amortization of pension and other post-retirement net actuarial loss, net of tax of $165, $722, $641 and $2,658	670	2,466	2,503	5,102
Amortization of pension and other post-retirement prior service cost, net of tax of $0, $24, $0 and $71	1	38	2	115
Other comprehensive (loss) income	(45,630)	84,520	(177,574)	240,791
Comprehensive (loss) income	(10,428)	136,224	(71,551)	392,458
Less: comprehensive (loss) income attributable to noncontrolling interest	(4,524)	5,041	(9,483)	20,085
Comprehensive (loss) income attributable to Colfax Corporation	$(5,904)	$ 131,183	$(62,068)	$ 372,373

See Notes to Condensed Consolidated Financial Statements.

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

	September 28, 2018	December 31, 2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 285,900	$ 262,019
Short term investments	—	149,608
Trade receivables, less allowance for doubtful accounts of $28,805 and $31,488	953,881	970,199
Inventories, net	484,242	429,627
Other current assets	227,249	258,379
Total current assets	1,951,272	2,069,832
Property, plant and equipment, net	494,377	552,802
Goodwill	2,524,134	2,538,544
Intangible assets, net	941,246	1,017,203
Other assets	535,200	531,316
Total assets	$ 6,446,229	$ 6,709,697
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 6,385	$ 5,766
Accounts payable	563,730	587,129
Customer advances and billings in excess of costs incurred	148,635	145,853
Accrued liabilities	350,130	358,632
Total current liabilities	1,068,880	1,097,380
Long-term debt, less current portion	1,135,624	1,055,305
Other liabilities	763,403	829,748
Total liabilities	2,967,907	2,982,433
Equity:		
Common stock, $0.001 par value; 400,000,000 shares authorized; 117,199,449 and 123,245,827 issued and outstanding	117	123
Additional paid-in capital	3,051,695	3,228,174
Retained earnings	945,944	846,490
Accumulated other comprehensive loss	(735,894)	(574,372)
Total Colfax Corporation equity	3,261,862	3,500,415
Noncontrolling interest	216,460	226,849
Total equity	3,478,322	3,727,264
Total liabilities and equity	$ 6,446,229	$ 6,709,697

See Notes to Condensed Consolidated Financial Statements.

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

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total
	Shares	$ Amount					
Balance at December 31, 2017	123,245,827	$ 123	$ 3,228,174	$ 846,490	$ (574,372)	$ 226,849	$ 3,727,264
Cumulative effect of accounting change, net of tax of $2,808	—	—	—	5,152	(5,152)	—	—
Net income	—	—	—	94,302	—	11,721	106,023
Distributions to noncontrolling owners	—	—	—	—	—	(906)	(906)
Other comprehensive income, net of tax of $5,873	—	—	—	—	(156,370)	(21,204)	(177,574)
Common stock repurchases	(6,449,425)	(6)	(199,994)	—	—	—	(200,000)
Common stock-based award activity	403,047	—	23,515	—	—	—	23,515
Balance at September 28, 2018	117,199,449	$ 117	$ 3,051,695	$ 945,944	$ (735,894)	$ 216,460	$ 3,478,322

See Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended September 28, 2018			September 29, 2017		
Cash flows from operating activities:						
Net income	$	106,023		$	151,667	
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation, amortization and impairment charges	110,597			101,843		
Stock-based compensation expense	18,867			15,633		
Non-cash interest expense	3,332			3,340		
Loss on short term investments	10,128			—		
Deferred income tax benefit	(21,730		)	(6,046		)
Gain on sale of property, plant and equipment	(8,211		)	(10,557		)
Loss on sale of business	4,337			—		
Changes in operating assets and liabilities:						
Trade receivables, net	(51,722		)	(96,472		)
Inventories, net	(56,951		)	(38,493		)
Accounts payable	6,486			(3,308		)
Customer advances and billings in excess of costs incurred	18,970			(18,405		)
Changes in other operating assets and liabilities	(39,318		)	15,489		
Net cash provided by operating activities	100,808			114,691		
Cash flows from investing activities:						
Purchases of property, plant and equipment	(40,247		)	(36,756		)
Proceeds from sale of property, plant and	17,758			16,106		

equipment		
Acquisitions, net of cash received	(83,846)	(56,931)
Sale of business, net	18,626	—
Sale of short term investments, net	139,480	—
Net cash provided by (used in) investing activities	51,771	(77,581)
Cash flows from financing activities:		
Payments under term credit facility	(93,750)	(46,878)
Proceeds from borrowings on revolving credit facilities and other	911,772	594,159
Repayments of borrowings on revolving credit facilities and other	(722,573)	(911,462)
Proceeds from borrowings on senior unsecured notes	—	374,450
Proceeds from issuance of common stock, net	4,648	4,758
Common stock repurchases	(200,000)	—
Other	(1,038)	(8,851)
Net cash (used in) provided by financing activities	(100,941)	6,176
Effect of foreign exchange rates on Cash and cash equivalents	(27,757)	7,434
Increase in Cash and cash equivalents	23,881	50,720
Cash and cash equivalents, beginning of period	262,019	221,730
Cash and cash equivalents, end of period	$ 285,900	$ 272,450

See Notes to Condensed Consolidated Financial Statements.

