Colfax CORP
Form 10-K
February 21, 2019
COLFAX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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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, 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 No. 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 (Address of principal executive offices)	20701 (Zip Code)

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

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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 every Interactive Data File required to be submitted 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 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, a smaller reporting company, or an emerging growth company. See 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 ¨

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 28, 2018 was $2.907 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 13, 2019, the number of shares of the Registrant's common stock outstanding was 117,342,942.
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 2019 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 2019 Proxy Statement specifically incorporated herein by reference, the 2019 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, including risks from trade protection measures and other changes in trade relations;

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

- restrictions in our principal credit facility that may limit our flexibility in operating our business;
- impairment in the value of intangible assets;
- the funding requirements or obligations of our defined benefit pension plans and other post-retirement benefit plans;
- significant movements in foreign currency exchange rates;
- availability and cost of raw materials, parts and components used in our products;
- new regulations and customer preferences reflecting an increased focus on environmental, social and governance issues, including new regulations related to the use of conflict minerals;
- service interruptions, data corruption, cyber-based attacks or network security breaches affecting our information technology infrastructure;
- risks arising from changes in technology;
- the competitive environment in our industry;
- changes in our tax rates or exposure to additional income tax liabilities, including the effects of the U.S. Tax Cuts and Jobs Act;
- 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;
- the possibility that regulatory and other approvals and conditions to the DJO acquisition are not received or satisfied on a timely basis or at all;
- changes in the anticipated timing for closing of the DJO acquisition;
- difficulties and delays in integrating the DJO acquisition or fully realizing projected cost savings and benefits of the DJO acquisition;
- risks about the strategic options undertaken for our Air and Gas Handling segment and risks as to the timing and considerations for such strategic options; 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.

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PART I

Item 1. Business

General

Colfax Corporation (the “Company”, “Colfax”, “we” or “us”) is a leading diversified technology company that provides air and gas handling and fabrication technology products and services to customers around the world principally under the Howden and ESAB brands. The Company 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 continuously improve our Company and pursue growth in revenues and improvements in profit and cash flow.

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

Following the acquisition of Charter, we completed 24 acquisitions to grow and strengthen our business. Four of those acquisitions related to our fluid handling operations, which we sold in December 2017, as discussed below. During the most recent three-year period, we completed four acquisitions in our Air and Gas Handling segment that expanded our portfolio of gas compression products and enhanced our fan product offering with ventilation control software. We also completed six acquisitions in our Fabrication Technology segment during the most recent three-year period that broadened our product offering and technology content.

In December 2017, we completed the divestiture of our fluid handling business. This represented a strategic milestone in the development of our portfolio and strengthened our balance sheet, providing more flexibility to execute our strategic growth strategy. See Note 4, “Discontinued Operations” in the accompanying Notes to Consolidated Financial Statements in this Form 10-K for more information about this transaction. We intend to continue to acquire attractive businesses that we believe will strengthen the core of our business and/or will broaden and diversify our portfolio.

Integral to our operations is the Colfax Business System, or “CBS.” CBS is our business management system including a comprehensive set of tools. It includes repeatable, teachable processes that we use to drive continuous improvement and create superior value for our customers, shareholders and associates. Rooted in our core values, it is our culture. 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.

Each year, Colfax associates in every business develop aggressive strategic and operating plans which are based on the Voice of the Customer. In these plans, we are clear about our market realities, our threats, our risks, our opportunities and most importantly, our vision. Our belief is that when we use the tools of CBS to drive the implementation of these plans, we are able to uniquely provide customers with the world-class quality, delivery, cost and innovation they require. We believe that performance ultimately helps our customers and Colfax sustainably grow and succeed.

Recent Developments

Acquisition of DJO

In November 2018, we entered into a definitive agreement to acquire DJO Global Inc. (“DJO”) for $3.2 billion in cash. DJO is a global developer, manufacturer and distributor of high-quality medical devices with a broad range of

products used for orthopedic
bracing, reconstructive implants, rehabilitation, pain management and physical therapy. Its products address the continuum of patient care from injury prevention to rehabilitation after surgery, injury or from degenerative disease, enabling people to regain or maintain their natural motion. DJO currently develops, manufactures and distributes its products through the following two markets: Prevention & Rehabilitation and Reconstructive.

This acquisition is expected to be completed during the first quarter of 2019. The related bank, senior notes and equity financing for the acquisition was completed in February 2019. The DJO acquisition represents a strategic evolution of Colfax that creates a new growth platform in the high-margin orthopedic solutions market.

Air and Gas Handling Business

Concurrent with the Company's announcement of the DJO acquisition, we also announced that we are exploring strategic options for the Air and Gas Handling business including a potential divestiture. We have hired an advisor to assist in the process but cannot predict the outcome.

Reportable Segments

We report our operations through the Air and Gas Handling and Fabrication Technology segments.

Air and Gas Handling

We design, manufacture, install and maintain air and gas handling products for use in a wide range of markets, including power generation, oil, gas and petrochemical, mining, wastewater, and general industrial and other. Our air and gas handling products are principally marketed under the Howden brand name. Howden's primary products are heavy-duty fans, rotary heat exchangers, blowers, and compressors. The fans and heat exchangers are used primarily in steel sintering plants and other industrial applications that require movement of large volumes of air, often in harsh applications, underground mines, and coal-fired power stations, both in combustion and emissions control applications. Howden's compressors and blowers are used in oil and gas, petrochemical, wastewater and other industrial end markets. Our air and 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. The products and services are generally sold directly as well as through independent representatives and distributors.

Fabrication Technology

We formulate, develop, manufacture and supply consumable products and equipment for use in the cutting, joining and automated welding of steels, aluminum and other metals and metal alloys. For the year ended December 31, 2018, welding consumables represented approximately 43% of our total Net sales. Our fabrication technology products are marketed under several brand names, most notably ESAB, which we believe is well known in the international welding industry. ESAB's comprehensive range of welding consumables includes electrodes, cored and solid wires and fluxes using a wide range of specialty and other materials, and cutting consumables includes electrodes, nozzles, shields and tips. ESAB's fabrication technology equipment ranges from portable welding machines to large customized automated cutting and welding systems. Products are sold into a wide range of end markets, including infrastructure, wind power, marine, pipelines, mobile/off-highway equipment, oil, gas, and mining. Our sales channels include both 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 segments are 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 our markets. We encounter a wide variety of competitors that differ by product line, including well-established regional competitors, competitors with greater specialization in particular markets, as well as larger competitors. The markets that our Fabrication Technology segment competes in are also served by Lincoln Electric and the welding business within 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, timely delivery and strong aftermarket support. Our management believes that we are a leading competitor in each of our markets.

International Operations

Our products and services are available worldwide. We believe this geographic diversity allows us to draw on the skills of a global 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 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, South America, and the Middle East. For the year ended December 31, 2018, approximately 77% of our Net sales were shipped to locations outside of the U.S., with approximately 49% 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, focusing on innovation; developing new products, software and services; creating new applications for existing products; lowering the cost of manufacturing our existing products; and, redesigning existing product lines to increase efficiency and enhance performance.

Research and development expense was $48.5 million, $42.9 million and $39.3 million in 2018, 2017 and 2016, respectively. These amounts do not include development and application engineering costs incurred in conjunction with fulfilling customer orders and executing customer projects. We expect to continue making significant expenditures for research and development 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 global sources, generally each from more than one supplier. Our principal raw materials and components are metals, castings, motors, seals and bearings. 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 Air and Gas 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 is primarily a function of requested customer delivery dates and generally ranges from several days to less than 12 months; although some orders may be delivered beyond 12 months. Backlog of air and gas handling orders as of December 31, 2018 was $832.2 million, compared with $893.4 million as of December 31, 2017. A substantial majority of the air and gas handling order backlog as of December 31, 2018 is expected to be filled within the current fiscal year.

Seasonality

As our air and gas handling customers seek to fully utilize capital spending budgets before the end of the year, historically our shipments have peaked during the fourth quarter. Also, our European operations typically experience a slowdown during the July, August and December vacation 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

As of December 31, 2018, we employed approximately 15,500 persons, of whom approximately 2,100 were employed in the United States and approximately 13,400 were employed outside of the United States.

Approximately 2% of associates are covered by collective bargaining agreements with U.S. trade unions. In addition, approximately 44% 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 at http://ir.colfaxcorp.com/investor-relations, 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) 323-9090. Information contained on our website is not incorporated by reference in this report. Additionally, the SEC maintains an Internet site that contains our reports, proxy statements and other information that we electronically file with, or furnish to, the SEC at www.sec.gov.

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 the levels of new capital investment and maintenance expenditures by certain of our customers could reduce the demand for our products and services and harm our operations and financial performance.

Demand for our products and services depends significantly on the level of new capital investment and planned maintenance expenditures by certain of our customers. The level of new capital expenditures by our customers is dependent upon many factors, including general economic conditions, availability of credit, economic conditions and investment activities within their respective industries and expectations of future market behavior. In addition, volatility in commodity prices can negatively affect the level of these new activities and can result in postponement of capital spending decisions or the delay or cancellation of existing orders. For example, 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, reduced returns, or general levels of low activity. A 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.

We may require additional capital to finance our operating needs and to finance our growth, including acquisitions, which have formed a significant part of our growth strategy in the past and are expected to continue to do so. 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 our 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 fully implement 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. For additional risks regarding our acquisition strategy, see “Risks Related to Acquisitions, Including the DJO Acquisition” below.

Our Credit Agreement contains restrictions that may limit our flexibility in operating our business.

On June 5, 2015, we entered into a credit agreement by and among the Company, as the borrower, certain U.S. subsidiaries of the Company identified therein, as guarantors, each of the lenders party thereto and Deutsche Bank AG New York Branch, as administrative agent, swing line lender and global coordinator (the “DB Credit Agreement”). On December 17, 2018, we entered into a credit agreement (the “New Credit Facility”) 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, JPMorgan Chase Bank, N.A., as administrative agent, Credit Suisse Loan Funding LLC, as syndication agent, and the co-documentation agents named therein. The New Credit Facility consists of a revolving credit facility which totals $1.3 billion in commitments (the “New Revolver”) and a Term A-1 loan in an aggregate amount of $1.2 billion, each of which matures in five years, and a Term A-2 loan in an aggregate amount of $500 million, which matures in two years. The New Revolver contains a $50 million swing line loan sub-facility.

The initial credit extensions under the New Credit Facility will be available on the date that we close our acquisition of DJO. We currently intend to repay the DB Credit Agreement with the proceeds of the New Credit Facility, at which time our obligations thereunder will be terminated. Each of the New Credit Facility or, if not repaid, the DB 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 each of the New Credit Facility or, if not repaid, the DB Credit Agreement, we are required to satisfy and maintain compliance with a total leverage ratio and an interest coverage ratio. In addition, the New Credit Facility contains a “springing” collateral provision, which will require the obligations under the Credit Agreement to be secured by substantially all personal property of the Company if the total leverage ratio is greater than or equal to 3.75:1.00 for two consecutive fiscal quarters following the fourth fiscal quarter ending after the acquisition of DJO.

Limitations imposed by the various covenants contained in our credit agreements could have a materially adverse effect on our business, financial condition and results of operations.

Despite current indebtedness levels, we may incur additional debt. The incurrence of additional debt could further exacerbate the risks associated with our substantial indebtedness and could result in increased borrowing costs.

We or our subsidiaries may incur significant additional indebtedness in the future. Although the New Credit Facility or, if not repaid, the DB Credit Agreement, our notes and the indentures governing our notes contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of important qualifications and exceptions, and the additional indebtedness incurred in compliance with these restrictions could be substantial. If we or our subsidiaries incur additional debt, the risks associated with our substantial indebtedness and our ability to service our debt would increase. In addition, under the

New Credit Facility or, if not repaid, the DB Credit Agreement, we are required to satisfy and maintain compliance with a maximum total leverage ratio and a minimum interest coverage ratio. Limitations imposed by various covenants contained in our credit agreements could have a materially adverse effect on our business, financial condition and results of operations.

We will incur significant additional indebtedness to finance consummation of the DJO acquisition. Our failure to meet our debt service obligations could have a material adverse effect on our business, financial condition and results of operations, and prevent us from fulfilling our obligations, including our obligations under the notes.

We have outstanding debt and other financial obligations and significant unused borrowing capacity. As of December 31, 2018, we had $1.2 billion of outstanding indebtedness. We are also party to letter of credit facilities with total capacity of $757.4 million, of which $344.1 million were outstanding as of December 31, 2018. The DJO acquisition will require the use of a significant portion of our cash and increase the amount of debt on our balance sheet leading to substantial additional interest expense. Additionally, to finance the DJO acquisition we have (1) entered into the New Credit Facility; (2) completed an offering for $460 million of tangible equity units; and (3) completed an offering for $1 billion of senior unsecured notes. If the DJO acquisition is completed but our financial performance after the DJO acquisition does not meet management's current expectations, our ability to reduce our level of indebtedness may be adversely impacted.

Our debt level and related debt service obligations could have negative consequences, including:

- requiring us to dedicate significant cash flow from operations to the payment of principal, interest and other amounts payable on our debt, which would reduce the funds we have available for other purposes, such as working capital, capital expenditures and acquisitions;
- making it more difficult or expensive for us to obtain any necessary future financing for working capital, capital expenditures, debt service requirements, debt refinancing, acquisitions or other purposes;
- reducing our flexibility in planning for or reacting to changes in our industry and market conditions;
- making us more vulnerable in the event of a downturn in our business; and
- exposing us to interest rate risk given that a portion of our debt obligations is at variable interest rates.

We may incur or assume more debt in the future, and if we do not retire existing debt, the risks described above could increase. The New Credit Facility and our notes include covenants that may adversely affect our ability to incur indebtedness. The covenants and events of default in the New Credit Facility and our notes are different from the covenants and events of default included in the indenture governing our notes. In addition, the New Credit Facility requires us to maintain a certain financial ratio. Our ability to comply with these restrictions and covenants may be affected by events beyond our control. If we breach any of these restrictions or covenants and fail to obtain a waiver from the lenders or holders, then, subject to applicable cure periods, our outstanding indebtedness could be declared immediately due and payable.

We may not be able to generate sufficient cash to service all of our indebtedness and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.

Our ability to make scheduled payments on or to refinance our debt obligations depends on our financial condition and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business, legislative, regulatory and other factors beyond our control. We cannot assure you that we will maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any,

and interest on our indebtedness. If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay investments and capital expenditures, or to sell assets, seek additional capital or restructure or refinance our indebtedness. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. If our operating results and available cash are insufficient to meet our debt service obligations, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. We may not be able to consummate those dispositions or to obtain the proceeds that we could realize from them, and these proceeds may not be adequate to meet any debt service obligations then due. Any future refinancing of our indebtedness could be at higher interest rates and may require us to comply with more onerous covenants which could further restrict our business operations. The New Credit Facility will restrict our ability to dispose of assets and our use of the proceeds of dispositions. The New Credit Facility, our notes and the related indenture will also restrict our ability to raise debt to be used to repay other indebtedness when it becomes due.

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, such as the sale of our Fluid Handling business. Additionally, we also announced in November 2018 that we are exploring strategic options for the Air and Gas Handling business, including a potential divestiture. 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.

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.

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. Additionally, pursuant the purchase agreement related to the sale of our Fluid Handling business, we have retained the asbestos-related contingencies and insurance coverage related to the business, even though we do not retain an interest in the ongoing operations of the Fluid Handling business. 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, and Iran to some extent, 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 or with persons prohibited under U.S. sanctions. 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, Sudan and 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.

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, 2018, we derived approximately 76% of our sales from operations outside of the U.S. and we have principal manufacturing facilities in 25 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 by the U.S. or other nations including China, including tariffs or import-export restrictions, and other changes in trade relations;
- 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;
- changes in laws and regulations or in how such provisions are interpreted or administered;
- difficulties in enforcing our rights outside the U.S.;
- difficulties in hiring and maintaining qualified staff and managing geographically diverse operations;
- the disruption of operations from natural disasters, labor or political disturbances, terrorist activities, insurrection or war;
- the transition away from LIBOR to the Secured Overnight Financing Rate, SOFR, as a benchmark reference for short-term interests; and
- uncertainties arising from local business practices and cultural considerations.

If any of these risks were to materialize, they may have a material adverse effect on our business, financial condition and results of operations. For example, changes in U.S. policy regarding international trade, including import and export regulation and international trade agreements, could also negatively impact the Company’s business. In 2018, the U.S. imposed tariffs on steel and aluminum as well as on goods imported from China and certain other countries, which has resulted in retaliatory tariffs by China and other countries. Additional tariffs imposed by the U.S. on a broader range of imports, or further retaliatory trade measures taken by China or other countries in response, could result in an increase in supply chain costs that the Company may not be able to offset or otherwise adversely impact the Company’s results of operations.

In June 2016, a referendum, commonly referred to as “Brexit,” was passed in the United Kingdom, approving the country’s withdrawal from the European Union. The effective date of the U.K.’s departure from the European Union is expected to be March 29, 2019; however, the U.K is still negotiating terms of its exit, and a final agreement regarding both terms and timing of separation is incomplete. This uncertainty regarding the economic outlook of the United Kingdom has caused, and may continue to cause, volatility in foreign exchange rates, which could have an adverse effect on our revenue growth in future periods. Any trade barriers resulting from the exit may disrupt distribution channels, increase our Cost of sales, and limit our ability to achieve future product margin growth. We may also face new regulatory costs, employee retention, and other challenges that could have an adverse effect on our business. As there remain numerous possible outcomes for Brexit, its impact on our Company remains uncertain.

If our associates 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 associates covered by collective bargaining expire, we could experience business disruptions or increased costs.

As of December 31, 2018, approximately 46% of our associates were represented by a number of different trade unions and works councils. Further, as of that date, we had approximately 13,400 associates, representing 86% of our worldwide associate base, in foreign locations. In Canada, Australia and various countries in Europe, Asia, and Central and South America, by law, certain of our associates 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 associates 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 and enforcement 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 or enforce 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.

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 would likely 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, 2018, approximately 76% 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.

During 2018, Argentina became a highly inflationary economy, resulting in the remeasurement of our Argentinian operations. Future impacts to earnings of applying highly inflationary accounting for Argentina on our Consolidated Financial Statements will be dependent upon movements in the applicable exchange rates.

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.

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 or changing regulations, and customer 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. These regulations are continually changing, differ or conflict across jurisdictions, and have tended to become more stringent over time. 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 relevant 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 and third party service providers, to process, transmit and store electronic information, and to manage or support a variety of business processes and activities, including procurement, manufacturing, distribution, invoicing, collection, communication with our employees, customers, dealers and suppliers, business acquisitions and other corporate transactions, compliance with regulatory, legal and tax requirements, and research and development. These information 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, results of operations, and liquidity could be materially adversely affected.

In addition, information technology security threats and sophisticated cyber-based attacks, including, but not limited to, denial-of-service attacks, hacking, “phishing” attacks, computer viruses, ransomware, malware employee or insider error, malfeasance, social engineering, or physical breaches, may cause deliberate or unintentional damage, destruction or misuse, manipulation, denial of access to or disclosure of confidential or important information by our employees, suppliers or third party service providers. Additionally, advanced persistent attempts to gain unauthorized access to our systems and those of third party service providers we rely on 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 business, financial condition, results of operations or liquidity. We can provide no assurance that our efforts to actively manage technology risks potentially affecting our systems and networks will be successful in eliminating or mitigating risks to our systems, networks and data or in effectively resolving such risks when they materialize. 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 employees, 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, including loss of customers and revenue, business, results of operations and liquidity. 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.

To conduct our operations, we regularly move data across national borders, and consequently we are subject to a variety of continuously evolving and developing laws and regulations in the United States and abroad regarding privacy, data protection and data security. The scope of the laws that may be applicable to us is often uncertain and may be conflicting, particularly with respect to foreign laws. For example, the European Union’s General Data Protection Regulation (“GDPR”), which greatly increases the jurisdictional reach of European Union law and adds a broad array of requirements for handling personal data, including the public disclosure of significant data breaches, became effective in May 2018. Other countries have enacted or are enacting data localization laws that require data to stay within their borders. All of these evolving compliance and operational requirements impose significant costs that are likely to increase over time.

