

Colfax CORP
Form 10-K
February 17, 2015

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, 2014
OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File 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 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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

Edgar Filing: Colfax CORP - Form 10-K

(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark 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 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

The aggregate market value of common shares held by non-affiliates of the Registrant on June 27, 2014 was \$6.280 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, 2015, the number of shares of the Registrant's common stock outstanding was 123,760,391.

EXHIBIT INDEX APPEARS ON PAGE

96

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates certain information by reference from the Registrant's definitive proxy statement for its 2015 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 2015 proxy statement specifically incorporated herein by reference, the 2015 proxy statement is not deemed to be filed as part of this Form 10-K.

TABLE OF CONTENTS

Item	Description	Page
	Special Note Regarding Forward-Looking Statements	<u>2</u>
	Part I	
1	Business	<u>3</u>
1A	Risk Factors	<u>9</u>
1B	Unresolved Staff Comments	<u>19</u>
2	Properties	<u>19</u>
3	Legal Proceedings	<u>19</u>
4	Mine Safety Disclosures	<u>19</u>
	Executive Officers of the Registrant	<u>20</u>
	Part II	
5	Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	<u>22</u>
6	Selected Financial Data	<u>23</u>
7	Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>24</u>
7A	Quantitative and Qualitative Disclosures About Market Risk	<u>39</u>
8	Financial Statements and Supplementary Data	<u>41</u>
9	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	<u>91</u>
9A	Controls and Procedures	<u>91</u>
9B	Other Information	<u>92</u>
	Part III	
10	Directors, Executive Officers and Corporate Governance	<u>92</u>
11	Executive Compensation	<u>92</u>
12	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	<u>92</u>
13	Certain Relationships and Related Transactions, and Director Independence	<u>92</u>
14	Principal Accountant Fees and Services	<u>92</u>
	Part IV	
15	Exhibits and Financial Statement Schedules	<u>93</u>
	Signatures	<u>94</u>
	Exhibit Index	<u>96</u>

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,” “strategize,” “aims,” “seeks,” “sees,” and similar expressions. These statements are based on assumptions and assessments made by our management in light of their experience and perception of historical trends, current conditions, expected future developments and other factors we believe to be appropriate. These forward-looking statements are subject to a number of risks and uncertainties, including but not limited to the following:

- changes in the general economy, as well as the cyclical nature of the markets we serve;
- a significant or sustained decline in commodity prices, including oil;
- our ability to identify, finance, acquire and successfully integrate attractive acquisition targets;
- our exposure to unanticipated liabilities resulting from acquisitions;
- our ability and the ability of our customers to access required capital at a reasonable cost;
- our ability to accurately estimate the cost of or realize savings from our restructuring programs;
- the amount of and our ability to estimate our asbestos-related liabilities;
 - the solvency of our insurers and the likelihood of their payment for asbestos-related costs;
- material disruptions at any of our manufacturing facilities;
 - noncompliance with various laws and regulations associated with our international operations, including anti-bribery laws, export control regulations and sanctions and embargoes;
- risks associated with our international operations;

- risks associated with the representation of our employees by trade unions and work councils;
- our exposure to product liability claims;
- potential costs and liabilities associated with environmental, health and safety laws and regulations;
- failure to maintain, protect and defend our intellectual property rights;
- the loss of key members of our leadership team;

restrictions in our credit agreement by and among the Company, Colfax UK Holdings Ltd, the other subsidiaries of the Company party thereto, the lenders party thereto and Deutsche Bank AG New York Branch, as administrative agent, as amended (the “Deutsche Bank Credit Agreement”) 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”), Baric Group (“Baric”), 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, we completed the following additional acquisitions that we expect will grow and strengthen our business:

Gas and Fluid Handling

In September 2012, we acquired Co-Vent Group Inc. (“Co-Vent”), a leading supplier of industrial fans based in Quebec, Canada.

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%.

Fabrication Technology

In May 2012, we acquired the remaining ownership of CJSC Sibes (“Sibes”), a less than wholly owned Russian subsidiary in which the Company did not have a controlling interest.

In October 2012, we acquired approximately 91% of Soldex S.A. (“Soldex”), a leading South American supplier of welding products. In August 2013, we increased our ownership of Soldex to approximately 99%.

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 principally under the Colfax Fluid Handling brand name, as well as a portfolio of brands, including Allweiler, Imo and Total Lubrication Management. 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, 2014, welding consumables represented approximately 35% 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, which we believe, in addition to our management team's experience in the application of the CBS methodology, is one of our primary competitive strengths. CBS is our business system designed to encourage a culture of continuous improvement in all aspects of our operations and strategic planning.

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, 2014, approximately 48% 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 \$43.0 million, \$27.4 million and \$19.4 million in 2014, 2013 and 2012, 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, 2014 was \$1.4 billion, compared with \$1.6 billion as of December 31, 2013. A substantial majority of the gas- and fluid-handling order backlog as of December 31, 2014 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,		
	2014	2013	2012
North America	3,340	2,667	2,805
Europe	6,415	6,761	6,107
Asia and Middle East	4,696	4,722	4,397
Central and South America	3,255	2,963	2,424
Other	645	646	553