COLFAX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. General

Colfax Corporation (the “Company” or “Colfax”) is a leading diversified industrial technology company that provides air and gas handling and fabrication technology products and services to customers around the world under the Howden and ESAB brands.

On December 11, 2017, the Company completed the sale of its Fluid Handling business (“Fluid Handling”) to CIRCOR International, Inc., a Delaware corporation (“CIRCOR” or “the Buyer”), pursuant to a definitive purchase agreement (the Purchase Agreement) signed on September 24, 2017. Accordingly, the accompanying Condensed Consolidated Financial Statements for all periods presented reflect the Fluid Handling business as a discontinued operation. See Note 3, Discontinued Operations, for further information.

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

The Condensed Consolidated Balance Sheet as of December 31, 2017 is derived from the Company’s audited financial statements. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted in accordance with the SEC’s rules and regulations for interim financial statements. The Condensed Consolidated Financial Statements included herein should be read in conjunction with the audited financial statements and related footnotes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017 (the “2017 Form 10-K”), filed with the SEC on February 16, 2018.

The Condensed Consolidated Financial Statements reflect, in the opinion of management, all adjustments, which consist solely of normal recurring adjustments, necessary to present fairly the Company’s financial position and results of operations as of and for the periods indicated. Intercompany transactions and accounts are eliminated in consolidation. Certain prior period amounts have been reclassified to conform to current year presentations.

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

The results of operations for the three and nine months ended September 28, 2018 are not necessarily indicative of the results of operations that may be achieved for the full year. Quarterly results are affected by seasonal variations in the Company’s business. As air and gas handling customers seek to fully utilize capital spending budgets before the end of the year, usually our shipments peak during the fourth quarter. Also, our European operations typically experience a slowdown during the July, August and December holiday seasons. General economic conditions may, however, impact future seasonal variations.

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

2. Recently Issued Accounting Pronouncements

Accounting Guidance Implemented in 2018

Standards Adopted	Description	Effective Date
Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers	The standard outlines a single set of comprehensive principles for recognizing revenue under U.S. GAAP and supersedes existing revenue recognition guidance. The main principle of the standard is that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company applied the ASU and its related updates on a full retrospective basis as of January 1, 2018. The adoption of the ASU did not have a material impact on the consolidated financial statements; therefore, no cumulative catch-up adjustment was recorded for prior periods. See Note 5, “Revenue”, for additional information.	January 1, 2018
ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities	The standard requires various changes to the measurement and disclosure of equity investments. For the Company, the most relevant change under ASU 2016-01 is the elimination of the available-for-sale classification for equity securities with readily determinable fair values. The adoption of the standard as of January 1, 2018 resulted in a reclassification of a $5.2 million gain, net of tax, on short term investments from Accumulated other comprehensive loss to Retained earnings on the Company’s Condensed Consolidated Financial Statements. Additionally, as a result of the adoption of this ASU, any changes in fair value of the Company’s Short term investments is included in Loss on short term investments in the Condensed Consolidated Statement of Income.	January 1, 2018
ASU No. 2016-15, Statement of Cash Flows (Topic 203)	The guidance addresses eight specific cash flow issues and clarifies their presentation and classification in the Statement of Cash Flows. The Company has retrospectively adopted the standard on its consolidated financial statements as of January 1, 2018. The adoption of the ASU did not have a material impact on the consolidated financial statements. As such, no retrospective adjustment was recorded.	January 1, 2018
ASU 2016-16, Accounting for Income Taxes: Intra-Entity Asset Transfers of Assets Other than Inventory	The standard eliminates the exception that the tax effects of an intra-entity transfer (sales) are deferred until the transferred asset is sold to a third party or recovered through use. The resulting impact is the recognition of tax expense in the seller’s jurisdiction and any deferred tax asset in the buyer’s jurisdiction in the period the transfer occurs. The new guidance does not apply to intra entity sales of inventory whose tax effects will continue to be deferred until the inventory is sold to a third party. The Company adopted the ASU as of January 1, 2018 using a modified retrospective approach and concluded the ASU had no material impact on the consolidated financial statements; therefore, no cumulative catch-up adjustment was recorded.	January 1, 2018