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 or implement 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, distribution networks, and research and development. 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. For example, foreign countries may consider changes to existing tax laws in response to the 2017 U.S. Tax Cuts and Jobs Act ("Tax Act") or otherwise, 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.

The Tax Act introduces significant complexity, notably in the computation of a one-time tax on accumulated foreign subsidiary earnings ("the Transition Tax") including interpretation of law, and the information required to perform the computations is significant. As additional regulatory guidance is issued by the applicable taxing authorities, as accounting treatment is clarified, and as we perform additional analysis on the application of the law, we will adjust our provisional estimates in the period completed, which could materially affect our tax obligations and effective tax rate.

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 Related to Acquisitions, Including the DJO Acquisition

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.

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, claims related to infringement of third party intellectual property rights, environmental liabilities and claims by or amounts owed to vendors or other third parties. 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.

Our acquisition of DJO may not be consummated, and if consummated, may not perform as expected.

We have entered into an agreement to acquire DJO. Completion of the transaction is subject to a number of risks and uncertainties, and we can provide no assurance that the various closing conditions to the DJO acquisition agreement will be satisfied, including that the required governmental and other necessary approvals will be obtained. The inability to complete the transaction could have a material adverse effect on our results of operations, financial condition and prospects. The acquired businesses have significant operating histories, however, we will have no history of owning and operating businesses in DJO's industry. In addition, the DJO acquisition is subject to risks and uncertainties, including: (1) the risk that the DJO acquisition may not be completed, or completed within the expected timeframe; (2) costs relating to the DJO acquisition may be greater than expected; (3) the possibility that a governmental entity may prohibit, delay or refuse to grant a necessary regulatory approval in connection with the DJO acquisition; and (4) the closing conditions in the merger agreement will not be satisfied in a timely manner or at all. If the DJO acquisition does not close, we may be required to pay a $220.5 million termination fee to DJO. We cannot assure you that the acquired businesses will perform as expected, that integration or other one-time costs will not be greater than expected, that we will not incur unforeseen obligations or liabilities or that the rate of return from such businesses will justify our decision to invest capital to acquire them.

We may experience difficulties in integrating the operations of DJO into our business and in realizing the expected benefits of the proposed acquisition.

The success of the proposed acquisition of DJO, if completed, will depend in part on our ability to realize the anticipated business opportunities from combining the operations of DJO with our business in an efficient and

effective manner. The integration process could take longer than anticipated and could result in the loss of key employees, the disruption of each company's ongoing businesses, tax costs or inefficiencies, or inconsistencies in standards, controls, information technology systems, procedures and policies, any of which could adversely affect our ability to maintain relationships with customers, employees or other third parties, or our ability to achieve the anticipated benefits of the transaction, and could harm our financial performance. If we are unable to successfully or timely integrate the operations of DJO with our business, we may incur unanticipated liabilities and be unable to realize the revenue growth, synergies and other anticipated benefits resulting from the proposed transaction, and our business, results of operations and financial condition could be materially and adversely affected.

Our acquisition of DJO involves risks associated with acquisitions and integrated acquired assets, including the potential exposure to significant liabilities, and the intended benefits of the acquisition of DJO may not be realized.

The acquisition of DJO involves risks associated with acquisitions and integrating acquired assets into existing operations which could have a material adverse effect on our business, financial condition, results of operations and cash flows, including, among others:

- failure to implement our business plan for the combined business;
- unanticipated issues in integrating equipment, logistics, information, communications and other systems;
- possible inconsistencies in standards, controls, contracts, procedures and policies;
- impacts of change in control provisions in contracts and agreements;
- failure to retain key customers and suppliers;
- unanticipated changes in applicable laws and regulations;
- failure to recruit and retain key employees to operate the combined business;
- increased competition within the industries in which DJO operates;
- difficulties in managing the expanded operations of a significantly larger and more complex company;
- inherent operating risks in the business;
- unanticipated issues, expenses and liabilities;
- additional reporting requirements pursuant to applicable rules and regulations;
- additional requirements relating to internal control over financial reporting;
- diversion of our senior management's attention from the management of daily operations to the integration of the assets acquired in the acquisition of DJO;
- significant unknown and contingent liabilities we incur for which we have limited or no contractual remedies or insurance coverage;
- the assets to be acquired failing to perform as well as we anticipate; and
- unexpected costs, delays and challenges arising from integrating the assets acquired in the DJO acquisition into our existing operations.

Even if we successfully integrate the assets acquired in the DJO acquisition into our operations, it may not be possible to realize the full benefits we anticipate or we may not realize these benefits within the expected time frame. If we fail to realize the benefits we anticipate from the DJO acquisition, our business, results of operations and financial condition may be adversely affected. Furthermore, because we have not previously operated in the healthcare industry, the DJO acquisition may subject us to new types of risk to which we were not previously exposed.

DJO may have liabilities that are not known, probable or estimable at this time.

As a result of the DJO acquisition, DJO will become our subsidiary and it will remain subject to all of its liabilities. There could be unasserted claims or assessments that we failed or were unable to discover or identify in the course of performing due diligence investigations of DJO. In addition, there may be liabilities that are neither probable nor estimable at this time that may become probable or estimable in the future. Any such liabilities, individually or in the aggregate, could have a material adverse effect on our financial results. We may learn additional information about DJO that adversely affects us, such as unknown, unasserted or contingent liabilities and issues relating to compliance with applicable laws.

Without limitation to the generality of the foregoing, DJO is subject to various rules, regulations, laws and other legal requirements, enforced by governments or other public authorities. Misconduct, fraud, non-compliance with applicable laws and regulations, or other improper activities by any of DJO's directors, officers, employees or agents could have a significant impact on DJO's business and reputation and could subject DJO to fines and penalties, criminal, civil and administrative legal sanctions and suspension from contracting (including with public bodies), resulting in reduced revenues and profits. Such misconduct could include the failure to comply with regulations prohibiting bribery, regulations on lobbying or similar activities, control over financial reporting, environmental laws and any other applicable laws or regulations.

We will incur significant transaction costs and merger-related integration costs in connection with the DJO acquisition.

We will incur significant costs in connection with the DJO acquisition. The substantial majority of these costs will be non-recurring expenses related to the DJO acquisition. We may incur additional costs in the integration of DJO's business, and may not achieve cost synergies and other benefits sufficient to offset the incremental costs of the DJO acquisition.

We are also seeking to consummate certain asset sales but may fail to do so.

To finance the DJO acquisition we have (1) entered into the New Credit Facility; (2) completed an offering for $460 million of tangible equity units; and (3) completed an offering for $1 billion of senior unsecured notes. In addition to these transactions, we also may seek to sell certain assets of the Company. While we have publicly stated that we seek to deleverage our business, we cannot assure you that we will be able to do so. In addition, we have said that we do not plan to pursue other material acquisitions or engage in share repurchases until we can further deleverage. This may result in our being unable to pursue opportunities that might otherwise be beneficial to our equity holders. As part of our deleveraging plans, we are evaluating strategic options for our Air and Gas Handling business, however we cannot assure you that any transaction, whether a sale or other disposition involving our Air and Gas Handling business or otherwise, will occur at all or on terms that are favorable to us, nor that any such transaction will have the desired deleveraging or other benefits, or will otherwise not adversely affect our business. We are not party to definitive documentation with respect to any asset sales and cannot assure you that we will be able to consummate such sales or achieve the prices we are anticipating.

We will be subject to business uncertainties while the DJO acquisition is pending and any downgrade in credit rating could adversely affect our business.

The preparation required to complete the DJO acquisition may place a significant burden on management and internal resources. The additional demands on management and any difficulties encountered in completing the DJO acquisition, including the transition and integration process, could adversely affect our financial results. Additionally, our debt ratings have been placed on negative outlook. Any downgrade to our credit ratings could adversely affect our business, including as a result of increasing financing costs or as a result of possible negative impact on the price per share of our common stock.

The DJO acquisition may significantly increase our goodwill and other intangible assets.

We have a significant amount, and following the DJO acquisition we expect to have an additional amount, of goodwill and other intangible assets on our consolidated financial statements that are subject to impairment based upon future adverse changes in our business or prospects. The impairment of any goodwill and other intangible assets may have a negative impact on our consolidated results of operations.

Failure to complete the DJO acquisition could negatively affect our stock price as well as our future business and financial results.

If the DJO acquisition is not completed, we will be subject to a number of risks, including:

- we must pay costs related to the DJO acquisition, including legal, accounting, financial advisory, filing and printing costs, whether the DJO acquisition is completed or not;
- if DJO terminates the merger agreement under certain specific conditions set forth in the merger agreement, we must pay a termination fee of $220.5 million; and
-

we could be subject to litigation related to the failure to complete the DJO acquisition or other factors, which litigation may adversely affect our business, financial results and stock price.

The DJO acquisition may not achieve its intended results, including anticipated investment opportunities and earnings growth.

Although we expect the DJO acquisition to result in various benefits, we cannot assure you regarding when or the extent to which we will be able to realize these or other benefits. Achieving the anticipated benefits, is subject to a number of uncertainties, including whether the businesses acquired can be operated in the manner we intend and whether our costs to finance the DJO acquisition will be consistent with our expectations. Events outside of our control, including but not limited to regulatory changes or developments, could also adversely affect our ability to realize the anticipated benefits from the DJO acquisition. Thus the integration of DJO may be unpredictable, subject to delays or changed circumstances, and we cannot assure you that the acquired business will perform in accordance with our expectations or that our expectations with respect to the DJO acquisition will be

achieved. While we expect the DJO acquisition to be accretive in the first year following the DJO acquisition, excluding transaction-related amortization and one-time costs, we cannot assure you that the DJO acquisition will be accretive to the extent we anticipate or at all. In addition, we cannot assure you that the DJO acquisition will result in higher operating or EBITDA margins, less cyclicality in our business, greater cash flow predictability or that the DJO acquisition will lead to the return on invested capital currently anticipated. We cannot assure you that we will be able to drive further operating improvements to DJO's business, improve or expand DJO's operating or EBITDA margins or be able to grow DJO's business, revenues or profitability. Our anticipated costs to achieve the integration of the acquired business may differ significantly from our current estimates. The integration may place an additional burden on our management and internal resources, and the diversion of management's attention during the integration process could have an adverse effect on our business, financial condition and expected operating results.

Integrating DJO's business into our business may divert management's attention away from operations, and we may also encounter significant difficulties in integrating the two businesses.

The DJO acquisition involve, among other things, the integration into our business platform of DJO. The success of the DJO acquisition and its anticipated financial and operational benefits, including increased revenues, synergies and cost savings, will depend in part on our ability to successfully combine and integrate DJO's business into ours, and there can be no assurance regarding when or the extent to which we will be able to realize these increased revenues, synergies, cost savings or other benefits. These benefits may not be achieved within the anticipated time frame, or at all.

Successful integration of DJO's operations, products and personnel may place a significant burden on management and other internal resources. The diversion of management's attention, and any difficulties encountered in the transition and integration process, could harm our business, financial condition and results of operations.

Risks Related to DJO

You should read and consider the risk factors below, which relate to DJO's business and will affect the combined company if the DJO acquisition is completed.

If coverage and adequate levels of reimbursement from third-party payors for DJO's products are not obtained, healthcare providers and patients may be reluctant to use DJO's products; DJO's margins may suffer and its revenue and profits may decline.

DJO's sales depend largely on whether there is coverage and adequate reimbursement by government healthcare programs, such as Medicare and Medicaid, and by private payors. DJO believes that surgeons, hospitals, physical therapists and other healthcare providers may not use, purchase or prescribe its products and patients may not purchase its products if these third-party payors do not provide satisfactory coverage of and reimbursement for the costs of DJO's products or the procedures involving the use of its products. Reduced reimbursement rates will also lower DJO's margins on product sales and could adversely impact the profitability and viability of the affected products.

Third-party payors continue to review their coverage policies carefully and can, without notice, reduce or eliminate reimbursement for DJO's products or treatments that use its products. For instance, they may attempt to control costs by (i) authorizing fewer elective surgical procedures, including joint reconstructive surgeries, (ii) requiring the use of the least expensive product available, (iii) reducing the reimbursement for or limiting the number of authorized visits for rehabilitation procedures, (iv) bundling reimbursement for all services related to an episode of care, or (v) otherwise restricting coverage or reimbursement of DJO's products or procedures using DJO's products.

Medicare payment for Durable Medical Equipment, Prosthetics, Orthotics, and Supplies (“DMEPOS”) also can be impacted by the DMEPOS competitive bidding program, under which Medicare rates are based on bid amounts for certain products in designated geographic areas, rather than the Medicare fee schedule amount. Only those suppliers selected through the competitive bidding process within each designated competitive bidding area (“CBA”) are eligible to have their products reimbursed by Medicare. The Centers for Medicare & Medicaid Services (“CMS”) also has adopted regulations to adjust national DMEPOS fee schedules to take into account competitive bidding pricing. If any of DJO’s products are included in competitive bidding and it is not selected as a contract supplier (or subcontractor) in a particular region, or if contract or fee schedule prices are significantly below current Medicare fee schedule reimbursement levels, it could have an adverse impact on DJO’s sales and profitability.

Because many private payors model their coverage and reimbursement policies on Medicare, other third party payors’ coverage of, and reimbursement for, DJO’s products also could be negatively impacted by legislative, regulatory or other measures that restrict Medicare coverage or reduce Medicare reimbursement.

DJO's international sales also depend in part upon the coverage and eligibility for reimbursement of its products through government-sponsored healthcare payment systems and third party payors, the amount of reimbursement, and the cost allocation of payments between the patient and government-sponsored healthcare payment systems and third party payors. Coverage and reimbursement practices vary significantly by country, with certain countries requiring products to undergo a lengthy regulatory review in order to be eligible for third party coverage and reimbursement. In addition, healthcare cost containment efforts similar to those DJO faces in the United States are prevalent in many of the foreign countries in which its products are sold, and these efforts are expected to continue in the future, possibly resulting in the adoption of more stringent reimbursement standards relating to DJO's international operations.

Federal and state health reform and cost control efforts include provisions that could adversely impact DJO's business and results of operations, and federal and state legislatures continue to consider further reforms and cost control efforts that could adversely impact DJO's business and results of operations.

In the United States, there have been and continue to be a number of legislative initiatives to contain healthcare costs. In March 2010, the Affordable Care Act ("ACA") was enacted in the United States. The ACA is a sweeping measure designed to expand access to affordable health insurance, control health care spending, and improve health care quality. Several provisions of the ACA specifically affect the medical equipment industry. In addition to changes in Medicare DMEPOS reimbursement and an expansion of the DMEPOS competitive bidding program, the ACA provides that for sales on or after January 1, 2013, manufacturers, producers, and importers of specified taxable medical devices must pay an annual excise tax of 2.3% of a deemed price for these products. A limited number of DJO's products are subject to the new tax. A two-year suspension of the medical device tax was passed in late 2015, resulting in no medical device tax obligations for 2016 and 2017. The Continuing Appropriations Act, signed into law on January 22, 2018 extends the moratorium for an additional two years; as a result, the device tax will not apply to sales during calendar years 2018 and 2019. Absent further legislative action, the device excise tax will be reinstated on medical device sales starting January 1, 2020. The ACA implemented payment system reforms including a national pilot program on payment bundling to encourage hospitals, physicians and other providers to improve the coordination, quality and efficiency of certain healthcare services through bundled payment models. The ACA also established enhanced Medicare and Medicaid program integrity provisions, including expanded documentation requirements for Medicare DMEPOS orders, more stringent procedures for screening Medicare and Medicaid DMEPOS suppliers, and new disclosure requirements regarding manufacturer payments to physicians and teaching hospitals, along with broader expansion of federal fraud and abuse authorities. The ACA also established a new Patient-Centered Outcomes Research Institute to oversee and identify priorities in comparative clinical effectiveness research in an effort to coordinate and develop such research.

A sweeping tax bill signed into law on December 22, 2017 repealed the ACA's penalty for failure to maintain health insurance coverage that provides at least minimum essential coverage. On December 14, 2018, a U.S. District Court Judge in the Northern District of Texas, ruled that the individual mandate is a critical and inseverable feature of the ACA, and therefore, because it was repealed as part of the Tax Act, the remaining provisions of the ACA are invalid as well. While the Trump Administration and CMS have both stated that the ruling will have no immediate effect, it is unclear how this decision, subsequent appeals, if any, and other efforts to repeal and replace the ACA will impact the ACA and our business. Congress has also been considering subsequent legislation, and President Trump has been considering executive orders, to repeal additional provisions of the ACA and potentially impose alternative health coverage policies. Further, on January 20, 2017, President Trump signed an Executive Order directing federal agencies with authorities and responsibilities under the ACA to waive, defer, grant exemptions from, or delay the implementation of any provision of the ACA that would impose a fiscal or regulatory burden on states, individuals, healthcare providers, health insurers, or manufacturers of pharmaceuticals or medical devices. There can be no assurances that any future healthcare legislation will not have a material adverse impact on DJO's business.

In addition, other legislative changes have been proposed and adopted since the Affordable Care Act was enacted. On August 2, 2011, the Budget Control Act of 2011 was signed into law, which, among other things, reduced Medicare

payments to providers by 2% per fiscal year, effective on April 1, 2013 and, due to subsequent legislative amendments to the statute, will remain in effect through 2027 unless additional Congressional action is taken. On January 2, 2013, the American Taxpayer Relief Act of 2012 was signed into law, which, among other things, reduced Medicare payments to several providers, including hospitals, and increased the statute of limitations period for the government to recover overpayments to providers from three to five years. The Medicare Access and CHIP Reauthorization Act of 2015, or MACRA, enacted on April 16, 2015, repealed the formula by which Medicare made annual payment adjustments to physicians and replaced the former formula with fixed annual updates and a new system of incentive payments scheduled to begin in 2019 that are based on various performance measures and physicians' participation in alternative payment models such as accountable care organizations. It is unclear what effect new quality and payment programs, such as MACRA, may have on our business, financial condition, results of operations or cash flows.

Likewise, most states have adopted or are considering policies to reduce Medicaid spending as a result of state budgetary shortfalls, which in some cases include reduced reimbursement for DMEPOS items and/or other Medicaid coverage restrictions.

Federal policy may also impact state Medicaid policy. For instance, effective January 1, 2018, the 21st Century Cures Act prohibits federal financial participation ("FFP") payments to states for certain Medicaid DME spending that exceeds what Medicare would have paid for such items. Congress has also been considering legislation to replace or revise elements of the ACA, which in turn may require states to modify their own laws and regulations. As states continue to face significant financial pressures, it is possible that state health policy changes will adversely affect DJO's profitability.

If DJO fails to meet Medicare accreditation and surety bond requirements or DMEPOS supplier standards or we fail to notify CMS, the appropriate accreditation organization, and the National Supplier Clearinghouse of this acquisition, it could negatively affect DJO's business operations.

Medicare DMEPOS suppliers (other than certain exempted professionals) must be accredited by an approved accreditation organization as meeting DMEPOS quality standards adopted by CMS including specific requirements for suppliers of custom-fabricated and custom-fitted orthoses and certain prosthetics. Medicare suppliers also are required to meet surety bond requirements. In addition, Medicare DMEPOS suppliers must comply with Medicare supplier standards in order to obtain and retain billing privileges, including meeting all applicable federal and state licensure and regulatory requirements. CMS periodically expands or otherwise clarifies the Medicare DMEPOS supplier standards and states periodically change licensure requirements, including licensure rules imposing more stringent requirements on out-of-state DMEPOS suppliers. DJO believes it currently is in compliance with these requirements. If DJO fails to maintain its Medicare accreditation status and/or does not comply with Medicare surety bond or supplier standard requirements or state licensure requirements in the future, or if these requirements are changed or expanded, it could adversely affect DJO's profits and results of operations. Because DJO's accreditation will not transfer automatically with the sale of DJO, if we fail to notify CMS, the appropriate accreditation organization, and the National Supplier Clearinghouse of the DJO acquisition, it could adversely affect DJO's profits and results of operations.

DJO's Business Transformation Initiative may cause a disruption in its operations and may not be successful.