ASU No. 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-retirement Benefit Cost	The standard requires that the service cost component of net benefit costs of pension and post-retirement benefit plans be reported in the same line item as other compensation costs. Other components of net periodic pension cost and net periodic post-retirement benefit cost are required to be presented in the income statement separately from the service cost component, and only the service cost is eligible for capitalization. The Company adopted the ASU as of January 1, 2018 retrospectively for the presentation requirements and prospectively for the capitalization of the service cost. The adoption of the ASU did not have a material impact on the consolidated financial statements. No adjustment was recorded as a result of the adoption.	January 1, 2018

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

Standards Adopted	Description	Effective Date
ASU 2018-05, Income Taxes (Topic 740): Amendments to SEC Paragraphs pursuant to SEC Staff Accounting Bulletin No. 118 (“SAB 118”)	The standard addresses the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the 2017 U.S. Tax Cut and Jobs Act (“Tax Act”). SAB 118 allows registrants to include a provisional amount to account for the implications of the Tax Act where a reasonable estimate can be made and requires the completion of the accounting no later than one year from the date of enactment of the Tax Act or December 22, 2018. In its financial statements for the year ended December 31, 2017, the Company included a provisional estimate of approximately $52 million for the transition tax, payable over 8 years. Generally, the foreign earnings subject to the transition tax can be distributed without additional U.S. tax; however, if distributed, the amount could be subject to foreign taxes and U.S. state and local taxes. The Company also recorded a provisional tax benefit estimate of approximately $55 million for the re-measurement of its U.S. deferred tax assets and liabilities to a 21% effective tax rate. The Company continues to evaluate the implications of the Tax Act and have not made any adjustments to the provisional amounts recorded in the prior year. Additionally, the Company filed its 2017 U.S. income tax return in the fourth quarter of 2018. The Company does not anticipate significant provision to return adjustments related to changes in tax basis in temporary differences, tax pools, earnings and profits, or other elements of the income tax effects of the Tax Act that will be recorded in the fourth quarter of 2018 that were previously estimated in the financial statements as of December 31, 2017.	December 31, 2017

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

New Accounting Guidance to be Implemented

Standards Pending Adoption	Description	Anticipated Impact	Effective/Adoption Date
ASU 2016-02, Leases (Topic 842)	The standard requires a lessee to recognize assets and liabilities associated with the rights and obligations attributable to most leases but also recognize expenses similar to current lease accounting. The standard also requires certain qualitative and quantitative disclosures designed to assess the amount, timing and uncertainty of cash flows arising from leases, along with additional key information about leasing arrangements. The new guidance can be adopted using a modified retrospective transition and provides for certain practical expedients.	The Company is analyzing and updating data previously collected to evaluate the impact of adopting the ASU on its consolidated financial statements, and further assessing the related systems required to support increased reporting and disclosures requirements. The Company will adopt the package of practical expedients for all leases commenced before January 1, 2019. The adoption of the guidance will result in the recording of an operating lease asset and liability, which are estimated to be less than 3% of Total assets. The impacts on the consolidated statements of income or consolidated statements of cash flows are expected to be immaterial.	January 1, 2019
ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	The ASU is effective for fiscal periods beginning after December 15, 2019 and early adoption is permitted. The ASU eliminates the probable initial recognition threshold under current U.S. GAAP and broadens the information an entity must consider when developing its expected credit loss estimates to include forward-looking information.	The Company is currently evaluating the impact of adopting the ASU on its consolidated financial statements.	January 1, 2020
ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities	The ASU amends the current hedge accounting model and eliminates the requirement to separately measure and report hedge ineffectiveness and requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. The ASU also eases certain documentation and assessment requirements and modifies the accounting for components excluded from the	The Company is currently evaluating the impact of adopting the ASU on its consolidated financial statements and the timing of adoption.	January 1, 2019

	assessment of hedge effectiveness. Companies are required to apply amendments to cash flow and net investment hedge relationship using modified retrospective method and apply prospective method for the presentation and disclosure requirements.		
ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income	The standard provides entities the option to reclassify to retained earnings the tax effects resulting from the Tax Act related to items stranded in accumulated other comprehensive income. The new guidance may be applied retrospectively to each period in which the effect of the Tax Act is recognized in the period of adoption.	The Company is currently evaluating the impact of this ASU on its consolidated financial statements and the timing of adoption.	January 1, 2019

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

Standards Pending Adoption	Description	Anticipated Impact	Effective/Adoption Date
Topic 740, No. 5, Accounting for Global Intangible Low-Taxed Income	The FASB Staff Q&A, Topic 740, No. 5, Accounting for Global Intangible Low-Taxed Income (GILTI), states that an entity can make an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or provide for a current tax expense related to GILTI in the year the tax is incurred.	The Tax Act subjects the Company to tax on the GILTI earned by certain of its foreign subsidiaries. The Company has included an estimate of GILTI in determining its annual effective tax rate; however, given the complexity of the GILTI provisions, the Company is still evaluating the effects of the GILTI provisions and has not yet determined its accounting policy.	December 31, 2018
ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement	The ASU modifies the disclosure requirements for fair value measurements.	The Company is currently evaluating the impact of this ASU on its consolidated financial statements and the timing of adoption.	January 1, 2020
ASU 2018-14, Compensation - Retirement Benefits - Defined Benefit Plans - General (Topic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans	The ASU modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans.	The Company is currently evaluating the impact of this ASU on its consolidated financial statements and the timing of adoption.	January 1, 2021

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

3. Discontinued Operations

Sale of Fluid Handling Business

The Company sold its Fluid Handling business to CIRCOR on December 11, 2017. After certain post-closing adjustments, total consideration for the sale was $860.6 million, consisting of $551.0 million of cash, 3.3 million shares of CIRCOR common stock (“CIRCOR Shares”), and assumption of $168.0 million of net retirement liabilities. All cash consideration has been collected.

During the three months ended June 29, 2018, the Company sold its CIRCOR Shares for $139.5 million, net of $5.8 million of underwriters' fees.

The key components of (Loss) income from discontinued operations for the three and nine months ended September 28, 2018 and September 29, 2017 were as follows:

	Three Months Ended		Nine Months Ended	
	September 28, 2018	September 29, 2017	September 28, 2018	September 29, 2017
	(In thousands)			
Net sales	$—	$ 114,524	$—	$ 343,690
Cost of Sales	—	77,379	—	224,373
Selling, general and administrative expense[1]	2,668	29,353	7,262	90,308
Divestiture-related expense, net[2]	1,013	5,675	3,371	7,275
Restructuring and other related items[3]	—	634	—	(7,628)
Operating (loss) income	(3,681)	1,483	(10,633)	29,362
Interest income[4]	—	88	—	353
Loss on disposal	—	—	(4,337)	—
(Loss) income from discontinued operations before income taxes	(3,681)	1,571	(14,970)	29,715
Income tax (benefit) expense [5]	(985)	(511)	16,292	7,925
(Loss) income from discontinued operations, net of taxes	$(2,696)	$ 2,082	$(31,262)	$ 21,790

(1) Pursuant to the Purchase Agreement, the Company retained its asbestos-related contingencies and insurance coverages. However, as the Company did not retain an interest in the ongoing operations of the business subject to the contingencies, the Company has classified asbestos-related activity in its Condensed Consolidated Statements of Income as part of (Loss) income from discontinued operations. See Note 14, “Commitments and Contingencies” for further information.
(2) Primarily related to professional and consulting fees associated with the divestiture including due diligence and preparation of regulatory filings, as well as employee benefit arrangements and other disposition-related activities.
(3) During the nine months ended September 29, 2017, the Company recorded a gain of approximately $12 million from the sale of a facility.
(4) Interest expense has not been allocated to the discontinued operations.
(5) Income tax expense for the nine months ended September 28, 2018 includes incremental tax expense due to changes in the estimated gain allocation by jurisdiction which were recognized during the three months ended June 29, 2018.

The Company did not have material cash flows for discontinued operations during the nine months ended September 28, 2018. Cash provided by operating activities of discontinued operations for the nine months ended September 29, 2017 was $33.9 million. Cash used in investing activities of discontinued operations was $6.0 million for the nine months ended September 29, 2017. There are no material items in the accompanying Condensed Consolidated Statements of Income that had been eliminated in consolidation prior to the disposal.

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

4. Acquisitions

During the nine months ended September 28, 2018, the Company completed two acquisitions in the Air & Gas Handling segment for net cash consideration of $35.9 million. During the same period, the Company also completed an acquisition in the Fabrication Technology segment for net cash consideration of $38.2 million. All three acquisitions are subject to certain purchase price adjustments.

On October 1, 2018, the Company acquired Gas Control Equipment Group AB ("GCE") for cash consideration of $216.1 million, subject to purchase price adjustments. The acquisition will be integrated into the Fabrication Technology reporting segment, improving scale and customer reach in Europe, and increasing presence in specialty gas applications. For the twelve months ended September 28, 2018, GCE had revenues of approximately $120 million.