In March 2017, DJO announced that it had embarked on a series of business transformation projects focused on delivering productivity improvements and reducing costs. This initiative involves costs relating to hiring outside experts and implementing these projects, may result in restructuring and asset impairments charges, and could have other unanticipated costs and consequences. While DJO expects to realize efficiencies from this initiative, there is no guarantee that it will recognize the full efficiency, cost reduction and other benefits of these activities that it expects. In connection with such activities, DJO may experience a disruption in its ability to perform functions critical to its strategy. If DJO's business transformation initiative is not successful, or if it is not executed effectively, it could adversely affect DJO's business, financial condition and results of operations.

As part of DJO's Business Transformation Initiative, DJO has transitioned certain business processes to third-party vendors. Reliance on such third-party vendors subjects DJO to risks arising from the loss of control of such business processes, changes in pricing that may affect DJO's results of operations, and, potentially, disruption from the termination of provision of these services by such third-party vendors. In addition, the role of outsource providers has required DJO to implement changes to its existing operations and to adopt new procedures to deal with and manage the performance of these outsource providers. Any delay or failure in the implementation of DJO's operational changes and new procedures could adversely affect its customer relationships. A failure of these third-party vendors to provide services in a satisfactory manner could have an adverse effect on DJO's business, financial condition and results of operations, or DJO's ability to accomplish its financial and management reporting. DJO may outsource additional functions in the future, which would increase its reliance on third parties.

DJO is subject to extensive government regulation by the FDA and comparable government authorities relating to the safety, efficacy, testing, manufacturing, labeling, and marketing of its products. If DJO, its contract manufacturers, or

its component suppliers fail to comply with the Food and Drug Administration's (the FDA) Quality System Regulation, the manufacturing and distribution of its products could be delayed or halted, and DJO, the contract manufacturers, or the component suppliers could be subject to enforcement actions or penalties, and its product sales and profitability could suffer.

DJO's manufacturing processes, and the manufacturing processes of its contract manufacturers and component suppliers are required to comply with the FDA's Quality System Regulation, which covers current Good Manufacturing Practice requirements including procedures concerning (and documentation of) the design, testing, production processes, controls, quality assurance, labeling, packaging, storage and shipping of DJO's devices. DJO also is subject to state requirements and licenses applicable to manufacturers of medical devices. In addition, DJO must engage in extensive recordkeeping and reporting and must make available DJO's manufacturing facilities and records for periodic unscheduled inspections by governmental agencies, including the FDA, state authorities and comparable agencies in other countries. Moreover, if DJO fails to pass a Quality System Regulation inspection or to comply with these and other applicable regulatory requirements, DJO may receive a notice of a violation in the form of inspectional observations on Form FDA-483 or a warning letter, or DJO could otherwise be required to take corrective action and, in severe cases, it could suffer a disruption of its operations and manufacturing delays. If DJO fails to take adequate corrective

actions, it could be subject to certain enforcement actions, including, among other things, significant fines, warning letters, untitled letters, suspension of approvals, seizures or recalls of products, operating restrictions and criminal prosecutions. DJO cannot assure you that the FDA or other governmental authorities would agree with its interpretation of applicable regulatory requirements or that it has in all instances fully complied with all applicable requirements. Any notice or communication from the FDA regarding a failure to comply with applicable requirements could adversely affect its product sales and profitability. DJO has received FDA warnings letters in the past, and we cannot assure you that the FDA will not take further action in the future.

DJO's contract manufacturers and its component suppliers are also required to comply with the FDA's Quality System Regulations. DJO cannot assure anyone that its contract manufacturers' or component suppliers' facilities would pass any future quality system inspection. If DJO's or any of its contract manufacturers' or component suppliers' facilities fail a quality system inspection, its product sales and profitability could be adversely affected.

The loss of the services of DJO's key management and personnel could adversely affect its ability to operate its business.

DJO's executive officers have substantial experience and expertise in its industry. DJO's future success depends, to a significant extent, on the abilities and efforts of its and our executive officers and management team. We will compete for such personnel with other companies, academic institutions, government entities and other organizations, and our failure to hire and retain qualified individuals for senior executive positions could have a material adverse impact on its business.

DJO may experience substantial fluctuations in its quarterly operating results and you should not rely on them as an indication of DJO's future results.

DJO's quarterly operating results may vary significantly due to a combination of factors, many of which are beyond DJO's control. These factors include

- demand for many of DJO's products, which historically has been higher in the fourth quarter when scholastic sports and ski injuries are more frequent;
- DJO's ability to meet the demand for its products;
- the direct distribution of DJO's products in foreign countries that have seasonal variations;
- the number, timing and significance of new products and product introductions and enhancements by DJO and its competitors, including delays in obtaining government review and clearance of medical devices;
- DJO's ability to develop, introduce and market new and enhanced versions of its products on a timely basis;
- the impact of any acquisitions that occur in a quarter;
- the impact of any changes in generally accepted accounting principles;
- changes in pricing policies by DJO and its competitors and reimbursement rates by third party payors, including government healthcare agencies and private insurers;
- the loss of any of DJO's significant distributors;
-

changes in the treatment practices of orthopedic and spine surgeons, primary care physicians, and pain-management specialists, and their allied healthcare professionals; and

- the timing of significant orders and shipments.

Accordingly, DJO's quarterly sales and operating results may vary significantly in the future and period-to-period comparisons of its results of operations may not be meaningful and should not be relied upon as indications of future performance. We cannot assure you that DJO's sales will increase or be sustained in future periods or that it will be profitable in any future period.

DJO's reported results may be adversely affected by increases in reserves for contractual allowances, rebates, product returns, uncollectible accounts receivable and inventory.

DJO has established reserves to account for contractual allowances, rebates, product returns and reserves for rental credits. Significant management judgment must be used and estimates must be made in connection with establishing the reserves for contractual allowances, rebates, product returns, uncollectible accounts receivable and inventory and other allowances in any accounting period. If such judgments and estimates are inaccurate, reserves for such items may have to be increased which could adversely affect its reported financial results by reducing its net revenues and/or profitability for the reporting period.

DJO operates in a highly competitive business environment, and its inability to compete effectively could adversely affect its business prospects and results of operations.

DJO operates in highly competitive and fragmented markets. Its Bracing and Vascular, Recovery Sciences and International segments compete with both large and small companies, including several large, diversified companies with significant market share and numerous smaller niche companies, particularly in the physical therapy products market. Its Surgical Implant segment competes with a small number of very large companies that dominate the market, as well as other companies similar to its size. We may not be able to offer products similar to, or more desirable than, those of DJO's competitors or at a price comparable to that of its competitors. Compared to DJO, many of its competitors have

- greater financial, marketing and other resources;
- more widely accepted products;
- a larger number of endorsements from healthcare professionals;
- a larger product portfolio;
- superior ability to maintain new product flow;
- greater research and development and technical capabilities;
- patent portfolios that may present an obstacle to the conduct of DJO's business;
- stronger name recognition;
- larger sales and distribution networks; and/or
- international manufacturing facilities that enable them to avoid the transportation costs and foreign import duties associated with shipping DJO's products manufactured in the United States to international customers.

Accordingly, DJO may be at a disadvantage with respect to its competitors. These factors may materially impair DJO's ability to develop and sell its products.

The success of all of DJO's products depends heavily on acceptance by healthcare professionals who prescribe and recommend DJO's products, and DJO's failure to maintain a high level of confidence by key healthcare professionals in its products could adversely affect its business.

DJO has maintained customer relationships with numerous orthopedic surgeons, primary care physicians, other specialist physicians, physical therapists, athletic trainers, chiropractors and other healthcare professionals. DJO believes that sales of its products depend significantly on their confidence in, and recommendations of, its products. Acceptance of DJO's products depends on educating the healthcare community as to the distinctive characteristics,

perceived benefits, clinical efficacy and cost-effectiveness of DJO's products compared to the products offered by its competitors and on training healthcare professionals in the proper use and application of its products. Failure to maintain these customer relationships and develop similar relationships with other leading healthcare professionals could result in fewer recommendations of DJO's products, which may adversely affect DJO's sales and profitability.

In addition, from time to time, CMS or its contractors have considered imposing restrictions on the ability of DMEPOS suppliers to maintain consigned inventory in physicians' offices and then for bill for such inventory once a physician prescribes the item for a patient. In December 2015, the National Supplier Clearinghouse ("NSC"), a CMS contractor, suggested limits on the ability of a DMEPOS supplier to perform functions at the provider's facility and then bill for the consigned inventory. The NSC policy was subsequently rescinded. We cannot assure you that CMS or its contractors will not adopt more restrictive policies regarding consignment arrangements in the future.

The success of DJO's surgical implant products depends on DJO's relationships with leading surgeons who assist with the development and testing of DJO's products, and DJO's ability to comply with enhanced disclosure requirements regarding payments to physicians.

A key aspect of the development and sale of DJO's surgical implant products is the use of designing and consulting arrangements with orthopedic surgeons who are well recognized in the healthcare community. These surgeons assist in the development and clinical testing of new surgical implant products. They also participate in symposia and seminars introducing new surgical implant products and assist in the training of healthcare professionals in using DJO's new products. DJO may not be successful in maintaining or renewing its current designing and consulting arrangements with these surgeons or in developing similar arrangements with new surgeons. In that event, DJO's ability to develop, test and market new surgical implant products could be adversely affected.

In addition, the Physician Payment Sunshine Act and related state marketing and payment disclosure requirements and industry guidelines could have an adverse impact on DJO's relationships with surgeons, and we cannot assure you that such requirements and guidelines would not impose additional costs on DJO or adversely impact its consulting and other arrangements with surgeons.

Proposed laws or regulations that would limit the types of orthopedic professionals who can fit, sell or seek reimbursement for DJO's products could, if adopted, adversely affect DJO's business.

Federal and state legislatures and regulators have periodically considered proposals to limit the types of orthopedic professionals who can fit or sell DJO's orthotic products or who can seek reimbursement for them. Several states have adopted legislation imposing certification or licensing requirements on the measuring, fitting and adjusting of certain orthotic devices, and additional states may do so in the future. Although some of these state laws exempt manufacturers' representatives, others do not. Such laws could reduce the number of potential customers by restricting DJO's sales representatives' activities in those jurisdictions or reduce demand for DJO's products by reducing the number of professionals who fit and sell them. The adoption of such policies could have a material adverse impact on DJO's business.

In addition, legislation has been adopted, but not implemented to date, requiring that certain certification or licensing requirements be met for individuals and suppliers furnishing certain custom-fabricated orthotic devices as a condition of Medicare payment. On January 12, 2017, CMS published a proposed rule that would implement these requirements, but CMS subsequently withdrew the rule. Medicare currently follows state policies in those states that require the use of an orthotist or prosthetist for furnishing of orthotics or prosthetics.

In 2014, CMS proposed, but ultimately did not adopt, a regulatory change that would have narrowly defined the "specialized training" that is needed to provide custom fitting of orthotics under the Medicare program if the fitter is not a certified orthotist. We cannot predict whether additional restrictions will be implemented at the state or federal level or the impact of such policies on its business.

DJO relies on its own direct sales force for certain of its products, which may result in higher fixed costs than its competitors and may slow its ability to reduce costs in the face of a sudden decline in demand for its products.

DJO relies on its own direct sales force of representatives in the United States and in Europe to market and sell certain of the orthopedic rehabilitation products which are intended for use in the home and in rehabilitation clinics. Some of DJO's competitors rely predominantly on independent sales agents and third party distributors. A direct sales force may subject DJO to higher fixed costs than those of companies that market competing products through independent third parties, due to the costs that it will bear associated with employee benefits, training, and managing sales personnel. As a result, DJO could be at a competitive disadvantage. Additionally, these fixed costs may slow DJO's

ability to reduce costs in the face of a sudden decline in demand for its products, which could have a material adverse impact on its results of operations.

If DJO fails to establish new sales and distribution relationships or maintain its existing relationships, or if its third party distributors and independent sales representatives fail to commit sufficient time and effort or are otherwise ineffective in selling its products, DJO's results of operations and future growth could be adversely impacted.

The sale and distribution of certain of DJO's orthopedic products, CMF products and its surgical implant products depend, in part, on DJO's relationships with a network of third party distributors and independent commissioned sales representatives. These third party distributors and independent sales representatives maintain the customer relationships with the hospitals, orthopedic surgeons, physical therapists and other healthcare professionals that purchase, use and recommend the use of DJO's products. Although DJO's internal sales staff trains and manages these third party distributors and independent sales representatives, DJO does not directly monitor the efforts that they make to sell its products. In addition, some of the independent sales representatives

that DJO uses to sell its surgical implant products also sell products that directly compete with DJO's core product offerings. These sales representatives may not dedicate the necessary effort to market and sell DJO's products. If DJO fails to attract and maintain relationships with third party distributors and skilled independent sales representatives or fail to adequately train and monitor the efforts of the third party distributors and sales representatives that market and sell its products, or if DJO's existing third party distributors and independent sales representatives choose not to carry DJO's products, DJO's results of operations and future growth could be adversely affected.

DJO's international operations expose it to risks related to conducting business in multiple jurisdictions outside the United States.

The international scope of DJO's operations exposes it to economic, regulatory and other risks in the countries in which it operates. DJO generated 27% of its net revenues from customers outside the United States for the year ended December 31, 2017. Doing business in foreign countries exposes DJO to a number of risks, including the following:

- fluctuations in currency exchange rates;
- imposition of investment, currency repatriation and other restrictions by foreign governments;
- potential adverse tax consequences, including the imposition or increase of withholding and other taxes on remittances and other payments by foreign subsidiaries, which, among other things, may preclude payments or dividends from foreign subsidiaries from being used for DJO's debt service, and exposure to adverse tax regimes;
- difficulty in collecting accounts receivable and longer collection periods;
- the imposition of additional foreign governmental controls or regulations on the sale of DJO's products;
- intellectual property protection difficulties;
- changes in political and economic conditions, including the recent political changes in Tunisia in which DJO maintains a small manufacturing facility and security issues in Mexico in which DJO maintains a significant manufacturing facility;
- difficulties in attracting high-quality management, sales and marketing personnel to staff DJO's foreign operations;
- labor disputes;
- import and export restrictions and controls, tariffs and other trade barriers;
- increased costs of transportation or shipping;
- exposure to different approaches to treating injuries;
- exposure to different legal, regulatory and political standards; and
- difficulties of local governments in responding to severe weather emergencies, natural disasters or other such similar events.

In addition, as DJO grows its operations internationally, it will become increasingly dependent on foreign distributors and sales agents for its compliance and adherence to foreign laws and regulations that it may not be familiar with, and DJO cannot assure you that these distributors and sales agents will adhere to such laws and regulations or adhere to its

own business practices and policies. Any violation of laws and regulations by foreign distributors or sales agents or a failure of foreign distributors or sales agents to comply with applicable business practices and policies could result in legal or regulatory sanctions or potentially damage its reputation in that respective international market. If DJO fails to manage these risks effectively, it may not be able to grow its international operations, and its business and results of operations may be materially adversely affected.

DJO may fail to comply with customs and import/export laws and regulations.

DJO's business is conducted world-wide, with raw material and finished goods imported from and exported to a substantial number of countries. In particular, a significant portion of DJO's products are manufactured in its plant in Tijuana, Mexico and imported to the United States before shipment to domestic customers or export to other countries. DJO is subject to customs and

import/export rules in the U.S., including FDA regulatory requirements applicable to medical devices, detailed below, and in other countries, and to requirements for payment of appropriate duties and other taxes as goods move between countries. Customs authorities monitor DJO's shipments and payments of duties, fees and other taxes and can perform audits to confirm compliance with applicable laws and regulations. DJO's failure to comply with import/export rules and restrictions or to properly classify its products under tariff regulations and pay the appropriate duty could expose it to fines and penalties and adversely affect its financial condition and business operations.

DJO is subject to various export controls and trade and economic sanctions laws and regulations that could impair DJO's ability to compete in international markets and subject DJO to liability if DJO is not in full compliance with applicable laws.

DJO's business activities are subject to various export controls and trade and economic sanctions laws and regulations, including, without limitation, the U.S. Commerce Department's Export Administration Regulations and the U.S. Treasury Department's Office of Foreign Assets Control's ("OFAC") trade and economic sanctions programs (collectively, "Trade Controls"). Such Trade Controls may prohibit or restrict DJO's ability to, directly or indirectly, conduct activities or dealings in or with certain countries or territories that are the subject of comprehensive embargoes, as well as with individuals or entities that are the subject of Trade Controls-related prohibitions and restrictions. DJO's failure to successfully comply with applicable Trade Controls may expose DJO to negative legal and business consequences, including civil or criminal penalties, government investigations, and reputational harm.

Fluctuations in foreign exchange rates may adversely affect DJO's financial condition and results of operations and may affect the comparability of DJO's results between financial periods.

DJO's foreign operations expose it to currency fluctuations and exchange rate risks. DJO is exposed to the risk of currency fluctuations between the U.S. Dollar and the Euro, Pound Sterling, Canadian Dollar, Mexican Peso, Swiss Franc, Australian Dollar, Japanese Yen, Norwegian Krone, Danish Krone, Swedish Krona, South African Rand, Tunisian Dinar, Chinese Yuan Renminbi and Indian Rupee. Sales denominated in foreign currencies accounted for 24% of DJO's consolidated net sales for the year ended December 31, 2017, of which 17% were denominated in the Euro. DJO's exposure to fluctuations in foreign currencies arises because certain of its subsidiaries' results are recorded in these currencies and then translated into U.S. Dollars for financial reporting purposes, and certain of its subsidiaries enter into purchase or sale transactions using a currency other than the functional currency for financial reporting purposes. As DJO continues to distribute and manufacture its products in selected foreign countries, it expects that future sales and costs associated with its activities in these markets will continue to be denominated in the applicable foreign currencies, which could cause currency fluctuations to materially impact operating results. Changes in currency exchange rates may adversely affect DJO's financial condition and results of operations and may affect the comparability of results between reporting periods.

We may not be able to effectively manage DJO's currency translation risks, and volatility in currency exchange rates may adversely affect our financial condition and results of operations.

DJO's success depends on receiving regulatory approval for its products, and failure to do so could adversely affect its growth and operating results.

DJO's products are subject to extensive regulation in the United States by the FDA and by similar governmental authorities in the foreign countries where it does business. The FDA regulates virtually all aspects of a medical device's development, design, pre-clinical testing, clinical trials, manufacturing, packaging, storage, premarket approval, recordkeeping, reporting, labeling, promotion, distribution, sale and marketing, as well as modifications to existing products and the marketing of existing products for new indications. In the United States, before DJO can market a new medical device, or label and market a previously cleared or approved device for a new intended use or new indication for use, or make a significant modification to a previously cleared or approved device, DJO must first

receive either FDA clearance under Section 510(k) of the Federal Food, Drug, and Cosmetic Act or approval of a premarket approval, or PMA, application from the FDA, unless an exemption applies. The process of obtaining PMA approval is much more rigorous, costly, and lengthy than the 510(k) clearance process. In the 510(k) clearance process, the FDA must determine that a proposed device is “substantially equivalent” to a device legally on the market, known as a “predicate” device, in order to clear the proposed device for marketing. To be “substantially equivalent,” the proposed device must have the same intended use as the predicate device, and either have the same technological characteristics as the predicate device or have different technological characteristics and not raise different questions of safety or effectiveness than the predicate device. Clinical data is sometimes required to support substantial equivalence. In the PMA approval process, the FDA must determine that a proposed device is safe and effective for its intended use based, in part, on extensive data, including, but not limited to, technical, pre-clinical, clinical trial, manufacturing and labeling data. The PMA process is typically required for devices for which the 510(k) process cannot be used and that are deemed to pose the greatest risk. Modifications to products that are approved through a PMA application generally need FDA approval of a PMA supplement. Similarly, some modifications made to products cleared through

a 510(k) may require a new 510(k). The FDA's 510(k) clearance process usually takes from three to 12 months, but may last longer. The process of obtaining a PMA generally takes from one to three years, or even longer, from the time the PMA is submitted to the FDA until an approval is obtained. Any delay or failure to obtain necessary regulatory approvals could have a material adverse effect on our business, financial condition and prospects.