5. Revenue

The Company accounts for revenue in accordance with Topic 606, "Revenue from Contracts with Customers," which the Company adopted on January 1, 2018, using the full retrospective method. Accordingly, the Company recognizes revenue when control of promised goods or services is transferred to the customer. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled in exchange for transferring the goods or services. The nature of the Company's contracts gives rise to certain types of variable consideration, including rebates and other discounts. The Company includes estimated amounts of variable consideration in the transaction price to the extent that it is probable there will not be a significant reversal of revenue. Estimates are based on historical or anticipated performance and represent the Company's best judgment at the time. Any estimates are evaluated on a quarterly basis until the uncertainty is resolved.

The Company provides a variety of products and services to its customers. Most of the Company's contracts consist of a single, distinct performance obligation or promise to transfer goods or services to a customer. For contracts that include multiple performance obligations, the Company allocates the total transaction price to each performance obligation using the Company's best estimate of the standalone selling price of each identified performance obligation.

A majority of revenue recognized by the Company relates to contracts with customers for standard or off-the-shelf products. As control typically transfers to the customer upon shipment of the product in these circumstances, revenue is generally recognized at that point in time. For service contracts, the Company recognizes revenue ratably over the period of performance as the customer simultaneously receives and consumes the benefits of the services provided.

The following tables disaggregate the Company's revenue by segment and timing of transfer:

	Three Months Ended			
	September 28, 2018		September 29, 2017	
	Fabrication Technology	Air and Gas Handling	Fabrication Technology	Air and Gas Handling
	(in thousands)			
Point in time	$524,023	$100,019	$479,947	$155,530
Over time	—	251,331	2,252	206,780
Total	$524,023	$351,350	$482,199	$362,310

Nine Months Ended

	September 28, 2018		September 29, 2017	
	Fabrication Technology	Air and Gas Handling	Fabrication Technology	Air and Gas Handling
	(in thousands)			
Point in time	$1,617,893	$415,180	$1,432,605	$492,213
Over time	260	648,253	4,452	496,831
Total	$1,618,153	$1,063,433	$1,437,057	$989,044

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In certain contracts, particularly within the Air and Gas Handling segment, the Company is engaged to engineer and build highly-customized, large-scale products and systems. In these circumstances, the Company produces an asset with no alternative use and has a right to payment for performance completed to date. As a result, revenue is recognized over time based on progress to date. To measure progress, the Company uses an input method based on costs incurred relative to total estimated costs. Under this method, contract revenues are recognized over the performance period of the contract. The amount recognized is directly proportionate to the costs incurred as a percentage of total estimated costs for the entirety of the contract. This method requires 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.

As of September 28, 2018, the Air and Gas Handling business had $835.6 million of remaining performance obligations, which is also referred to as total backlog. Of that total backlog, the Company expects to recognize approximately 43% as revenue in 2018 and an additional 57% thereafter.

Given the nature of these long-term contracts, the Company is often paid at various points throughout the process, based on the contractual terms. The Company applies the available practical expedient involving the existence of a significant financing component. As the Company generally does not receive payments greater than one year in advance or arrears of revenue recognition, the Company does not consider any arrangements to include financing components.

Any recognized revenues in excess of customer billings are recorded as a component of Trade receivables. Billings to customers in excess of recognized revenues are recorded as a component of Customer advances and billings in excess of costs incurred. For long-term contracts, amounts are billed as work progresses, based on the specified timeline included in the contractual terms. Each contract is evaluated individually to determine the net asset or net liability position. As of September 28, 2018 and December 31, 2017, there were $185.2 million and $203.9 million, respectively, of revenues in excess of billings and $77.2 million and $94.2 million, respectively, of billings in excess of revenues on long-term contracts in the Condensed Consolidated Balance Sheets. For contracts recognized at a point in time, revenue recognition and billing typically occur simultaneously.

The Company’s Fabrication Technology business formulates, develops, manufactures and supplies consumable products and equipment. Substantially all revenue from the Fabrication Technology business is recognized at a point in time. As a result, of the total amount of remaining unsatisfied performance obligations, the majority relate to ship and bill arrangements. Given the nature of this business, the total amount of unsatisfied performance obligations with an original contract duration of greater than one year as of September 28, 2018 is immaterial.

In some circumstances for both over time and point in time contracts, customers are billed in advance of revenue recognition, resulting in contract liabilities. As of December 31, 2017 and 2016, total contract liabilities were $133.3 million and $137.6 million, respectively. During the three and nine months ended September 28, 2018, revenue recognized that was included in the contract liability balance at the beginning of the year was $5.9 million and $103.8 million, respectively. Of this total 16.1% and 67.5%, respectively, was related to long-term contracts which have met the criteria for over time recognition. During the three and nine months ended September 29, 2017, revenue recognized that was included in the contract liability balance at the beginning of the year was $9.0 million and $106.7 million, respectively. Of this total 49.2% and 71.2%, respectively, was related to long-term contracts which have met the criteria for over time recognition. As of September 28, 2018 and September 29, 2017, total contract liabilities were $143.7 million and $121.9 million, respectively.