The FDA can delay, limit or deny clearance or approval of a device for many reasons, including:

- DJO's inability to demonstrate to the satisfaction of the FDA or the applicable regulatory entity or notified body that DJO's products are safe or effective for their intended uses or that DJO's products are substantially equivalent to predicate devices;
- the disagreement of the FDA or the applicable foreign regulatory body with the design, conduct or implementation of DJO's clinical trials or the analyses or interpretation of data from pre-clinical studies or clinical trials;
- serious and unexpected adverse device effects experienced by participants in DJO's clinical trials;
- the data from DJO's pre-clinical studies and clinical trials may be insufficient to support clearance or approval, where required;
- DJO's inability to demonstrate that the clinical and other benefits of the device outweigh the risks;
- an advisory committee, if convened by the applicable regulatory authority, may recommend against approval of DJO's application or may recommend that the applicable regulatory authority require, as a condition of approval, additional preclinical studies or clinical trials, limitations on approved labeling or distribution and use restrictions, or even if an advisory committee, if convened, makes a favorable recommendation, the respective regulatory authority may still not approve the product;
- the applicable regulatory authority may identify deficiencies in DJO's application, DJO's manufacturing processes or facilities, or those of DJO's third party contract manufacturers;
- the potential for approval or clearance requirements of the FDA or applicable foreign regulatory bodies to change significantly in a manner rendering DJO's clinical data or regulatory filings insufficient for approval or clearance; and
- the FDA or foreign regulatory authorities may audit DJO's clinical trial data and conclude that the data is not sufficiently reliable to support a PMA or 510(k) application.

While in the past DJO has received such approvals and clearances, it may not be successful in the future in receiving such approvals and clearances in a timely manner or at all. If DJO begins to have significant difficulty obtaining such FDA approvals or clearances in a timely manner or at all, it could have a material adverse effect on its revenues and growth.

Clinical research on medical devices is subject to extensive regulation by FDA and comparable authorities, and DJO may encounter delays in the conduct of clinical trials or fail to receive positive clinical results for its products in development that require clinical trials. Even if DJO receives positive clinical results, it may still fail to receive the necessary clearance or approvals to market its products.

In the development of new products or new indications for, or modifications to, existing products, DJO may conduct or sponsor clinical trials. Clinical trials are expensive and require significant investment of time and resources and may not generate the data DJO needs to support a submission to the FDA. Clinical trials are subject to regulation by the FDA and, if federal funds are involved or if an investigator or site has signed a federal assurance, are subject to

further regulation by the Office for Human Research Protections and the National Institutes of Health. Failure to comply with such regulation, including, but not limited to, failure to obtain adequate consent of subjects, failure to adequately disclose financial conflicts or failure to report data or adverse events accurately, could result in fines, penalties, suspension of trials, and the inability to use the data to support an FDA submission. In addition, delays in the conduct of trials or delays in review and approval by the FDA may adversely affect DJO's business, results of operations or cash flows.

Certain modifications to DJO's products may require new 510(k) clearance or other marketing authorizations and may require DJO to recall or cease marketing its products.

Once a medical device is permitted to be legally marketed in the U.S. pursuant to a 510(k) clearance, de novo classification, or a PMA, a manufacturer may be required to notify the FDA of certain modifications to the device. Manufacturers determine in the first instance whether a change to a product requires a new premarket submission, but the FDA may review any manufacturer's decision. The FDA may not agree with DJO's decisions regarding whether new clearances or approvals are necessary. DJO has historically made modifications to its products in the past and have determined based on its review of the applicable FDA regulations and guidance that in certain instances new 510(k) clearances or other premarket submissions were not required. DJO may make similar modifications or add additional features in the future that DJO believes do not require a new 510(k) clearance, de novo classification, or approval of a PMA or PMA amendments or supplements. If the FDA disagrees with DJO's determinations and requires DJO to submit new 510(k) notifications, requests for de novo classification, or PMAs (or PMA supplements or amendments) for modifications to DJO's previously cleared or reclassified products for which DJO has concluded that new clearances or approvals are unnecessary, DJO may be required to cease marketing or to recall the modified product until DJO obtains clearance or approval, and DJO may be subject to significant regulatory fines or penalties.

DJO's products may cause or contribute to adverse medical events that DJO is required to report to the FDA and other governmental authorities, and if DJO fails to do so, it would be subject to sanctions that could harm DJO's reputation, business, financial condition and results of operations. The discovery of serious safety issues with DJO's products, or a recall of its products either voluntarily or at the direction of the FDA or another governmental authority, could have a negative impact on us.

DJO's products are subject to extensive regulation by the FDA in the United States and by regulatory agencies in other countries where we do business. DJO is required to timely file various reports with the FDA, including reports required by the medical device reporting regulations, or MDRs, which require DJO to report to the FDA when DJO receives or becomes aware of information that reasonably suggests that one or more of its products may have caused or contributed to a death or serious injury or malfunctioned in a way that, if the malfunction were to recur to the device or a similar device that we market, could cause or contribute to a death or serious injury. The timing of DJO's obligation to report is triggered by the date it becomes aware of the adverse event as well as the nature of the event. DJO may fail to report adverse events of which it becomes aware within the prescribed timeframe. DJO may also fail to recognize that it has become aware of a reportable adverse event, especially if it is not reported to DJO as an adverse event or if it is an adverse event that is unexpected or removed in time from the use of the product. If DJO fails to comply with its reporting obligations, the FDA or other governmental authorities could take action, including warning letters, untitled letters, administrative actions, criminal prosecution, imposition of civil monetary penalties, revocation of its marketing authorizations, seizure of its products or delay in clearance of future products.

Most medical device recalls are voluntarily initiated by manufacturers. FDA and certain foreign regulatory bodies also have the authority to require the recall of commercialized products under certain circumstances. The FDA's authority to require a recall must be based on a finding that there is reasonable probability that the device could cause serious injury or death. Correcting product deficiencies and defects may require the submission of additional marketing authorizations before DJO may continue marketing the corrected device. If DJO does not adequately address problems associated with its devices, DJO may face additional regulatory enforcement action, including FDA warning letters, product seizure, injunctions, administrative penalties or civil or criminal proceedings.

If DJO fails to comply with the various regulatory regimes for the foreign markets in which it operates, its operational results could be adversely affected.

In many of the foreign countries in which DJO markets its products, it is subject to extensive regulations, including those in Europe. The regulation of DJO's products in the European Economic Area (which consists of the twenty-seven member states of the European Union, as well as Iceland, Liechtenstein and Norway) is governed by various directives and regulations promulgated by the European Commission and national governments. Only medical devices that comply with certain conformity requirements are allowed to be marketed within the European Economic

Area. In addition, the national health or social security organizations of certain foreign countries, including certain countries outside Europe, require DJO's products to be qualified before they can be marketed in those countries. Failure to receive or delays in the receipt of, relevant foreign qualifications in the European Economic Area or other foreign countries could have a material adverse impact on DJO's business.

The FDA regulates the export of medical devices from the United States to foreign countries and certain foreign countries may require FDA certification that DJO's products are in compliance with U.S. law. If DJO fails to obtain or maintain export certificates required for the export of its products, it could suffer a material adverse impact on its revenues and growth.

DJO is subject to laws concerning its marketing activities in foreign countries where it conducts business. For example, within the EU, the control of unlawful marketing activities is a matter of national law in each of the member states of the EU. The member states of the EU closely monitor perceived unlawful marketing activity by companies. DJO could face civil, criminal and administrative sanctions if any member state determines that DJO has breached its obligations under its national laws. In particular,

as a result of conducting business in the U.K. through DJO's subsidiary in that country, DJO is, in certain circumstances, subject to the anti-corruption provisions of the U.K. Bribery Act in its activities conducted in any country in the world. Industry associations also closely monitor the activities of member companies. If these organizations or authorities name DJO as having breached its obligations under their regulations, rules or standards, DJO's reputation would suffer and its business and financial condition could be adversely affected. DJO is also subject to the U.S. Foreign Corrupt Practices Act (the "FCPA"), antitrust and anti-competition laws, and similar laws in foreign countries, any violation of which could result in civil or criminal enforcement actions and penalties, create a substantial liability for DJO and also cause a loss of reputation in the market. The EU and various of its constituent states have promulgated extensive rules regulating the process and means by which personal data can be exported out of the EU or its constituent states to the U.S. and elsewhere, including for human resources purposes by multinational companies. From time to time, DJO may face audits or investigations by one or more domestic or foreign government agencies, compliance with which could be costly and time-consuming, and could divert DJO's management and key personnel from DJO's business operations. An adverse outcome under any such investigation or audit could subject DJO to fines or other penalties, which could adversely affect its business and financial results.

If the Department of Health and Human Services ("HHS"), the Office of Inspector General ("OIG"), the FDA or another regulatory agency determines that DJO has promoted off-label use of its products, DJO may be subject to various penalties, including civil or criminal penalties, and the off-label use of its products may result in injuries that lead to product liability suits, which could be costly to DJO's business.

The OIG, the FDA and other regulatory agencies actively enforce regulations prohibiting the promotion of a medical device for a use that has not been cleared or approved by the FDA. Use of a device outside its cleared or approved indications is known as "off-label" use. Physicians may prescribe DJO's products for off-label uses, as the FDA does not restrict or regulate a physician's choice of treatment within the practice of medicine. However, if the OIG or the FDA, or another regulatory agency determines that DJO's promotional materials, training, or activities constitute improper promotion of an off-label use, the regulatory agency could request that DJO modify its promotional materials, training, or activities, or subject DJO to regulatory enforcement actions, including the issuance of a warning letter, injunction, seizure, civil fine and criminal penalties. Although DJO's policy is to refrain from statements and activities that could be considered off-label promotion of its products, the FDA, another regulatory agency, or the U.S. Department of Justice could disagree and conclude that DJO has engaged in off-label promotion and, potentially, caused the submission of false claims in violation of federal and state false claims acts, which provide for civil penalties as well as treble damages. In addition, the off-label use of DJO's products may increase the risk of injury to patients, and, in turn, the risk of product liability claims. Product liability claims are expensive to defend and could divert DJO's management's attention and result in substantial damage awards against DJO.

DJO's compensation, marketing and sales practices may contain certain risks with respect to the manner in which these practices were historically conducted that could have a material adverse impact on DJO.

Although DJO believes its agreements and arrangements with healthcare providers are in compliance with applicable laws, under applicable federal and state healthcare fraud and abuse, anti-kickback, false claims and self-referral laws, it could be determined that DJO's royalty, marketing, product design and consulting arrangements with surgeons and physicians, its marketing and sales practices, and consignment closet arrangements such as its OfficeCare program fall outside permitted arrangements, thereby subjecting it to possible civil and/or criminal sanctions (including exclusion from the Medicare and Medicaid programs), which could have a material adverse impact on DJO's business. These arrangements are now subject to increased visibility under the provisions of the Physician Payments Sunshine Act/Open Payments provisions. Although DJO believes it maintains a satisfactory compliance program, it may not be adequate in the detection or prevention of violations. The form and effectiveness of DJO's compliance program may be taken into account by the government in assessing sanctions, if any, should it be determined that violations of laws have occurred.

Audits or denials of DJO's claims by government agencies could reduce its revenues or profits.

As part of DJO's business operations, DJO submits claims on behalf of patients directly to, and receives payments directly from, the Medicare and Medicaid programs and private payors. Therefore, DJO is subject to extensive government regulation, including detailed requirements for submitting reimbursement claims under appropriate codes and maintaining certain documentation to support its claims. Medicare contractors and Medicaid agencies periodically conduct pre- and post-payment reviews and other audits of claims and are under increasing pressure to more closely scrutinize healthcare claims and supporting documentation. DJO has historically been subject to pre-payment and post-payment reviews as well as audits of claims and may experience such reviews and audits of claims in the future. Such reviews or similar audits of DJO's claims including by RACs (private companies operating on a contingent fee basis to identify and recoup Medicare overpayments) and ZPICs (contractors charged with investigating potential fraud and abuse) could result in material delays in payment, as well as material recoupment or denials, which would reduce DJO's net sales and profitability, investigations, potential liability under fraud or abuse laws or in

exclusion from participation in the Medicare or Medicaid programs. Private payors may from time to time conduct similar reviews and audits.

Additionally, DJO participates in the government's Federal Supply Schedule program for medical equipment, whereby it contracts with the government to supply certain of its products. Participation in this program requires DJO to follow certain pricing practices and other contract requirements. Failure to comply with such pricing practices and/or other contract requirements could result in delays in payment or fines or penalties, which could reduce DJO's revenues or profits.

If DJO fails to comply with broad based healthcare and other governmental regulations, we could face substantial fines and penalties and DJO's business, results of operations and financial condition could be adversely affected.

The products DJO offers are highly regulated, and there can be no assurance that the regulatory environment in which DJO operates will not change significantly and adversely in the future. DJO's arrangements with physicians, other healthcare professionals, hospitals and clinics will expose DJO to broadly applicable fraud and abuse and other laws and regulations that may restrict the financial arrangements and relationships through which DJO markets, sells and distributes its products. DJO's employees, consultants, and commercial partners may engage in misconduct or other improper activities, including failures to comply with regulatory standards and requirements. Federal and state healthcare laws and regulations that directly or indirectly may affect DJO's ability to conduct business, include:

- the federal Anti-Kickback Statute, which prohibits, among other things, any person from knowingly and willfully offering, soliciting, receiving or providing remuneration, directly or indirectly, in exchange for or to induce either the referral of an individual for, or the purchase, order or recommendation of, any good or service for which payment may be made under federal healthcare programs, such as Medicare. A person or entity does not need to have actual knowledge of the statute or specific intent to violate it to have committed a violation. The U.S. government has interpreted this law broadly to apply to the marketing and sales activities of manufacturers. Moreover, the government may assert that a claim including items or services resulting from a violation of the federal Anti-Kickback Statute constitutes a false or fraudulent claim for purposes of the federal civil False Claims Act. Violations of the federal Anti-Kickback Statute may result in civil monetary penalties up to $100,000 for each violation, plus up to three times the remuneration involved. Civil damages and penalties for such conduct can further be assessed under the federal False Claims Act. Violations also can result in criminal penalties, including criminal fines of up to $100,000 and imprisonment of up to 10 years. Similarly, violations can result in exclusion from participation in government healthcare programs, including Medicare and Medicaid;

- the Stark Law, which prohibits a physician from making a referral for certain designated health services covered by the Medicare or Medicaid program (including durable medical equipment and supplies, prosthetics, orthotics, prosthetic devices and supplies, and physical and occupational therapy services), if the physician or an immediate family member of the physician has a financial relationship with the entity providing the designated health services and prohibits that entity from billing, presenting or causing to be presented a claim for the designated health services furnished pursuant to the prohibited referral, unless an exception applies. Sanctions for violating the Stark Law include denial of payment, civil monetary penalties and exclusion from the federal health care programs. Failure to refund amounts received as a result of a prohibited referral on a timely basis may constitute a false or fraudulent claim and may result in civil penalties and additional penalties under the federal False Claims Act ("FCA");

- the FCA, which prohibits, among other things, individuals or entities from knowingly presenting, or causing to be presented, false claims, or knowingly using false statements, to obtain payment from the federal government. These laws can apply to DMEPOS suppliers who submit bills to Medicare and Medicaid, as well as manufacturers who provide information on coverage, coding, and reimbursement of their products to persons who bill third-party payers. Private individuals can bring False Claims Act "qui tam" actions, on behalf of the government and such individuals, commonly known as "whistleblowers," may share in amounts paid by the entity to the government in fines or

settlement. When an entity is determined to have violated the federal civil False Claims Act, the government may impose civil fines and penalties ranging from $11,181 to $22,363 for each false claim, plus treble damages, and exclude the entity from participation in Medicare, Medicaid, and other federal healthcare programs;

- the federal Civil Monetary Penalties Law, which prohibits, among other things, offering or transferring remuneration to a federal healthcare beneficiary that a person knows or should know is likely to influence the beneficiary's decision to order or receive items or services reimbursable by the government from a particular provider or supplier;

- the federal Physician Payment Sunshine Act, or Open Payments, created under the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Affordability Reconciliation Act, or Affordable Care Act, and its implementing regulations, which requires manufacturers of drugs, medical devices, biologicals and medical supplies for

which payment is available under Medicare, Medicaid, or the Children's Health Insurance Program to report annually to the U.S. Department of Health and Human Services, or HHS, information related to payments or other transfers of value made to licensed physicians, certain other healthcare providers, and teaching hospitals, and applicable manufacturers and group purchasing organizations, to report annually ownership and investment interests held by physicians and their immediate family members. Applicable manufacturers are required to submit annual reports to CMS. Failure to submit required information may result in civil monetary penalties of $11,278 per failure up to an aggregate of $169,170 per year (or up to an aggregate of $1.127 million per year for "knowing failures"), for all payments, transfers of value or ownership or investment interests that are not timely, accurately, and completely reported in an annual submission, and may result in liability under other federal laws or regulations;

- the Health Insurance Portability and Accountability Act of 1996, or HIPAA, which created additional federal criminal statutes that prohibit, among other things, executing a scheme to defraud any healthcare benefit program and making false statements relating to healthcare matters. Similar to the federal Anti-Kickback Statute, a person or entity does not need to have actual knowledge of the statute or specific intent to violate it to have committed a violation;

- HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act, and its implementing regulations, which impose certain requirements relating to the privacy, security and transmission of individually identifiable health information; HIPAA also created criminal liability for knowingly and willfully falsifying or concealing a material fact or making a materially false statement in connection with the delivery of or payment for healthcare benefits, items or services. Failure to comply with the HIPAA privacy and security standards can result in civil monetary penalties and/or imprisonment. State attorneys general can also bring a civil action to enjoin a HIPAA violation or to obtain statutory damages on behalf of residents of his or her state; and

- analogous state and foreign law equivalents of each of the above federal laws, such as anti-kickback and false claims laws which may apply to items or services reimbursed by any third-party payor, including commercial insurers or patients and may apply to sales and marketing arrangements, including those that have percentage-based fees for patients that are not federal healthcare program beneficiaries; state laws that require device companies to comply with the industry's voluntary compliance guidelines and the applicable compliance guidance promulgated by the federal government or otherwise restrict payments that may be made to healthcare providers and other potential referral sources; state laws that require device manufacturers to report information related to payments and other transfers of value to physicians and other healthcare providers or marketing expenditures; consumer protection and unfair competition laws, which broadly regulate marketplace activities and activities that potentially harm customers, foreign and state laws, including the E.U. General Data Protection Regulation, or GDPR, governing the privacy and security of health information in certain circumstances, many of which differ from each other in significant ways and may not have the same effect, thus complicating compliance efforts; and state laws related to insurance fraud in the case of claims involving private insurers.

These laws and regulations, among other things, constrain DJO's business, marketing and other promotional activities by limiting the kinds of financial arrangements, including royalty, marketing and consulting arrangements, and sales programs DJO may have with hospitals, physicians or other potential purchasers of its products or individuals or entities who recommend its products, and consignment closet arrangements, such as our OfficeCare program. Because of the breadth of these laws and the narrowness of available statutory and regulatory exemptions or safe harbors, it is possible that some of DJO's activities could be subject to challenge under one or more of such laws. Any action brought against DJO for violations of these laws or regulations, even successfully defended, could cause DJO to incur significant legal expenses and divert DJO's management's attention from the operation of its business.

Federal and state agencies have become increasingly vigilant in recent years in their investigation of various business practices under the various healthcare "fraud and abuse" laws with respect to DJO's business arrangements with prescribing physicians, other healthcare professionals and other third-party entities, as well as DJO's filing of DMEPOS claims for reimbursement.

For example, the OIG announced in January 2018 that it is investigating questionable Medicare billing for off-the-shelf orthotic devices industry wide, and an OIG report is expected in 2019. In particular, the OIG is reviewing potential lack of documentation of medical necessity in patients' medical records for three types of off-the-shelf orthotic devices (L0648, L0650, and L1833). The OIG will evaluate the extent to which Medicare beneficiaries are being supplied these orthotic devices without an encounter with the referring physician within 12 months prior to their orthotic claim and will analyze billing trends on a nation-wide scale. The results of this investigation could potentially lead to more restrictive Medicare policies or increased claims denials.

The federal government has significantly increased investigations of and enforcement activity involving medical device manufacturers with regard to alleged kickbacks and other forms of remuneration to physicians and other healthcare professionals who use and prescribe their products, as well as financial relationships with other third-party entities in a position to increase

utilization of the products. Such investigations can arise based on allegations by the government or private whistleblowers of violations of the federal Anti-Kickback Statute and/or the civil False Claims Act, in connection with or separate from alleged off-label marketing of products to physicians. In addition, significant state and federal investigative and enforcement activity addresses alleged improprieties in interactions with DMEPOS customers and in the filings of claims for payment or reimbursement by Medicare, Medicaid, and other payors.

The fraud and abuse laws and regulations are complex, and even minor, inadvertent irregularities in submissions can potentially give rise to investigations and claims that the law has been violated. Any violations of these laws or regulations could result in a material adverse impact on DJO's business, financial condition and results of operations. If there is a change in law, regulation or administrative or judicial interpretations, DJO may have to change one or more of its business practices to be in compliance with these laws. Required changes could be costly and time consuming. Any failure to make required changes could result in DJO losing business or its existing business practices being challenged as unlawful. The growth of DJO's business and sales organization and DJO's expansion outside of the United States may increase the potential of violating these laws or our internal policies and procedures. The risk of DJO being found in violation of these or other laws and regulations is further increased by the fact that many have not been fully interpreted by the regulatory authorities or the courts, and their provisions are open to a variety of interpretations. Any action brought against DJO for violation of these or other laws or regulations, even if DJO successfully defends against it, could cause DJO to incur significant legal expenses and divert DJO's management's attention from the operation of its business. If DJO's operations are found to be in violation of any of the federal, state and foreign laws described above or any other current or future fraud and abuse or other healthcare laws and regulations that apply to DJO, DJO may be subject to penalties, including significant criminal, civil, and administrative penalties, damages, fines, imprisonment, for individuals, exclusion from participation in government programs, such as Medicare and Medicaid, and DJO could be required to curtail or cease DJO's operations. Any of the foregoing consequences could seriously harm DJO's business and its financial results.

DJO's activities are subject to Federal Privacy and Transaction Law and Regulations, which could have an impact on its operations.

HIPAA and the HIPAA Rules impact the transmission, maintenance, use and disclosure of PHI. As such, HIPAA and the HIPAA Rules apply to certain aspects of DJO's business. To the extent applicable to its operations, DJO believes it is currently in compliance with HIPAA and the applicable HIPAA Rules. There are costs and administrative burdens associated with ongoing compliance with the HIPAA Rules and similar state law requirements. Any failure to comply with current and applicable future requirements could adversely affect DJO's profitability.

HIPAA establishes a set of national privacy and security standards for the protection of individually identifiable health information, including PHI by health plans, certain healthcare clearinghouses and healthcare providers that submit certain covered transactions electronically, or covered entities, and their ''business associates,'' which are persons or entities that perform certain services for, or on behalf of, a covered entity that involve creating, receiving, maintaining or transmitting PHI.

Penalties for violations of these laws vary. For instance, penalties for failure to comply with a requirement of HIPAA and HITECH vary significantly, and include civil monetary penalties of up to $57,051 per violation, not to exceed $1.71 million per calendar year for each provision of HIPAA that is violated and, in certain circumstances, criminal penalties with fines up to $250,000 per violation and/or imprisonment. However, a single breach incident can result in findings of violations of multiple provisions, leading to possible penalties in excess of $1.71 million for violations in a single year. A person who knowingly obtains or discloses individually identifiable health information in violation of HIPAA may face a criminal penalty of up to $50,000 and up to one-year imprisonment. The criminal penalties increase if the wrongful conduct involves false pretenses or the intent to sell, transfer, or use identifiable health information for commercial advantage, personal gain, or malicious harm. In addition, responding to government investigations regarding alleged violations of these and other laws and regulations, even if ultimately concluded with

no findings of violations or no penalties imposed, can consume company resources and impact DJO's business and, if public, harm DJO's reputation.

Further, various states, such as California and Massachusetts, have implemented similar privacy laws and regulations, such as the California Confidentiality of Medical Information Act, that impose restrictive requirements regulating the use and disclosure of health information and other personally identifiable information. These laws and regulations are not necessarily preempted by HIPAA, particularly if a state affords greater protection to individuals than HIPAA. Where state laws are more protective, DJO may have to comply with the stricter provisions. In addition to fines and penalties imposed upon violators, some of these state laws also afford private rights of action to individuals who believe their personal information has been misused. California's patient privacy laws, for example, provide for penalties of up to $250,000 and permit injured parties to sue for damages. The interplay of federal and state laws may be subject to varying interpretations by courts and government agencies, creating complex compliance issues for DJO and its clients and potentially exposing DJO to additional expense, adverse publicity and liability. Further, as regulatory focus on privacy issues continues to increase and laws and regulations concerning the protection of personal information

expand and become more complex, these potential risks to DJO's business could intensify. Changes in laws or regulations associated with the enhanced protection of certain types of sensitive data, such as PHI, or personally identifiable information along with increased customer demands for enhanced data security infrastructure, could greatly increase DJO's cost of providing its services, decrease demand for its services, reduce its revenue and/or subject it to additional liabilities.

The privacy and security of personally identifiable information stored, maintained, received or transmitted, including electronically, is a major issue in the United States and abroad. While DJO strives to comply with all applicable privacy and security laws and regulations, as well as DJO's own posted privacy policies, legal standards for privacy, including but not limited to ''unfairness'' and ''deception,'' as enforced by the FTC and state attorneys general, continue to evolve and any failure or perceived failure to comply may result in proceedings or actions against DJO by government entities or others, or could cause DJO to lose audience and customers, which could have a material adverse effect on DJO's business. Recently, there has been an increase in public awareness of privacy issues in the wake of revelations about the activities of various government agencies and in the number of private privacy-related lawsuits filed against companies. Concerns about DJO's practices with regard to the collection, use, retention, disclosure or security of personally identifiable information or other privacy-related matters, even if unfounded and even if DJO is in compliance with applicable laws, could damage DJO's reputation and harm its business.

In addition, the interpretation and application of consumer, health-related, and data protection laws, especially with respect to genetic samples and data, in the United States, the European Union, or the EU, and elsewhere are often uncertain, contradictory, and in flux. DJO operates or may operate in a number of countries outside of the United States whose laws may in some cases be more stringent than the requirements in the United States.

DJO's compliance with the HIPAA Rules is currently under investigation by the Office for Civil Rights. If OCR does not agree that DJO is in compliance with the HIPAA Rules, DJO may be subject to civil money penalties or other actions. DJO is unable to predict at this time whether or to what extent OCR will impose any civil monetary penalties or take other action as a result of the incidents.

Security breaches, loss of data and other disruptions could compromise sensitive information related to our business or prevent DJO from accessing critical information and expose DJO to liability, which could adversely affect DJO's business and its reputation.

In the ordinary course of our business, DJO collects and stores sensitive data, including PHI, personally identifiable information, credit card and other financial information, intellectual property and proprietary business information owned or controlled by itself or its customers, payers and other parties. DJO manages and maintains its applications and data utilizing a combination of on-site systems and cloud-based data centers. DJO utilizes external security and infrastructure vendors to manage parts of its data centers. DJO also communicates sensitive data, including patient data, telephonically, through its website, through facsimile, through integrations with third-party electronic medical records and through relationships with multiple third-party vendors and their subcontractors. These applications and data encompass a wide variety of business-critical information, including research and development information, patient data, commercial information and business and financial information. DJO faces a number of risks relative to protecting this critical information, including loss of access risk, inappropriate use or disclosure, inappropriate modification and the risk of DJO being unable to adequately monitor and audit and modify its controls over its critical information. This risk extends to the third-party vendors and subcontractors DJO uses to manage this sensitive data or otherwise process it on its behalf.

The secure processing, storage, maintenance and transmission of this critical information are vital to DJO's operations and business strategy, and DJO devotes significant resources to protecting such information. Although DJO takes reasonable measures to protect sensitive data from unauthorized access, use or disclosure, no security measures can be perfect and DJO's information technology and infrastructure may be vulnerable to attacks by hackers or viruses or

breached due to employee error, malfeasance or other malicious or inadvertent disruptions. Any such breach or interruption could compromise DJO's networks and the information stored there could be accessed by unauthorized parties, publicly disclosed, lost or stolen. Any such access, breach, or other loss of information could result in legal claims or proceedings, and liability under federal or state laws that protect the privacy of personal information, such as HIPAA or HITECH, and regulatory penalties. Notice of breaches may be required to affected individuals, the Secretary of the Department of Health and Human Services or other state, federal or foreign regulators, and for extensive breaches, notice may need to be made to the media or State Attorneys General. Such a notice could harm DJO's reputation and its ability to compete. Although DJO has implemented security measures and a formal, dedicated enterprise security program to prevent unauthorized access to patient data, such data is currently accessible through multiple channels, and there is no guarantee DJO can protect its data from breach. Unauthorized access, loss or dissemination could also disrupt DJO's operations (including its ability to conduct its analysis, provide test results, bill payers or patients, process claims and appeals, provide customer assistance, conduct research and development activities, collect, process and prepare company financial information, provide information about its tests and other patient and physician education and outreach efforts through its website, and manage the administrative aspects of its business) and damage DJO's reputation, any of which could adversely affect its business.

Managed care and buying groups have put downward pressure on the prices of DJO's products.

The growth of managed care and the advent of buying groups in the United States have caused a shift toward coverage and payments based on more cost-effective treatment alternatives. Buying groups enter into preferred supplier arrangements with one or more manufacturers of medical products in return for price discounts to members of these buying groups. DJO's failure to obtain new preferred supplier commitments from major group purchasing organizations or its failure to retain its existing preferred supplier commitments could adversely affect its sales and profitability. In international markets where DJO sells its products, DJO has historically experienced downward pressure on product pricing and other effects of healthcare cost control efforts that are similar to that which DJO has experienced in the United States. DJO expects a continued emphasis on healthcare cost controls, alternate payment models such as bundled payments, and managed care in the United States and in these international markets, which could put further downward pressure on product pricing, which, in turn may adversely affect DJO's sales and profitability.

DJO must report to FDA and comparable regulatory authorities adverse events and malfunctions that are associated with its products, and it may be required to conduct product recalls. Adverse events, malfunctions and recalls of DJO's products could harm its reputation and business.

DJO is subject to ongoing medical device reporting regulations that require it to report to the FDA and similar governmental authorities in other countries if it receives a report or otherwise learn that any of its products may have caused, or contributed to death or serious injury, or that any of its products has malfunctioned in a way that would be likely to cause, or contribute to, death or serious injury if the malfunction were to recur. The FDA and similar governmental authorities in other countries have the authority to require DJO to recall its products in the event of actual or potential material deficiencies or defects in design manufacturing, or labeling, and DJO has been subject to product recalls in the past. In addition, in light of an actual or potential material deficiency or defect in design, manufacturing, or labeling, DJO may voluntarily elect to recall its products. A government mandated recall or a voluntary recall initiated by DJO could occur as a result of actual or potential component failures, manufacturing errors, or design defects, including defects in labeling. Any recall would divert managerial and financial resources and could harm DJO's reputation with its customers and with the healthcare professionals that use, prescribe and recommend its products. DJO could have product recalls that result in significant costs in the future, and such recalls could have a material adverse effect on its business.

Product liability claims may harm DJO's business, particularly if the number of claims increases significantly or its product liability insurance proves inadequate.

The manufacture and sale of orthopedic devices and related products exposes DJO to a significant risk of product liability claims. From time to time, DJO has been, and it is currently, subject to a number of product liability claims alleging that the use of its products resulted in adverse effects. Even if DJO is successful in defending against any liability claims, such claims could nevertheless distract its management, result in substantial costs, harm its reputation, adversely affect the sales of all its products and otherwise harm its business. If there is a significant increase in the number of product liability claims, DJO's business could be adversely affected. Further, a significant increase in claims or adverse outcomes could result in its product liability insurance being inadequate.

DJO's concentration of manufacturing operations in Mexico increases its business and competitive risks.

DJO's most significant manufacturing facility is its facility in Tijuana, Mexico, and it also has a relatively small manufacturing operation in Tunisia. DJO's current and future foreign operations are subject to risks of political and economic instability inherent in activities conducted in foreign countries. Because there are no readily accessible alternatives to these facilities, any event that disrupts manufacturing at or distribution or transportation from these

facilities would materially adversely affect DJO's operations. In addition, as a result of this concentration of manufacturing activities, DJO's sales in foreign markets may be at a competitive disadvantage to products manufactured locally due to freight costs, custom and import duties and favorable tax rates for local businesses.

If DJO loses one of its key suppliers or one of its contract manufacturers stops making the raw materials and components used in its products, it may be unable to meet customer orders for its products within its budget.

DJO relies on certain key foreign and domestic suppliers for the raw materials and components used in its products. One or more of DJO's suppliers may decide to cease supplying DJO with raw materials and components for reasons beyond DJO's control. FDA regulations may require additional testing of any raw materials or components from new suppliers prior to DJO's use of those materials or components. In addition, in the case of a device which is the subject of a pre-market approval, DJO may be required to obtain prior FDA permission (which may or may not be given), which could delay or prevent DJO's access or use of such raw

materials or components. If DJO is unable to obtain materials it needs from its suppliers or its agreements with its suppliers are terminated, and it cannot obtain these materials from other sources, DJO may be unable to manufacture its products to meet customer orders in a timely manner or within its manufacturing budget. In that event, DJO's business and results of operations could be adversely affected.

In addition, DJO relies on third parties to manufacture some of its products. For example, DJO uses a single source for many of the home electrotherapy devices its French channel distributes. If DJO's agreements with these manufacturing companies were terminated, DJO may not be able to find suitable replacements within a reasonable amount of time or at all. Any such cessation, interruption or delay may impair DJO's ability to meet scheduled deliveries of its products to its customers and may cause its customers to cancel orders. In that event, DJO's reputation and results of operations may be adversely affected.

Some of DJO's important suppliers are in China and other parts of Asia and provide predominately finished soft goods products. In the year ended December 31, 2017, DJO obtained 20% of its total purchased materials from suppliers in China and other parts of Asia. Actions by the U.S. government to withdraw from or materially modify international trade agreements or otherwise influence U.S. trade relations with other countries, could adversely affect DJO's business, financial condition and results of operations. In addition, political and economic instability and changes in government regulations in China and other parts of Asia could affect DJO's ability to continue to receive materials from suppliers there. The loss of suppliers in these areas, any other interruption or delay in the supply of required materials or DJO's inability to obtain these materials at acceptable prices and within a reasonable amount of time could impair DJO's ability to meet scheduled product deliveries to its customers and could hurt its reputation and cause customers to cancel orders.

In addition, DJO purchases the microprocessor used in the OL1000 and SpinaLogic devices from a single manufacturer. Although there are feasible alternate microprocessors that might be used immediately, all are produced by a single supplier. In addition, there are single suppliers for other components used in the OL1000 and SpinaLogic devices and only two suppliers for the magnetic field sensor employed in them. Establishment of additional or replacement suppliers for these components cannot be accomplished quickly.

If DJO's patents and other intellectual property rights do not adequately protect its products, DJO may lose market share to its competitors and may not be able to operate its business profitably. DJO may also become involved in litigation regarding its patents and other intellectual property rights which can have a material adverse effect on its operating results and financial condition.

DJO relies on a combination of patents, trade secrets, copyrights, trademarks, license agreements and contractual provisions to establish and protect its intellectual property rights in its products and the processes for the development, manufacture and marketing of its products.

DJO uses non-patented, proprietary know-how, trade secrets, processes and other proprietary information and currently employ various methods to protect this proprietary information, including confidentiality agreements, invention assignment agreements and proprietary information agreements with vendors, employees, independent sales agents, distributors, consultants, and others. However, these agreements may be breached. The FDA or another governmental agency may require the disclosure of such information in order for DJO to have the right to market a product. The FDA may also disclose such information on its own initiative if it should decide that such information is not confidential business or trade secret information. Trade secrets, know-how and other unpatented proprietary technology may also otherwise become known to or independently developed by DJO's competitors.

In addition, DJO also holds U.S. and foreign patents relating to a number of its components and products and has patent applications pending with respect to other components and products. DJO also applies for additional patents in the ordinary course of its business, as it deems appropriate. However, these precautions offer only limited protection,

and its proprietary information may become known to, or be independently developed by, competitors, or its proprietary rights in intellectual property may be challenged, any of which could have a material adverse impact on its business, financial condition and results of operations. Additionally, we cannot assure you that DJO's existing or future patents, if any, will afford adequate protection or any competitive advantage, that any future patent applications will result in issued patents or that its patents will not be circumvented, invalidated or declared unenforceable.

DJO may become a party to lawsuits involving patents or other intellectual property. Such litigation is costly and time consuming. If DJO loses any of these proceedings, a court or a similar foreign governing body could invalidate or render unenforceable DJO's owned or licensed patents or other intellectual property, require DJO to pay significant damages, seek licenses and/or pay ongoing royalties to third parties (which may not be available under terms acceptable to DJO, or at all), require DJO

to redesign its products, or prevent it from manufacturing, using or selling its products, any of which would have an adverse impact on its results of operations and financial condition.

Any proceedings before the U.S. Patent and Trademark Office could result in adverse decisions as to the priority of DJO's inventions and the narrowing or invalidation of claims in issued or pending patents. DJO could also incur substantial costs in any such proceedings. In addition, the laws of some of the countries in which DJO's products are or may be sold may not protect its products and intellectual property to the same extent as U.S. laws, if at all. DJO may also be unable to protect its rights in trade secrets, trademarks and unpatented proprietary technology in these countries.

In addition, DJO holds patent, trademark and other intellectual property licenses from third parties for some of its products and on technologies that are necessary in the design and manufacture of some of its products. The loss of such licenses could prevent DJO from manufacturing, marketing and selling these products, which in turn could harm its business.

DJO's business strategy relies on certain assumptions concerning demographic and other trends that impact the market for its products. If these assumptions prove to be incorrect, demand for its products may be lower than it currently expects.

DJO's ability to achieve its business objectives is subject to a variety of factors, including the relative increase in the aging of the general population and an increase in participation in exercise and sports and more active lifestyles. In addition, DJO's business strategy relies on an increasing awareness and clinical acceptance of non-invasive, non-systemic treatment and rehabilitation products, such as electrotherapy. DJO believes that these trends will increase the need for its orthopedic, physical therapy, regenerative and surgical implant products. The projected demand for DJO's products could materially differ from actual demand if its assumptions regarding these trends and acceptance of its products by healthcare professionals and patients prove to be incorrect or do not materialize. If DJO's assumptions regarding these factors prove to be incorrect, DJO may not be able to successfully implement its business strategy, which could adversely affect its results of operations. In addition, the perceived benefits of these trends may be offset by competitive or business factors, such as the introduction of new products by DJO's competitors or the emergence of other countervailing trends.

DJO relies on information technology in its operations, and any material failure, inadequacy, interruption or security failure of that technology could harm its business, financial condition, results of operations and prospects.

DJO relies on information technology networks and systems, including the Internet, to process, transmit and store electronic information, and manage or support a variety of business processes, including medical records, financial transactions and records, personal identifying information, and payroll data. DJO relies on commercially available systems, software, tools and monitoring to provide security for processing, transmission and storage of confidential patient and other customer information, such as individually identifiable information, including information relating to health protected by HIPAA. Although DJO has taken steps to protect the security of its information systems and the data maintained in those systems, it is possible that its safety and security measures will not prevent the systems' improper functioning or damage or the improper access or disclosure of personally identifiable information such as in the event of cyber-attacks. Security breaches, including physical or electronic break-ins, theft of mobile equipment, computer viruses, attacks by hackers and similar breaches can create system disruptions or shutdowns or the unauthorized disclosure of confidential information. If personal or otherwise protected information of DJO's patients is improperly accessed, tampered with or distributed, DJO may incur significant costs to remediate possible injury to the affected patients and it may be subject to sanctions and civil or criminal penalties if it is found to be in violation of the privacy or security rules under HIPAA or other similar federal or state laws protecting confidential patient health information. Any failure to maintain proper functionality and security of DJO's information systems could interrupt DJO's operations, damage its reputation, subject it to liability claims or regulatory penalties and could have a material

adverse effect on its business, financial condition, results of operations and prospects.