The period of benefit for the Company’s incremental costs of obtaining a contract would generally have less than a one-year duration; therefore, the Company applies the practical expedient available and expenses costs to obtain a contract when incurred.

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6. Net Income Per Share from Continuing Operations

Net income per share from continuing operations was computed as follows:

	Three Months Ended		Nine Months Ended	
	September 28, 2018	September 29, 2017	September 28, 2018	September 29, 2017
	(In thousands, except share data)			
Computation of Net income per share from continuing operations:				
Net income from continuing operations attributable to Colfax Corporation [1]	$34,006	$ 43,781	$125,564	$ 116,010
Weighted-average shares of Common stock outstanding - basic	117,709,725	123,260,978	121,283,339	123,187,447
Net income per share from continuing operations - basic	$0.29	$ 0.36	$1.04	$ 0.94
Computation of Net income per share from continuing operations - diluted:				
Net income from continuing operations attributable to Colfax Corporation [1]	$34,006	$ 43,781	$125,564	$ 116,010
Weighted-average shares of Common stock outstanding - basic	117,709,725	123,260,978	121,283,339	123,187,447
Net effect of potentially dilutive securities - stock options and restricted stock units	747,211	819,826	518,179	760,315
Weighted-average shares of Common stock outstanding - diluted	118,456,936	124,080,804	121,801,518	123,947,762
Net income per share from continuing operations - diluted	$0.29	$ 0.35	$1.03	$ 0.94

(1) Net income from continuing operations attributable to Colfax Corporation for the respective periods is calculated using Net income from continuing operations less the income attributable to noncontrolling interest, net of taxes.

The weighted-average computation of the dilutive effect of potentially issuable shares of Common stock under the treasury stock method for the three and nine months ended September 28, 2018 and September 29, 2017 excludes 3.5 million and 2.8 million of outstanding stock-based compensation awards, respectively, as their inclusion would be anti-dilutive.

7. Income Taxes

During the three and nine months ended September 28, 2018, Income from continuing operations before income taxes was $50.3 million and $148.8 million, respectively, while the income tax expense was $12.4 million and $11.5 million, respectively. The effective tax rates were 24.6% and 7.7% for the three and nine months ended September 28, 2018, respectively. The effective tax rate for the three months ended September 28, 2018 differed from the 2018 U.S. federal statutory rate of 21% mainly due to international taxes which are higher than the U.S. tax rate, losses in certain jurisdictions where a tax benefit is not expected to be recognized in 2018, and U.S. tax on certain foreign earnings including GILTI, offset in part by net discrete tax benefits of $6.8 million, primarily attributed to the expected realization of certain U.S. tax credits. The effective tax rate for the nine months ended September 28, 2018 differed from the 2018 U.S. federal statutory rate of 21% mainly due to net discrete tax benefits of $33.7 million, including the effective settlement of uncertain tax positions, an enacted tax rate change in a foreign jurisdiction, valuation allowance reversals, and the expected realization of certain U.S. tax credits, offset in part by international taxes, which are higher than the U.S. tax rate, losses in certain jurisdictions where a tax benefit is not expected to be recognized in 2018, and U.S. tax on certain foreign earnings including GILTI.

During the three and nine months ended September 29, 2017, Income from continuing operations before income taxes was $63.4 million and $176.0 million, respectively, while the Provision for income taxes was $13.8 million and $46.1 million, respectively. The effective tax rates were 21.8% and 26.2% for the three and nine months ended September 29, 2017, respectively. The effective tax rate differed from the 2017 U.S. federal statutory rate of 35% primarily due to international tax rates, which were lower than the U.S. tax rate, offset in part by losses in certain jurisdictions where a tax benefit was not expected to be recognized

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in 2017. The provision for income taxes for the three and nine months ended September 29, 2017 includes $1.6 million and $2.3 million of discrete tax benefits, respectively.

8. Equity

Share Repurchase Program

On February 12, 2018, the Company's Board of Directors authorized the repurchase of up to $100 million of the Company's Common stock from time-to-time on the open market or in privately negotiated transactions. The Board of Directors increased the repurchase authorization by an additional $100 million on June 6, 2018. On July 19, 2018, the Board of Directors increased the repurchase authorization by an additional $100 million. The timing, amount and method of shares repurchased is determined by management based on its evaluation of market conditions and other factors.