DJO could incur significant costs complying with environmental and health and safety requirements, or as a result of liability for contamination or other harm caused by hazardous materials that DJO uses.

DJO's research and development and manufacturing processes involve the use of hazardous materials. DJO is subject to federal, state, local and foreign environmental requirements, including regulations governing the use, manufacture, handling, storage and disposal of hazardous materials, discharge to air and water, the cleanup of contamination and occupational health and safety matters. DJO cannot eliminate the risk of contamination or injury resulting from hazardous materials, and DJO may incur liability as a result of any contamination or injury. Under some environmental laws and regulations, DJO could also be held responsible for costs relating to any contamination at its past or present facilities and at third party waste disposal sites where it has sent wastes. These could include costs relating to contamination that did not result from any violation of law, and in some circumstances, contamination that DJO did not cause. DJO may incur significant expenses in the future relating to any failure to comply with environmental laws. Any such future expenses or liability could have a significant negative impact on DJO's financial

condition. The enactment of stricter laws or regulations, the stricter interpretation of existing laws and regulations or the requirement to undertake the investigation or remediation of currently unknown environmental contamination at DJO's own or third party sites may require DJO to make additional expenditures, which could be material.

If a natural or man-made disaster strikes DJO's manufacturing facilities, it will be unable to manufacture its products for a substantial amount of time and its sales will decline.

A significant portion of DJO's rehabilitation products are manufactured in a facility in Tijuana, Mexico, with a number of products for the European market manufactured in a Tunisian facility. In Vista, California DJO manufactures its custom rigid bracing products, which remain in the United States to facilitate quick turnaround on custom orders, vascular products, and its CMF product line. DJO's clinical electrotherapy devices, patient care products, physical therapy and certain continuous passive motion devices are now manufactured in its facilities located in Tijuana, Mexico. In DJO's Surgical Implant business, DJO manufactures its products in its manufacturing facility at Austin, Texas. These facilities and the manufacturing equipment DJO uses to produce its products would be difficult to repair or replace. DJO's facilities may be affected by natural or man-made disasters. If one of DJO's facilities were affected by a disaster, DJO would be forced to rely on third party manufacturers or shift production to another manufacturing facility. In such an event, DJO would face significant delays in manufacturing which would prevent it from being able to sell its products. In addition, DJO's insurance may not be sufficient to cover all of the potential losses and may not continue to be available to DJO on acceptable terms, or at all.

If DJO does not achieve and maintain effective internal controls over financial reporting, it could fail to accurately report its financial results.

During the course of the preparation of DJO's financial statements, DJO evaluates its internal controls to identify and correct deficiencies in its internal controls over financial reporting. In the event DJO is unable to identify and correct deficiencies in its internal controls in a timely manner, it may not record, process, summarize and report financial information accurately and within the time periods required for its financial reporting under the terms of the agreements governing its indebtedness.

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 into the marketplace 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 affect 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, 2018, our Air and Gas Handling reportable segment had 7 principal production facilities in the U.S. representing 0.7 million and 0.1 million square feet of owned and leased space, and 25 principal production facilities in 16 different countries outside the U.S. in Asia, Europe, the Americas, and South Africa, representing a total of 2.5 million and 0.3 million square feet of owned and leased space, respectively. Additionally, as of December 31, 2018, our Fabrication Technology segment had a total of 5 production facilities in the U.S., representing a total of 0.6 million and 0.7 million square feet of owned and leased space, and 33 production facilities outside the U.S., representing a total of 7.3 million and 2.2 million square feet of owned and leased space, respectively, in 16 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 17, “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	51	President and Chief Executive Officer and Director, Colfax Corporation
Christopher M. Hix	56	Senior Vice President, Finance, Chief Financial Officer and Treasurer
Daniel A. Pryor	50	Executive Vice President, Strategy and Business Development
Ian Brander	57	Chief Executive Officer, Howden
Shyam Kambeyanda	48	Senior Vice President, President and CEO of ESAB
Lynn Clark	61	Senior Vice President, Global Human Resources
Jason MacLean	49	Senior Vice President, Colfax Business System and Supply Chain Strategy

Matthew L. Trerotola has been President and Chief Executive Officer 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 Corporation 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 Masters of Business Administration ("M.B.A.") from Harvard Business School and his Bachelor of Science ("B.S.") in Chemical Engineering from the University of Virginia.

Christopher M. Hix has been Senior Vice President, Finance, Chief Financial Officer and Treasurer since July 2016. Prior to joining Colfax, Mr. Hix was the Chief Financial Officer of OM Group, Inc., a global, publicly-listed diversified industrial company. Mr. Hix served within OM Group from 2012 until the company's acquisition in late 2015. Previously, Mr. Hix was the Chief Financial Officer of Robbins & Myers, a diversified industrial company from 2006 to 2011. Prior to that, Mr. Hix spent 13 years in a variety of positions with increasing responsibility in operating, financial and strategic roles within Roper Industries, a global, diversified industrial and technology company that underwent rapid growth and transition from private to public ownership during his tenure. Mr. Hix earned his M.B.A. from St. Mary's College of California and his B.S. in Business Administration from the University of Southern California.

Daniel A. Pryor has been the 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 Bachelor of Arts 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.

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Shyam Kambeyanda has been the Senior Vice President, President and Chief Executive Officer of ESAB since May 2016. Prior to joining Colfax, Mr. Kambeyanda most recently served as the President Americas for Eaton Corporation's Hydraulics Group. Mr. Kambeyanda joined Eaton in 1995 and has held a variety of positions of increasing responsibility in engineering, quality, ecommerce, product strategy, and operations management in the U.S., Mexico, Europe and Asia. Mr. Kambeyanda maintains a keen international perspective on driving growth and business development in emerging markets. Mr. Kambeyanda holds bachelor's degrees in Physics and General Science from Coe College in Iowa and in Electrical Engineering from Iowa State University. Mr. Kambeyanda also earned his M.B.A from Kellogg School of Management at Northwestern University and is a Six Sigma Green Belt.

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 B.S in Education and a Master of Science in College Student Personnel from Bowling Green University in Ohio.

Jason MacLean has been the Senior Vice President, Colfax Business System and Supply Chain Strategy since October 2017. Prior to joining Colfax, he was the Vice President of Advance Analytics at Cummins, Inc. Mr. MacLean was with Cummins since 2006 and served in multiple senior supply chain roles including the Vice President of Supply Chain & Manufacturing for all of Cummins. Mr. MacLean has a combination of supply chain, lean manufacturing and strategic experience. His experience includes applying advanced analytics, digital technologies, and automation to complement and multiply the impact from driving lean across a range of supply chains. He is a Six Sigma Green Belt. Mr. MacLean holds a bachelor's degree in English from the University of Pennsylvania and earned both an M.B.A. in Finance and a Masters in International Studies from the Wharton School of Business and the Lauder Institute, University of Pennsylvania.

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 6, 2019, there were 34,340 holders of record of our Common stock.

Performance Graph

The graph below compares the cumulative total stockholder return on our Common stock with the cumulative total return of the Standard & Poor's ("S&P") 400 Industrial Index and the S&P Industrial Machinery Index. The graph assumes that $100 was invested on December 31, 2011 in each of our Common stock, the S&P 400 Industrial Index and the S&P Industrial Machinery Index, and that all dividends were reinvested. Note that we have elected to add the S&P 400 Industrial Index this year because this index is used in relative total shareholder return performance share units that we have granted to employees.

Issuer Repurchase of Equity Securities

On February 12, 2018, 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 Board of Directors increased the repurchase authorization by an additional $100 million on June 6, 2018, and again for an additional $100 million on July 19, 2018. 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 has no expiration date and does not obligate the Company to acquire any specific number of shares. The repurchase program was conducted pursuant to SEC Rule 10b-18.

Under the repurchase program, the Company repurchased 6,449,425 shares of its Common stock in open market transactions for $200.0 million in 2018.

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
09/29/18 - 10/26/18	—	$ —	—	$99,997,744
10/27/18 - 11/23/18	—	—	—	99,997,744
11/24/18 - 12/31/18	—	—	—	99,997,744
Total	—	$ —[1]	—	$99,997,744[2]

[1] Represents the weighted-average price paid per share during the three months ended December 31, 2018.
[2] Represents the repurchase program limit authorized by the Board of Directors of $300 million less the value of purchases made during the year ended December 31, 2018.

Item 6. Selected Financial Data

	Year Ended and As of December 31,				
	2018[1]	2017[2]	2016[3]	2015[4]	2014[5]
	(In thousands, except per share data)				
Statement of Income Data:					
Net sales	$3,666,812	$3,300,184	$3,185,753	$3,434,352	$3,971,059
Operating income	236,943	76,084	236,848	265,038	377,618
Specific costs included in Operating income:					
Restructuring and other related charges	77,686	68,351	58,496	56,822	51,133
Goodwill and intangible asset impairment	—	152,700	238	1,486	—
Net income (loss) from continuing operations	182,823	(54,540)	154,752	176,950	400,381
Net income (loss) per share from continuing operations - diluted	1.40	(0.59)	1.12	1.26	2.86
Net (loss) income per share from discontinued operations - diluted	(0.24)	1.81	(0.08)	0.08	0.16
Balance Sheet and Other Data:					
Cash and cash equivalents	245,019	262,019	208,814	178,993	281,066
Total assets	6,603,872	6,709,697	6,338,440	6,732,919	7,211,517
Total debt, including current portion	1,198,742	1,061,071	1,292,144	1,417,547	1,536,810
Net cash provided by operating activities	226,367	218,770	246,974	303,813	385,758

(1) During 2018, we repurchased approximately $200 million of our Common stock. See Note 13, “Equity” in the accompanying Notes to Consolidated Financial Statements in this Form 10-K for additional information.

(2) In 2017, we divested our Fluid Handling business for total consideration, including certain post-closing adjustments, of $860.6 million. Refer to Note 4, “Discontinued Operations” in the accompanying Notes to Consolidated Financial Statements in this Form 10-K for additional information.

(3) During 2016, we repurchased approximately $21 million of our Common stock. See Note 13, “Equity” in the accompanying Notes to Consolidated Financial Statements in this Form 10-K for additional information.

(4) In 2015, we repurchased approximately $27 million of our Common stock.

(5) During 2014, we completed the acquisition of Victor Technologies Holdings, Inc. which enabled us to reassess the realizability of certain deferred tax assets on expected U.S. future income, resulting in a non-cash income tax benefit of $145.4 million. In February 2014, we 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.

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.

Colfax conducts its operations through two operating segments: Air and Gas Handling and Fabrication Technology.

- Air and Gas Handling - a global supplier of industrial centrifugal and axial fans, rotary heat exchangers, gas compressors, ventilation control systems and software, and aftermarket services; and

- Fabrication Technology - a global supplier of consumable products and equipment for use in the cutting, joining and automated welding of steels, aluminum and other metals and metal alloys

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

We have a global 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.

Integral to our operations is CBS. CBS is our business management system, including a comprehensive set of tools. It includes repeatable, teachable processes that we use to drive continuous improvement and create superior value for our customers, shareholders and associates. Rooted in our core values, it is our culture. 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.

Recent Developments

Acquisition of DJO

In November 2018, we entered into a definitive agreement to acquire DJO Global Inc. ("DJO") for $3.2 billion in cash. DJO is a global developer, manufacturer and distributor of high-quality medical devices with a broad range of

products used for orthopedic
bracing, reconstructive implants, rehabilitation, pain management and physical therapy. Its products address the continuum of patient care from injury prevention to rehabilitation after surgery, injury or from degenerative disease, enabling people to regain or maintain their natural motion. DJO currently develops, manufactures and distributes its products through the following two markets: Prevention & Rehabilitation and Reconstructive.

This acquisition is expected to be completed during the first quarter of 2019. The related bank, senior notes and equity financing for the acquisition was completed in February 2019. The DJO acquisition represents a strategic evolution of Colfax that creates a new growth platform in the high-margin orthopedic solutions market.

Air and Gas Handling Business

Concurrent with our announcement of the DJO acquisition, we also announced that we are exploring strategic options for the Air and Gas Handling business including a potential divestiture. We have hired an advisor to assist in the process but cannot predict the outcome.

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 current business mix is expected to be well balanced between long- and short-cycle businesses, sales in emerging markets and developed nations and foremarket and aftermarket products and services. Given this balance, management does not use indices other than general economic trends and business initiatives to predict the overall outlook for the Company. Instead, our 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, and rationalization of assets and costs.

We expect strategic acquisitions, such as our pending acquisition of DJO, to contribute to our growth. In the short-term, we
will focus on reducing leverage levels associated with financing for the DJO acquisition. We believe that the extensive experience of our leadership team in acquiring and effectively integrating acquisition targets should enable us to capitalize on future opportunities.

Results of Operations

The following discussion of Results of Operations addresses the comparison of the periods presented. Our management evaluates the operating results of each of its reportable segments based upon Net sales and Segment operating income (loss), which represents Operating income before Goodwill and intangible asset impairment charge, and 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 market conditions, the global economy and capital spending levels, the availability of capital, our estimates concerning asbestos litigation expense and liabilities and availability of insurance thereto, the impact of restructuring initiatives, our ability to pass cost increases on to customers through pricing, the impact of sales mix, our ability to continue to grow through acquisitions, and other factors. 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 2018, approximately 77% 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, participating in the expansion of market opportunities in emerging markets, 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, customer 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 76% for 2018, is derived from operations outside the U.S., with the majority of those sales denominated in currencies other than the U.S. dollar. Because much of our manufacturing and employee costs are outside the U.S., a significant portion of our costs are also denominated in currencies other than the U.S. dollar. Changes in foreign exchange rates can impact our results of operations and are quantified when significant to our discussion. Changes in

foreign exchange rates had an immaterial impact on Net sales and Income from continuing operations before income taxes for the year ended December 31, 2018 and 2017. Changes in foreign exchange rates since December 31, 2017 decreased net assets by approximately 7%.

During 2018, Argentina became a highly inflationary economy, resulting in the remeasurement of our Argentinian operations into Brazilian real, the functional currency of the Argentinian entity's direct parent. Gains and losses from the re-measurement are reflected in current earnings. Future impacts to earnings of applying highly inflationary accounting for Argentina on our Consolidated Financial Statements will be dependent upon movements in the applicable exchange rates. As of and for the year ended December 31, 2018, the Argentina operation represented less than 2% of our Total assets and Net sales. The devaluation of the peso resulted in a loss of $2.5 million recognized in the Fabrication Technology segment operating income during 2018.

Economic Conditions

Demand for our products depends in part on the level of new capital investment and planned maintenance by our customers. The level of capital expenditures depends, in turn, on 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. Since the second half of 2017, declines in activity in the oil, gas, and petrochemical and power generation end markets impacted our Air and Gas Handling segment. These declines reduced the levels of capital invested and maintenance expenditures made by certain of our customers, which in turn has reduced the demand for our products and services. During 2018, our Air and Gas Handling segment has strategically focused on initiatives to grow general industrial end markets, which has helped offset the impacts from the oil, gas, and petrochemical and power generation end markets.

Seasonality

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

Raw Material Costs

We believe our customers place a premium on quality, reliability, availability, design and application engineering support. Our results may be sensitive to price movements in our raw materials. 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, future changes in component and raw material 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 location in which the product is manufactured, the end market for which the product is designed, and the percentage of total revenue represented by aftermarket sales and services, which tend to often have higher margins than foremarket products and consumables.

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

	Year Ended December 31,		
	2018	2017	2016
Foremarket and equipment	39%	40%	40%
Aftermarket and consumables	61%	60%	60%

Strategic Acquisitions

We complement our organic growth plans with strategic acquisitions. Acquisitions can significantly affect our reported results, and we report the change in our Net sales between periods both from existing and acquired businesses. Orders and order backlog are presented only for the longer-cycle Air and Gas Handling segment, where this information is relevant. The change in Net sales due to acquisitions for the periods presented in this filing represents the incremental sales from acquired businesses.

Air and Gas Handling

During 2018, we completed two acquisitions in our Air and Gas Handling segment for an aggregate net cash consideration of $35.9 million, subject to certain purchase price adjustments. These acquisitions expanded our technology and service offering for mining ventilation applications.

During 2017, we completed two acquisitions in this segment for an aggregate purchase price of $219.6 million. This includes the acquisition of Siemens Turbomachinery Equipment GmbH (STE) from Siemens AG in the fourth quarter for cash consideration of $214.6 million. This acquisition broadened the segment's range of compression solutions and expanded its product offering into smaller steam turbines, and expands our end markets and product portfolio in environmental and industrial markets worldwide.

Fabrication Technology

During 2018, we completed two acquisitions in the Fabrication Technology segment for net cash consideration of $245.1 million, subject to certain purchase price adjustments. This includes the acquisition of Gas Control Equipment (GCE) in the fourth quarter for cash consideration of $207.0 million. This acquisition expanded our technology and service offering for specialty gas applications.

During 2017, we completed three acquisitions for an aggregate purchase price of $128.3 million. These acquisitions broadened our product offering and technology content.

During 2016, we deployed approximately $26 million to acquire a business that increased the segment's product and technology offerings.

Total Company

Sales, Orders and Backlog

Net sales from continuing operations increased from $3.2 billion in 2016 to $3.3 billion in 2017 and to $3.7 billion in 2018. The following table presents the components of changes in consolidated Net sales from continuing operations and, for our Air and Gas Handling segment, orders and order backlog:

	Net Sales		Air and Gas Handling Orders[1]		Backlog at Period End	
	$	%	$	%	$	%
	(In millions)					
As of and for the year ended December 31, 2016	$3,185.8		$1,305.0		$796.1	
Components of Change:						
Existing businesses[2]	(15.7)	(0.5)%	(44.1)	(3.4)%	(57.0)	(7.2)%
Acquisitions[3]	85.2	2.7 %	34.7	2.7 %	105.3	13.2 %
Foreign currency translation[4]	44.9	1.4 %	10.9	0.8 %	49.0	6.2 %
	114.4	3.6 %	1.5	0.1 %	97.3	12.2 %
As of and for the year ended December 31, 2017	$3,300.2		$1,306.5		$893.4	
Components of Change:						
Existing businesses[2]	127.5	3.9 %	(30.3)	(2.3)%	(49.4)	(5.5)%
Acquisitions[3]	260.8	7.9 %	136.9	10.5 %	30.8	3.4 %
Foreign currency translation[4]	(21.7)	(0.7)%	23.3	1.7 %	(42.6)	(4.8)%
	366.6	11.1 %	129.9	9.9 %	(61.2)	(6.9)%
As of and for the year ended December 31, 2018	$3,666.8		$1,436.4		$832.2	

[1] Represents contracts for products or services, net of current year cancellations for orders placed in the current and prior periods.
[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 discussed previously.
[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 increase in Net sales from existing businesses during 2018 compared to 2017 was attributable to sales from both acquisitions and existing businesses. Net sales from acquisitions in our Air and Gas Handling segment and Fabrication Technology segment were $141.2 million and $119.6 million, respectively. Net sales from existing businesses increased $171.5 million in our Fabrication Technology segment and decreased $44.0 million in our Air and Gas Handling segment. Fluctuation of foreign currency translation rates had a negative impact on Net sales of $21.7 million during the year. Air and Gas Handling orders increased by $129.9 million during 2018 in comparison to 2017; orders excluding acquisitions and foreign currency translation effects decreased $30.3 million. The decrease is primarily attributable to a decline in the power generation end market, and a $20 million cancellation during the second quarter of 2018 due to newly-implemented restrictions implemented by the U.S. government.

The decrease in Net sales from existing businesses during 2017 compared to 2016 was attributable to decreases of $74.7 million in our Air and Gas Handling segment, mostly offset by an increase of $59.0 million in our Fabrication Technology segment. Air and Gas Handling orders, net of cancellations and excluding acquisitions and foreign currency translation effects, decreased $44.1 million during 2017 in comparison to 2016 due to large project bookings during the second half of 2016 that did not repeat, delays in orders in the second half of 2017, and lower demand in power generation markets. The decline was partially offset by increases in general industrial and other end markets.

Operating Results

The following table summarizes our results from continuing operations for the comparable three year period.

	Year Ended December 31,		
	2018	2017	2016
	(Dollars in millions)		
Gross profit	$1,132.8	$1,029.5	$992.4
Gross profit margin	30.9 %	31.2 %	31.2 %
Selling, general and administrative expense	$818.2	$732.3	$696.8
Restructuring and other related charges	$77.7	$68.4	$58.5
Goodwill and intangible asset impairment charge	$—	$152.7	$0.2
Operating income	$236.9	$76.1	$236.8
Operating income margin	6.5 %	2.3 %	7.4 %
Pension settlement loss	$—	$46.9	$—
Loss on short term investments	$10.1	$—	$—
Interest expense, net	$44.1	$41.1	$30.3
(Benefit) provision for income taxes	$—	$42.6	$51.8

2018 Compared to 2017

The $103.3 million increase in Gross profit during 2018 in comparison to 2017 was attributable to an increase of $57.8 million in our Fabrication Technology segment and $45.6 million in our Air and Gas Handling segment. Acquisitions contributed $87.9 million of gross profit and restructuring initiatives added $19.9 million when compared to 2017. The positive impact of acquisitions and restructuring benefits was partially offset by lower sales volume in the Air and Gas Handling segment. Gross profit margin for 2018 included the effect in our Fabrication Technology segment of higher customer prices for certain products to offset input cost inflation, which commensurately increased both Net sales and Cost of sales and compressed total company Gross profit margin by 80 basis points.

Selling, general and administrative expense increased by $85.9 million during 2018 in comparison to 2017. The increase was mainly driven by a $74.2 million increase associated with acquisitions completed in 2018 in both Air and Gas Handling and Fabrication Technology segments. Additionally, $6.6 million of acquisition-related costs were incurred during 2018 mainly related to the DJO acquisition.

During 2017, we recorded impairment charges totaling $152.7 million. These charges consisted of a goodwill impairment of $150.2 million and an indefinite-lived trademark impairment charge of $2.5 million. Both charges related to our Air and Gas Handling segment. Additionally, we incurred a $46.9 million non-cash pension settlement loss in connection with a third-party buyout of one of our pension plans.

The Loss on short term investments of $10.1 million during 2018 was due to the change in fair value and subsequent sale of the CIRCOR Shares received in connection with the Fluid Handling business sale.

Interest expense during 2018 increased by $3.0 million compared to 2017, primarily attributable to higher interest rates on our senior unsecured debt.

Income from continuing operations before income taxes was $182.8 million with a slight income tax benefit for 2018. The effective tax rate for continuing operations during 2018 was 0.0%, which was lower than the U.S. federal statutory tax rate primarily due to a reduction in Tax Act related amounts originally provided for in the year ended December 31, 2017, U.S. R&D and foreign tax credits, the realization of deferred tax assets that previously had valuation allowances and the net favorable reduction of uncertain tax positions. These favorable items were offset in

part by losses in certain jurisdictions where a tax benefit is not expected to be recognized and permanent adjustments in an international jurisdiction. Loss from continuing operations before income taxes was $12.0 million and the Provision for income taxes was $42.6 million for 2017. The effective tax rate for continuing operations during 2017 was (355.0)%, which was lower than the U.S. federal statutory tax rate primarily due to non-deductible impairment losses, losses in certain jurisdictions where a tax benefit is not expected to be recognized offset in part by foreign earnings where

international tax rates that are lower than the 2017 U.S. tax rate. The Tax Act provisional amounts did not have a significant net impact on the effective tax rate for 2017.

2017 Compared to 2016

The $37.1 million increase in Gross profit during 2017 in comparison to 2016 was attributable to an increase of $49.6 million in our Fabrication Technology segment, partially offset by a decline of $12.5 million in our Air and Gas Handling segment. Acquisition-related growth in both segments contributed $32.1 million of Gross profit in 2017, and foreign exchange translation added another $14.0 million to the increase. These increases combined with $26.8 million of savings from restructuring initiatives, helped offset the impact of lower new build project margins and higher material costs experienced in 2017, keeping Gross profit margin consistent with the prior year.

Selling, general and administrative expense increased by $35.5 million during 2017 in comparison to 2016, which was attributable to increases in both Air and Gas Handling and Fabrication Technology. The increases were mainly driven by $28.3 million increases associated with acquisitions completed in 2017, a $14.2 million increase in business development related expenses, partially offset by the incremental benefits realized from our restructuring programs and cost savings initiatives. Restructuring and other related charges increased during 2017 compared to 2016, driven by accelerated cost reduction programs to eliminate excess cost in response to the current market conditions.

During 2017, we recorded impairment charges totaling $152.7 million. These charges consisted of a goodwill impairment of $150.2 million and an indefinite-lived trademark impairment charge of $2.5 million. Both charges related to our Air and Gas Handling segment. Additionally, we incurred a $46.9 million non-cash pension settlement loss in connection with a third-party buyout of one of our pension plans.

Interest expense during 2017 increased by $10.8 million compared to 2016, primarily attributable to the senior note offering of €350 million in April 2017 and higher interest rates on our senior unsecured debt.

Loss from continuing operations before income taxes was $12.0 million and the Provision for income taxes was $42.6 million for 2017. The effective tax rate for continuing operations during 2017 was (355.0)%, which was higher than the U.S. federal statutory tax rate primarily due to non-deductible impairment losses, losses in certain jurisdictions where a tax benefit is not expected to be recognized offset in part by foreign earnings where international tax rates that are lower than the 2017 U.S. tax rate. The Tax Act provisional amounts did not have a significant net impact on the effective tax rate for 2017. Income from continuing operations before income taxes was $206.5 million and the Provision for income taxes was $51.8 million for 2016, resulting in a 25.1% effective tax rate that was primarily driven by foreign earnings where international tax rates are lower than the U.S. federal tax rate.

Business Segments

As discussed further above, we report results in two reportable segments: Air and Gas Handling and Fabrication Technology.

Air and Gas Handling

The following table summarizes selected financial data for our Air and Gas Handling segment:

	Year Ended		
	2018	2017	2016
	(Dollars in millions)		
Net sales	$1,473.7	$1,362.9	$1,385.3
Gross profit	403.5	357.9	370.4
Gross profit margin	27.4 %	26.3 %	26.7 %

Selling, general and administrative expense	$269.5		$231.7		$220.3	
Segment operating income	134.0		126.2		150.1	
Segment operating income margin	9.1	%	9.3	%	10.8	%
Items not included in segment results:						
Restructuring and other related items	$48.6		$52.2		$26.8	
Goodwill and intangible asset impairment charge	—		152.7		—	

Net sales increased by $110.8 million with acquisition-related growth contributing $141.2 million. Net sales from existing businesses, as discussed and defined under “Sales, Orders and Backlog” above, decreased by $44.0 million during 2018 in comparison to 2017 primarily due to declines in the power generation and oil, gas, and petrochemical end markets, partially offset by increases in general industrial and other end markets. Additionally, changes in foreign exchange rates had a positive impact of $13.6 million on Net sales. Gross profit increased during 2018, reflecting acquisition-related growth of $44.7 million and a positive foreign currency translation impact of $3.9 million. Gross profit margin improved 110 basis points during 2018, reflecting positive impacts of acquisitions, savings from previously executed restructuring initiatives, improved project execution and favorable change in project mix driven by our aftermarket initiatives. Selling, general and administrative expense increased during 2018 compared to 2017 due to $41.0 million acquisition-related growth and foreign currency translation impact of $4.2 million partially offset by a $7.1 million gain on sale of facility recognized in the first quarter of 2018. Restructuring and other related charges decreased during 2018 as certain projects to eliminate excess cost in response to the change in market conditions in late 2017 were completed.

Net sales from existing businesses decreased by $74.7 million during 2017 in comparison to 2016 primarily due to declines in the oil, gas, and petrochemical and power generation end markets, partially offset by increases in mining and general industrial and other end markets. Additionally, acquisition-related growth contributed $37.1 million, and changes in foreign exchange rates had a positive impact of $15.2 million on Net sales. Gross profit and Gross profit margin decreased during 2017, which was primarily the result of lower volumes and project margins. These decreases were partially offset by $8.6 million of acquisition-related growth and $18.6 million incremental benefits realized from restructuring programs and cost savings initiatives. Selling, general and administrative expense increased during 2017 compared to 2016, which is mainly the result of acquisition-related increases of $10.4 million. The lower Segment operating income and Segment operating income margin in 2017 compared to 2016 were the result of lower Gross profit and the increase in Selling, general and administrative expense discussed above. Restructuring and other related charges increased during 2017 driven by accelerated cost reduction programs to eliminate excess cost in response to the current market conditions. In 2017, we recorded a goodwill impairment charge of $150.2 million and a trade name impairment charge of $2.5 million, as a result of conclusions reached from performing our annual impairment tests.

Fabrication Technology

The following table summarizes selected financial data for our Fabrication Technology segment:

	Three Months Ended		
	2018	2017	2016
	(Dollars in millions)		
Net sales	$2,193.1	$1,937.3	$1,800.5
Gross profit	729.4	671.6	622.0
Gross profit margin	33.3 %	34.7 %	34.5 %
Selling, general and administrative expense	$479.4	$447.2	$426.6
Segment operating income	$249.9	$224.4	$195.4
Segment operating income margin	11.4 %	11.6 %	10.9 %
Items not included in segment results:			
Restructuring and other related items	$29.1	$16.2	$31.7
Intangible asset impairment charge	—	—	0.2

The 13.2% Net sales increase during 2018 compared to 2017 was primarily the result of an increase in existing businesses of $171.5 million with continued growth in most markets and acquisition-related growth of $119.6 million. Changes in foreign exchange rates had a negative impact of $35.3 million on Net sales. The growth rate from existing businesses included 4.8% from increased customer prices to address higher material and inflation costs, and 4.1%

from higher volumes. The increase in Gross profit during 2018 is driven by the acquisition-related growth of $43.2 million and increased sales volumes. Gross margin decreased 140 basis points due to the dilutive effect of input cost inflation being addressed by higher customer prices for certain products. Selling, general and administrative expense increased by $32.2 million in 2018 as compared to 2017, primarily driven by an $33.2 million acquisition-related increase and higher costs to support growth initiatives, offset by a $10.9 million net benefit from facility sales in the fourth quarter. Restructuring and other related items increased in 2018 in comparison to 2017, as a result of expanded cost reduction programs.

The Net sales increase during 2017 compared to 2016 was primarily the result of an increase in existing businesses of $59.0 million, led by a market recovery in North America and growth in certain developing regions. Acquisition-related growth contributed $48.1 million of incremental sales in 2017, and foreign currency translation had a positive impact of $29.7 million. Gross profit increased in 2017 due to acquisition-related growth of $23.4 million and increases in volumes from existing businesses. Costs savings associated with restructuring programs added another $8.2 million of additional gross profit in the current year. These increases were partially offset by a $38.6 million increase in cost of goods sold due to higher commodity prices in 2017. Gross margin increased 20 basis points due to the positive impact from increased volumes and favorable mix, which was partially offset by higher raw material costs during the year. Selling, general and administrative expense increased by $20.6 million in 2017 as compared to 2016 and was primarily attributable to a $17.9 million increase in acquisition-related cost. Segment operating income margin expanded approximately 80 basis points due to higher sales and improved profit margin. Restructuring and other related items decreased in 2017 in comparison to 2016, consistent with management’s plan.

Liquidity and Capital Resources

Overview

We have financed our capital and working capital requirements through a combination of cash flows from operating activities, various borrowings and issuances of equity. We expect that our primary ongoing requirements for cash will be for current and projected debt service requirements, working capital, acquisitions, capital expenditures, asbestos-related expenses and funding of pension plans and restructuring programs. If determined appropriate for strategic acquisitions or other corporate purposes, we believe we could raise additional funds in the form of debt or equity. As of December 31, 2018, we had $1.2 billion of outstanding indebtedness. We are also party to letter of credit facilities with total capacity of $757.4 million, of which $344.1 million were outstanding as of December 31, 2018.

In November 2018, we entered into a definitive agreement to acquire DJO for $3.2 billion in cash. We are financing this acquisition, in part, by (1) entering into the New Credit Facility (as described below in this section); (2) an offering for $460 million of tangible equity units; and (3) an offering for $1 billion of senior unsecured notes (the "2024 Notes" and "2026 Notes"). See Note 12, "Debt" and Note 20 "Subsequent Events" in the accompanying Notes to Consolidated Financial Statements for further information.

Equity Capital

On February 12, 2018, our Board of Directors authorized the repurchase of up to $100 million of our 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, and again for an additional $100 million on July 19, 2018. As of December 31, 2018, the remaining stock repurchase authorization provided by our Board of Directors was $100.0 million.

On October 11, 2015, our Board of Directors authorized the repurchase of up to $100.0 million of our Common stock from time-to-time on the open market or in privately negotiated transactions, which were to be retired upon repurchase. During the year ended December 31, 2016, we repurchased 1,000,000 shares of our Common stock in open market transactions for $20.8 million. The repurchase program expired as of December 31, 2016. See Note 13, "Equity" in the accompanying Notes to Consolidated Financial Statements for further information.

DB Credit Agreement

The proceeds of the loans under the DB Credit Agreement were used by us to repay in full balances under our preexisting credit agreement, as well as for working capital and general corporate purposes. The DB Credit Agreement consists of a term loan in the aggregate amount of $750.0 million (the "Term Loan") and a revolving credit facility (the "Revolver") with a commitment capacity of $1.3 billion, each of which had an initial maturity term of five years. The Revolver contains a $50.0 million swing line loan sub-facility. See Note 12, "Debt" in the accompanying Notes to Consolidated Financial Statements for further information.

As of December 31, 2018, the weighted-average interest rate of borrowings under the DB Credit Agreement was 3.92%, excluding accretion of original issue discount and deferred financing fees, and there was $1.1 billion available on the revolving credit facility.

We currently intend to repay the existing Term Loan Facility and the Revolver with the proceeds of the New Credit Facility (as defined below), at which time the Term Loan Facility and Revolver will be terminated.

Euro Notes

On April 19, 2017, we issued senior unsecured notes with an aggregate principal amount of €350 million (the "Euro Notes"). The Euro Notes are due on April 15, 2025 and have an interest rate of 3.25%. The proceeds from the Euro Notes offering were used to repay borrowings under our DB Credit Agreement and bilateral credit facilities totaling €283.5 million, as well as for general corporate purposes, and are guaranteed by certain of our domestic subsidiaries.

In total, as of December 31, 2018, we had an original issue discount of $1.5 million and deferred financing fees of $6.9 million included in its Consolidated Balance Sheet as of December 31, 2018, which will be accreted to Interest expense primarily using the effective interest method, over the life of the applicable debt.

2022 Tangible Equity Units

On January 11, 2019, we issued $460 million in tangible equity units. We offered 4 million of its 5.75% tangible equity units at the stated amount of $100 per unit. An option to purchase up to an additional 600,000 tangible equity units at the stated amount of $100 per unit was exercised in full at settlement. Total cash of $447.7 million was received upon closing, comprised of $377.8 million prepaid stock purchase contracts and $69.9 million of senior amortizing notes due January 2022. The proceeds will be used to finance a portion of the purchase price for the DJO acquisition and for general corporate purposes. If the DJO acquisition does not close by May 19, 2019, we will have the option to exercise certain redemption rights. Unless the 4.6 million stock purchase contracts are redeemed by us or settled earlier at the unit holder's option, they are mandatorily convertible into shares of our common stock at not less than 4.0 shares per purchase contract or more than 4.8054 shares per purchase contract on January 15, 2022. This corresponds to not less than 18.4 million shares and not more than 22.1 million shares at the maximum.

2024 Notes and 2026 Notes

On February 5, 2019, CFX Escrow Corporation issued two tranches of senior notes with aggregate principal amounts of $600 million (the "2024 Notes") and $400 million (the "2026 Notes") to finance a portion of the DJO acquisition. The 2024 Notes are due on February 5, 2024 and have an interest rate of 6.0%. The 2026 Notes are due on February 5, 2026 and have an interest rate of 6.375%. Upon closing of the acquisition, we will assume all of CFX Escrow Corporation's obligations under the 2024 Notes and 2026 Notes and each tranche of notes will be guaranteed by certain of our domestic subsidiaries.

New Term Loan Facilities and New Revolving Credit Facility

On December 17, 2018, we entered into a credit agreement (the "New Credit Facility") by and among the Company, as the borrower, certain of our U.S. subsidiaries identified therein, as guarantors, each of the lenders party thereto, JPMorgan Chase Bank, N.A., as administrative agent, Credit Suisse Loan Funding LLC, as syndication agent, and the co-documentation agents named therein. The New Credit Facility consists of a revolving credit facility which totals $1.3 billion in commitments (the "New Revolver") and a Term A-1 loan in an aggregate amount of $1.2 billion (the "Five Year Term Loan"), each of which matures in five years, and a Term A-2 loan in an aggregate amount of $500 million, which matures in two years (the "Two Year Term Loan" and, together with the Five Year Term Loan, the "New Term Loan Facilities"). The New Revolver contains a $50 million swing line loan sub-facility.

The initial credit extensions under the New Credit Facility will only be made available to us, subject to certain conditions precedent, on the date of consummation of the DJO acquisition. The proceeds of such initial credit extensions shall be used on such date (i) to replace the commitments, and repay in full amounts outstanding, under the DB Credit Agreement, (ii) to pay a portion of the consideration in connection with the DJO acquisition, and (iii) for fees and expenses related to the foregoing. Following the consummation of the DJO acquisition, credit extensions under the New Revolver will be used for working capital and general corporate purposes.

The New Term Loan Facilities and the New Revolver will bear interest, at our election, at either the base rate (as defined in the New Credit Facility) or the Eurocurrency rate (as defined in the New Credit Facility), in each case, plus the applicable interest rate margin. See Note 12, "Debt" in the accompanying Notes to Consolidated Financial Statements for further information.

Other Indebtedness

In addition to the debt agreements discussed above, we are party to various bilateral credit facilities with a borrowing capacity of $271.9 million. As of December 31, 2018, outstanding borrowings under these facilities totaled $71.0 million, with a weighted average borrowing rate of 3.59%.

We are also party to letter of credit facilities with an aggregate capacity of $757.4 million. Total letters of credit of $344.1 million were outstanding as of December 31, 2018.

Cash Flows

As of December 31, 2018, we had $245.0 million of Cash and cash equivalents, a decrease of $17.0 million from $262.0 million as of December 31, 2017. The following table summarizes the change in Cash and cash equivalents during the periods indicated:

	Year Ended December 31,		
	2018	2017	2016
	(In millions)		
Net cash provided by operating activities	$226.4	$218.8	$247.0
Purchases of property, plant and equipment, net	(69.6)	(68.8)	(63.3)
Proceeds from sale of property, plant and equipment	34.8	21.2	7.2
Acquisitions, net of cash received	(290.9)	(346.8)	(26.0)
Proceeds from sale of business, net	18.4	490.3	—
Sale of short term investment, net	139.5	—	—
Other, net	—	(6.1)	—
Net cash (used in) provided by investing activities	(167.9)	89.9	(82.0)
Proceeds from (repayments of) borrowings, net	158.2	(277.3)	(118.8)
Proceeds from issuance of common stock, net	4.7	6.9	2.2
Common stock repurchases	(200.0)	—	(20.8)
Other	(10.1)	(10.0)	(7.8)
Net cash used in financing activities	(47.2)	(280.4)	(145.2)
Effect of foreign exchange rates on Cash and cash equivalents	(28.4)	12.1	4.5
(Decrease) increase in Cash and cash equivalents	$(17.0)	$40.3	$24.3

Cash used in operating activities of discontinued operations for the year ended December 31, 2018 primarily includes net cash outflows related to asbestos claims of $5.6 million. Cash provided by operating activities of discontinued operations was $65.2 million and $23.1 million, respectively during 2017 and 2016. Cash used in or provided by our discontinued operations is included in net cash provided by operating activities above. Cash used in investing activities of discontinued operations, which is included in net cash (used in) provided by investing activities above, was $10.1 million and $3.9 million during 2017 and 2016, respectively.