During the nine months ended September 28, 2018, the Company repurchased 6,449,425 shares of the Company's Common stock in open market transactions for $200.0 million. As of September 28, 2018, the remaining stock repurchase authorization provided by the Company's Board of Directors was $100.0 million.

Accumulated Other Comprehensive Loss

The following tables present the changes in the balances of each component of Accumulated other comprehensive loss including reclassifications out of Accumulated other comprehensive loss for the nine months ended September 28, 2018 and September 29, 2017. All amounts are net of tax and noncontrolling interest, if any.

	Accumulated Other Comprehensive Loss Components			
	Net Unrecognized Pension and Other Post-Retirement Benefit Cost	Foreign Currency Translation Adjustment	Unrealized Gain on Hedging Activities	Total
	(In thousands)			
Balance at January 1, 2018	$(84,338)	$(525,324)	$30,138	$(579,524)
Other comprehensive income (loss) before reclassifications:				
Foreign currency translation adjustment	835	(173,041)	(466)	(172,672)
Gain on long-term intra-entity foreign currency transactions	—	6,777	—	6,777
Gain on net investment hedges	—	—	9,210	9,210
Unrealized loss on cash flow hedges	—	—	(2,191)	(2,191)
Other comprehensive income (loss) before reclassifications	835	(166,264)	6,553	(158,876)
Amounts reclassified from Accumulated other comprehensive loss [(1)]	2,506	—	—	2,506
Net Other comprehensive income (loss)	3,341	(166,264)	6,553	(156,370)
Balance at September 28, 2018	$(80,997)	$(691,588)	$36,691	$(735,894)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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	Accumulated Other Comprehensive Loss Components			
	Net Unrecognized Pension and Other Post-Retirement Benefit Cost	Foreign Currency Translation Adjustment	Unrealized Gain on Hedging Activities	Total
	(In thousands)			
Balance at January 1, 2017	$(181,189)	$(860,789)	$53,633	$(988,345)
Other comprehensive (loss) income before reclassifications:				
Foreign currency translation adjustment	(5,414)	284,681	117	279,384
Gain on long-term intra-entity foreign currency transactions	—	(27,855)	—	(27,855)
Loss on net investment hedges	—	—	(27,737)	(27,737)
Unrealized gain on cash flow hedges	—	—	5,551	5,551
Other comprehensive (loss) income before reclassifications	(5,414)	256,826	(22,069)	229,343
Amounts reclassified from Accumulated other comprehensive loss [1]	5,230	—	—	5,230
Net Other comprehensive (loss) income	(184)	256,826	(22,069)	234,573
Balance at September 29, 2017	$(181,373)	$(603,963)	$31,564	$(753,772)

[1] Included in the computation of net periodic benefit cost. See Note 12, “Net Periodic Benefit Cost - Defined Benefit Plans” for additional details.

9. Inventories, Net

Inventories, net consisted of the following:

	September 28, 2018	December 31, 2017
	(In thousands)	
Raw materials	$147,408	$141,827
Work in process	102,447	74,704
Finished goods	278,024	254,479
	527,879	471,010
Less: customer progress payments	—	(2,308)
Less: allowance for excess, slow-moving and obsolete inventory	(43,637)	(39,075)
Inventories, net	$484,242	$429,627

10. Debt

Long-term debt consisted of the following:

	September 28, 2018	December 31, 2017
	(In thousands)	
Senior unsecured notes	$401,661	$414,862
Term loans	522,963	615,095

Revolving credit facilities and other	217,385	31,114
Total debt	1,142,009	1,061,071
Less: current portion	(6,385)	(5,766)
Long-term debt	$1,135,624	$1,055,305

The Company is party to a credit agreement by and among the Company, as the borrower, certain U.S. subsidiaries of the Company identified therein, as guarantors, each of the lenders party thereto and Deutsche Bank AG New York Branch, as

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administrative agent, swing line lender and global coordinator (the “DB Credit Agreement”). As of September 28, 2018, the weighted-average interest rate of borrowings under the DB Credit Agreement was 3.73%, excluding accretion of original issue discount and deferred financing fees, and there was $1.2 billion available on the revolving credit facility.

On April 19, 2017, the Company issued senior unsecured notes with an aggregate principal amount of €350 million (the “Euro Notes”). The Euro Notes are due in April 2025 and have an interest rate of 3.25%. The proceeds from the Euro Notes offering were used to repay borrowings under the DB Credit Agreement and bilateral credit facilities totaling €283.5 million, as well as for general corporate purposes, and are guaranteed by certain of the Company’s domestic subsidiaries (the "Guarantees"). In conjunction with the issuance, the Company recorded $6.0 million of deferred financing fees. The Euro Notes and the Guarantees have not been, and will not be, registered under the Securities Act of 1933, as amended (the "Securities Act"), or the securities laws of any other jurisdiction.

As of September 28, 2018, the Company had an original issue discount of $2.0 million and deferred financing fees of $7.5 million included in its Condensed Consolidated Balance Sheet, which will be accreted to Interest expense, primarily using the effective interest method, over the life of the applicable debt agreements.

In addition to the debt agreements discussed above, the Company is party to various bilateral credit facilities with a borrowing capacity of $273.9 million. As of September 28, 2018, outstanding borrowings under these facilities were $90.0 million, and had a weighted average borrowing rate of 3.23%.

The Company is also party to letter of credit facilities with total capacity of $752.6 million. Total letters of credit of $375.8 million were outstanding as of September 28, 2018.

As of September 28, 2018, the Company is in compliance with the covenants under the DB Credit Agreement.

11. Accrued Liabilities

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

	September 28, 2018	December 31, 2017
	(In thousands)	
Accrued payroll	$105,202	$ 98,132
Accrued taxes	36,640	53,939
Accrued asbestos-related liability	54,580	50,311
Warranty liability - current portion	37,297	32,428
Accrued restructuring liability - current portion	12,962	12,509
Accrued third-party commissions	16,520	14,014
Other	86,929	97,299
Accrued liabilities	$350,130	$ 358,632

Warranty Liability

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

Nine Months Ended

	September 28, 2018	September 29, 2017
	(In thousands)	
Warranty liability, beginning of period	$ 34,177	$ 30,222
Accrued warranty expense	17,114	12,845
Changes in estimates related to pre-existing warranties	1,727	850
Cost of warranty service work performed	(17,565)	(17,634)
Acquisitions	4,933	13
Foreign exchange translation effect	(1,624)	1,616
Warranty liability, end of period	$ 38,762	$ 27,912

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Accrued Restructuring Liability

The Company's restructuring programs include a series of actions to reduce the structural costs of the Company. A summary of the activity in the Company's restructuring liability included in Accrued liabilities and Other liabilities in the Condensed Consolidated Balance Sheets is as follows:

	Nine Months Ended September 28, 2018				
	Balance at Beginning of Period	Provisions	Payments	Foreign Currency Translation	Balance at End of Period[3]
	(In thousands)				
Restructuring and other related charges:					
Air and Gas Handling:					
Termination benefits[1]	$12,038	$18,708	$(20,488)	$(151)	$10,107
Facility closure costs[2]	(217)	2,749	(2,271)	(261)	—
	11,821	21,457	(22,759)	(412)	10,107
Non-cash charges[2]		(309)			
		21,148			
Fabrication Technology:					
Termination benefits[1]	660	8,655	(6,485)	(18)	2,812
Facility closure costs[2]	42	5,236	(5,236)	1	43
	702	13,891	(11,721)	(17)	2,855
Non-cash charges[2]		5,734			
		19,625			
Corporate and Other:					
Facility closure costs[2]	84	18	(102)	—	—
	84	18	(102)	—	—
Total	$12,607	$35,366	$(34,582)	$(429)	$12,962
Non-cash charges[2]		5,425			
		$40,791			

(1) Includes severance and other termination benefits, including outplacement services.
(2) Includes the cost of relocating associates, relocating equipment and lease termination expense in connection with the closure of facilities.
(3) As of September 28, 2018, $13.0 million of the Company's restructuring liability was included in Accrued liabilities.

The Company expects to incur charges of approximately $30 million during the remainder of 2018 related to its restructuring activities.

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12. Net Periodic Benefit Cost - Defined Benefit Plans

In connection with the sale of the Fluid Handling business, the Buyer assumed the Fluid Handling liability for all foreign defined benefit plans specific to the Fluid Handling business, a portion of the U.S. defined benefit plan, and certain other postretirement obligations. Net benefit cost for the Fluid Handling business is included in (Loss) income from discontinued operations, net of taxes, within the Condensed Consolidated Statements of Income. See Note 3, “Discontinued Operations” for further information.

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

	Three Months Ended		Nine Months Ended	
	September 28, 2018	September 29, 2017	September 28, 2018	September 29, 2017
	(In thousands)			
Pension Benefits - U.S. Plans:				
Service cost	$20	$ 46	$101	$ 139
Interest cost	1,155	3,892	4,776	11,637
Expected return on plan assets	(2,969)	(5,340)	(8,247)	(16,019)
Amortization	606	1,623	2,434	4,860
Net periodic benefit cost	$(1,188)	$ 221	$(936)	$ 617