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, asbestos-related costs and restructuring program funding. 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 $5.6 million, $3.7 million and $16.0 million during 2018, 2017 and 2016, respectively. Net cash outflows for 2018 and 2017 were net of $57.0 million and $63.9 million, respectively, of reimbursements from insurance companies on our asbestos insurance receivable.
- Funding requirements of our defined benefit plans, including pension plans and other post-retirement benefit plans, can vary significantly from period to period due to changes in the fair value of plan assets and actuarial assumptions. For 2018, 2017 and 2016, cash contributions for defined benefit plans were $36.3 million, $37.9 million and $34.5 million, respectively.
- During 2018, 2017 and 2016, cash payments of $51.4 million, $30.7 million and $66.6 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 and Customer advances and billings in excess of costs incurred. During 2018, net working capital consumed cash of $31.0 million, before the impact of foreign exchange, primarily due to an increase in receivables and inventories driven by revenue growth. The

net increase was offset by an increase in both payables and customer advances and billings in excess of costs. During 2017, net working capital consumed cash of $92.5 million, before the impact of foreign exchange, primarily due to an increase in receivables and inventories driven by revenue growth and timing of collections and shipments. During 2016, net working capital consumed cash of $31.4 million, before the impact of foreign exchange, primarily due to an increase in receivables and lower billings

in excess of costs incurred associated with our Air and Gas business segment. The net increase was offset by an increase in payables in our Air and Gas Handling segment and Fabrication Technology segment and partially offset by decline in inventory levels in our Fabrication Technology segment.

Cash flows provided by investing activities during 2018 included $18.4 million of cash and $139.5 million in proceeds from the sale of CIRCOR common stock related to the 2017 sale of our Fluid Handling business. Cash flows used in investing activities during the 2018 were mainly associated with two acquisition in our Fabrication Technology segment and two acquisitions in our Air and Gas Handling segment totaling net cash outflows of $290.9 million. Cash flows provided by investing activities during 2017 included net proceeds of $490.3 million from the sale of the Fluid Handling business and net cash outflows of $346.8 million associated with two acquisitions in our Air and Gas Handling segment and three acquisitions in our Fabrication Technology segment.

Cash flows used in financing activities for 2018 were impacted by the repurchase of 6.4 million shares of our Common stock for $200.0 million, partially offset by $158.2 million of proceeds from borrowings. The outflow in 2017 is attributable to the repayment of borrowings under the DB credit agreement and bilateral credit facilities for $651.8 million, reduced by proceeds from the issuance of Euro Notes. The cash outflows in 2016 were due to repayment of borrowings under the DB credit agreement and bilateral credit facilities of $118.8 million and share repurchases of $20.8 million.

Our Cash and cash equivalents as of December 31, 2018 included $242.0 million held in jurisdictions outside the U.S. We currently do not intend nor foresee a need to repatriate these funds. If however, we elect to repatriate future earnings from foreign jurisdictions, such repatriation remittances may be subject to taxes and other local statutory restrictions.

Prior Disclosure Under Section 13(r) of the Exchange Act

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

In the twelve months ended December 31, 2018, certain Colfax non-U.S. subsidiaries conducted business involving Iran authorized by the Office of Foreign Assets Control (“OFAC”) under General License H and Sec. 560.537 of the Iranian Transactions and Sanctioned Regulations (“ITSR”). General License H authorized U.S.-owned or -controlled foreign entities to engage in certain business involving Iran and Sec. 560.537 authorized the wind down of such business on or before November 4, 2018.

In October 2018, a non-U.S. Howden subsidiary in the Czech Republic sold a control system valued at $57,083 for end use in the Iranian petrochemical sector pursuant to Sec. 560.537. The sale did not generate a profit. The information provided pursuant to Section 13(r) of the Exchange Act in Item 5 of Part II of the Company’s Quarterly Reports on 10-Q for the quarter ended June 29, 2018 is also hereby incorporated by reference. In compliance with the revocation of General License H and the expiration of Sec. 560.537, we do not intend to continue these activities.

Contractual Obligations

The following table summarizes our future contractual obligations as of December 31, 2018.

	Less Than One Year	1-3 Years	3-5 Years	More Than 5 Years	Total
	(In millions)				
Debt	$6.3	$798.5	$—	$400.1	$1,204.9
Interest payments on debt[1]	38.3	32.4	26.4	17.0	114.1
Operating leases	35.5	46.6	25.5	30.4	138.0

Purchase obligations[2]	252.7	20.1	1.5	—	274.3
Total	$332.8	$897.6	$53.4	$447.5	$1,731.3

(1) Variable interest payments are estimated using a static rate of 3.92%.

(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, 2018, which are estimated to be $14.4 million for the year ending December 31, 2019. 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.

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, 2018 other than outstanding letters of credit of $344.1 million, unconditional purchase obligations with suppliers of $274.3 million, and $138.0 million of future operating lease payments.

On February 5, 2019, CFX Escrow Corporation issued two tranches of senior notes with aggregate principal amounts of $600 million (the “2024 Notes”) and $400 million (the “2026 Notes”). Upon closing of the DJO acquisition, we will assume all of CFX Escrow Corporation’s obligations under the 2024 Notes and 2026 Notes. See Note 12, “Debt” for further information.

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 our 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 sold our Fluid Handling business to CIRCOR International (“CIRCOR”), Inc., a Delaware corporation on December 11, 2017. Pursuant to a definitive purchase agreement (the Purchase Agreement) signed on September 24, 2017, we retained the asbestos-related contingencies and insurance coverages. However, as we did not retain an interest in the ongoing operations of the business subject to the contingencies, we have classified asbestos-related activity in our

Consolidated Statements of Operations as part of Income (loss) from discontinuing operations, net of taxes. See Note 4, “Discontinued Operations” for further information.

We have projected 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 17, "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 15, “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. Indefinite-lived intangible assets consist of trade names.

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 carrying value of a reporting unit or asset exceeds its 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 elect to forgo the qualitative assessment and proceed directly to the quantitative impairment test. If the carrying value of a reporting unit exceeds its fair value, Goodwill of that reporting unit is impaired. Pursuant to ASU 2017-04, which we elected to adopt during the three months ended December 31, 2017, if the carrying value of the reporting unit's Goodwill is greater than its fair value, an impairment loss is recorded equal to the excess of the carrying value over its fair value.

Generally, 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 flow models indicate 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 flow models 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 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 2016, we experienced a concurrent decline in numerous end-markets and geographic markets that negatively impacted both of our reporting units. We elected not to perform qualitative assessments of Goodwill and instead, proceeded directly to performing the first step of quantitative Goodwill impairment test for its 2016 annual impairment test. The quantitative impairment assessment of Goodwill for each of the Fabrication Technology and Air and Gas Handling reporting units, based on the methodologies identified above, resulted in calculated fair values that exceeded the carrying values for both reporting units. As such, no impairment charges were recorded as a result of the annual Goodwill impairment analysis performed as of October 1, 2016.

Due to continued declines in various end markets for the Air and Gas Handling reporting unit, we performed a quantitative analysis for this reporting unit as of September 29, 2018 and September 30, 2017 as part of our annual goodwill impairment testing. In 2017, the quantitative Goodwill impairment assessment for the Air and Gas Handling reporting unit resulted in a calculated fair value lower than carrying value. As a result, an impairment charge of $150.2 million, which equals the excess of the carrying value over the fair value, was recorded for the year ended December 31, 2017. In 2018, the Air and Gas Handling reporting unit resulted in a carrying value lower than the calculated fair value. As a result, no impairment existed. A qualitative assessment of Goodwill was performed for the Fabrication Technology reporting unit for the year ended December 31, 2018 and 2017, which indicated no impairment existed.

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.

The annual impairment analysis performed as of October 1, 2016 for indefinite-lived intangible assets resulted in no impairment charges.

During the annual impairment analysis for the year ended December 31, 2017, quantitative analyses were performed, as of September 30, 2017 for the Air and Gas Handling reporting unit trade names due to continued declines in various end markets. The analyses determined the fair value was lower than carrying value for one trade name, which resulted in an impairment charge of $2.5 million for that trade name. The calculated fair value of the trade name was $11.7 million and is included in Level Three of the fair value hierarchy. For another indefinite-lived intangible trade name, the analysis determined the fair value was marginally greater than its $22.1 million carrying value. A qualitative assessment was performed for the Fabrication Technology reporting unit trade names for the year ended December 31, 2018 and 2017, which indicated no impairment existed.

Due to changes in market multiples, weighted average cost of capital and, to a lesser extent, declines in certain end markets for the Air and Gas Handling reporting unit during the year ended December 31, 2018, we decided to perform a quantitative analysis for this reporting unit as of September 29, 2018. The quantitative analysis resulted in a calculated fair value that was higher than the reporting unit's carrying value by 9%. As a result, no impairment charges were recorded.

Impairment charges related to Goodwill and Indefinite-lived intangible assets are included in Goodwill and intangible assets impairment charges in the Consolidated Statements of Income.

The continuation of a sustained decline in our end-markets and geographic markets could increase the risk of impairments in future years. Actual results could differ from our estimates and projections, which would also affect the assessment of impairment. As of December 31, 2018, we have Goodwill of $2.6 billion and indefinite lived trade names of $383.8 million that are subject to at least annual review for impairment. See Note 9, "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. We recognize interest and penalties related to unrecognized tax benefits in the (Benefit) provision for income taxes in the Consolidated Statements of Income. Net liabilities for unrecognized income tax benefits, including accrued interest and penalties, were $37.6 million as of December 31, 2018 and are included in Other liabilities or as a reduction to deferred tax assets in the accompanying Consolidated Balance Sheet.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Tax Act") was signed into law making significant changes to the Internal Revenue Code which included how the U.S. imposes income tax on multinational corporations. Key changes in the Tax Act which are relevant to us and generally effective January 1, 2018 include a flat corporate income tax rate of 21 percent to replace the marginal rates that range from 15 percent to 35 percent, elimination of the corporate alternative minimum tax, the creation of a territorial tax system replacing the worldwide tax system, a one-time tax on accumulated foreign subsidiary earnings ("Transition Tax") to transition to the territorial system, a "minimum tax" on certain foreign earnings above an enumerated rate of return, a new base erosion anti-abuse tax that subjects certain payments made by a U.S. company to its foreign subsidiary to additional taxes, and an incentive for U.S. companies to sell, lease or license goods and services outside the U.S. by taxing the income at a

reduced effective rate. The new tax also imposes limits on executive compensation and interest expense deductions, while permitting the immediate expensing for the cost of new investments in certain property acquired after September 27, 2017.

On December 22, 2017, the SEC issued Staff Accounting Bulletin No. 118 (“SAB 118”) to address 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 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. We filed our 2017 U.S. income tax return in the fourth quarter of 2018, which changed our tax basis in temporary differences and Transition Tax estimated as of December 31, 2017, resulting in an adjustment to the tax provision to the re-measurement amount recorded in the financial statements.

ASC 740 requires changes in tax rates and tax laws to be accounted for in the period of enactment in continuing operations. Accordingly, of significance, we included a provisional estimate of approximately $52 million for the Transition Tax, payable over 8 years for our year ended December 31, 2017. Pursuant to SAB 118, we reduced our provisional amount for Transition Tax by $10.8 million for the year ended December 31, 2018. 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. We continue to maintain its indefinite reinvestment of foreign earnings.

Revenue Recognition

We account for revenue in accordance with Topic 606, “Revenue from Contracts with Customers,” which we adopted on January 1, 2018, using the full retrospective method. We recognize revenue when control of promised goods or services is transferred to the customer. The amount of revenue recognized reflects the consideration to which we expect to be entitled in exchange for transferring the goods or services. The nature of our contracts gives rise to certain types of variable consideration, including rebates, liquidated damages, and other discounts. We include 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 our best judgment at the time. Any estimates are evaluated on a quarterly basis until the uncertainty is resolved.

We provide a variety of products and services to our customers. Most of our 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, we allocate the total transaction price to each performance obligation using our best estimate of the standalone selling price of each identified performance obligation.

A majority of the revenue we recognize 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, we recognize revenue ratably over the period of performance as the customer simultaneously receives and consumes the benefits of the services provided.

In certain contracts, particularly within the Air and Gas Handling segment, we are engaged to engineer and build highly-customized, large-scale products and systems. In these circumstances, we produce an asset with no alternative use and have 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, we use 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.

Given the nature of these long-term contracts, we are often paid at various points throughout the process, based on the contractual terms. We apply the available practical expedient involving the existence of a significant financing component. As we generally do not receive payments greater than one year in advance or arrears of revenue recognition, we do 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 December 31, 2018 and December 31, 2017, there were $168.3 million and $203.9 million, respectively, of revenues in excess of billings and $68.1 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 period of benefit for our incremental costs of obtaining a contract would generally have less than a one-year duration; therefore, we apply the practical expedient available and expenses costs to obtain a contract when incurred.

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 $35.2 million and $31.5 million as of

December 31, 2018 and 2017, respectively. 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. The majority of our borrowings as of December 31, 2018, including the DB Credit Agreement and the receivable facility, are variable rate facilities based on LIBOR or EURIBOR. In order to mitigate our interest rate risk, we may enter into interest rate swap or collar agreements. A hypothetical increase in the interest rate of 1.00% during 2018 would have increased Interest expense by $10.5 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 2018, approximately 76% 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. Euro denominated borrowings under the DB Credit Agreement and Euro Notes provide a natural hedge to a portion of our European net asset position. The effect of a change in currency exchange rates on our net investment in international subsidiaries, net of the translation effect of the Company’s Euro denominated borrowings, is reflected in the Accumulated other comprehensive loss component of Equity. A 10% depreciation in major currencies, relative to the U.S. dollar as of December 31, 2018 (net of the translation effect of our Euro denominated borrowings) would result in a reduction in Equity of approximately $322 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, 2018, our open commodity futures contracts were not material.

See Note 16, “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.

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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

To the Shareholders and the Board of Directors of Colfax Corporation

Opinion on Internal Control over Financial Reporting

We have audited Colfax Corporation's internal control over financial reporting as of December 31, 2018, 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). In our opinion, Colfax Corporation (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of Colfax Corporation as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income (loss), equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and financial statement schedule listed in the Index at Item 15(A)(2) and our report dated February 21, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company'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 the accompanying Management's Annual Report on Internal Control over Financial Reporting, appearing in Item 9A. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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.

Definition and Limitations of Internal Control Over Financial Reporting

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.

/s/ Ernst & Young LLP

Baltimore, Maryland
February 21, 2019

Report of Independent Registered Public Accounting Firm
Consolidated Financial Statements

To the Shareholders and the Board of Directors of Colfax Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Colfax Corporation (the Company) as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income (loss), equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and financial statement schedule listed in the Index at Item 15(A)(2) (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, 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 21, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company’s auditor since 2002.

Baltimore, Maryland
February 21, 2019

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

	Year Ended December 31,		
	2018	2017	2016
Net sales	$3,666,812	$3,300,184	$3,185,753
Cost of sales	2,533,973	2,270,709	2,193,371
Gross profit	1,132,839	1,029,475	992,382
Selling, general and administrative expense	818,210	732,340	696,800
Restructuring and other related charges	77,686	68,351	58,496
Goodwill and intangible asset impairment charge	—	152,700	238
Operating income	236,943	76,084	236,848
Pension settlement (gain) loss	(39)	46,933	48
Interest expense, net	44,052	41,137	30,276
Loss on short term investments	10,128	—	—
Income (loss) from continuing operations before income taxes	182,802	(11,986)	206,524
(Benefit) provision for income taxes	(21)	42,554	51,772
Net income (loss) from continuing operations	182,823	(54,540)	154,752
(Loss) income from discontinued operations, net of taxes	(28,350)	224,047	(9,561)
Net income	154,473	169,507	145,191
Less: income attributable to noncontrolling interest, net of taxes	14,277	18,417	17,080
Net income attributable to Colfax Corporation	$140,196	$151,090	$128,111
Net income (loss) per share - basic			
Continuing operations	$1.40	$(0.59)	$1.12
Discontinued operations	$(0.24)	$1.82	$(0.08)
Consolidated operations	$1.16	$1.23	$1.04
Net income (loss) per share - diluted			
Continuing operations	$1.40	$(0.59)	$1.12
Discontinued operations	$(0.24)	$1.81	$(0.08)
Consolidated operations	$1.16	$1.22	$1.04

See Notes to Consolidated Financial Statements.

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

	Year Ended December 31,		
	2018	2017	2016
Net income	$154,473	$169,507	$145,191
Other comprehensive (loss) income:			
Foreign currency translation, net of tax of $3,018, $(2,433), and $0	(249,907)	269,432	(330,488)
Unrealized gain (loss) on hedging activities, net of tax of $5,273, $(19,569), and $(8,989)	14,745	(23,593)	17,692
Unrealized gain on available-for-sale securities, net of tax of $0, $2,808, and $0	—	5,152	—
Changes in unrecognized pension and other post-retirement benefit cost, net of tax of $366, $4,882, and $9,247	10,116	4,167	4,810
Amounts reclassified from Accumulated other comprehensive income:			
Amortization of pension and other post-retirement net actuarial loss, net of tax of $805, $2,463, and $3,049	3,623	6,875	4,465
Amortization of pension and other post-retirement prior service cost, net of tax of $(411), $37, and $93	(1,998)	93	155
Divestiture-related recognition of pension and other post-retirement cost and foreign currency translation, net of tax of $0, $27,518, and $0	—	167,857	—
Foreign currency translation adjustment resulting from Venezuela deconsolidation	—	—	2,378
Other comprehensive (loss) income	(223,421)	429,983	(300,988)
Comprehensive (loss) income	(68,948)	599,490	(155,797)
Less: comprehensive (loss) income attributable to noncontrolling interest	(8,491)	34,427	17,722
Comprehensive (loss) income attributable to Colfax Corporation	$(60,457)	$565,063	$(173,519)

See Notes to Consolidated Financial Statements.

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

	December 31,	
	2018	2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$245,019	$262,019
Short term investments	—	149,608
Trade receivables, less allowance for doubtful accounts of $35,152 and $31,488	989,418	970,199
Inventories, net	496,535	429,627
Other current assets	227,469	258,379
Total current assets	1,958,441	2,069,832
Property, plant and equipment, net	503,344	552,802
Goodwill	2,576,617	2,538,544
Intangible assets, net	1,012,913	1,017,203
Other assets	552,557	531,316
Total assets	$6,603,872	$6,709,697
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	$6,334	$5,766
Accounts payable	640,667	587,129
Customer advances and billings in excess of costs incurred	147,307	145,853
Accrued liabilities	405,037	358,632
Total current liabilities	1,199,345	1,097,380
Long-term debt, less current portion	1,192,408	1,055,305
Other liabilities	735,173	829,748
Total liabilities	3,126,926	2,982,433
Equity:		
Common stock, $0.001 par value; 400,000,000 shares authorized; 117,275,217 and 123,245,827 issued and outstanding	117	123
Additional paid-in capital	3,057,982	3,228,174
Retained earnings	991,838	846,490
Accumulated other comprehensive loss	(780,177)	(574,372)
Total Colfax Corporation equity	3,269,760	3,500,415
Noncontrolling interest	207,186	226,849
Total equity	3,476,946	3,727,264
Total liabilities and equity	$6,603,872	$6,709,697

See Notes to Consolidated Financial Statements.

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

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total
	Shares	$ Amount					
Balance at January 1, 2016	123,486,425	$ 123	$3,199,267	$557,300	$ (686,715)	$ 186,581	$3,256,556
Net income	—	—	—	128,111	—	17,080	145,191
Distributions to noncontrolling owners	—	—	—	—	—	(7,830)	(7,830)
Other comprehensive (loss) income, net of tax of $3.4 million	—	—	—	—	(301,630)	642	(300,988)
Common stock repurchases	(1,000,000)	(1)	(20,811)	—	—	—	(20,812)
Common stock-based award activity	293,836	1	21,226	—	—	—	21,227
Balance at December 31, 2016	122,780,261	123	3,199,682	685,411	(988,345)	196,473	3,093,344
Cumulative effect of accounting change	—	—	—	9,989	—	—	9,989
Net income	—	—	—	151,090	—	18,417	169,507
Distributions to noncontrolling owners	—	—	—	—	—	(4,051)	(4,051)
Other comprehensive income, net of tax of $15.7 million	—	—	—	—	413,973	16,010	429,983
Common stock-based award activity	465,566	—	28,492	—	—	—	28,492
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	—	—	—	140,196	—	14,277	154,473
Distributions to noncontrolling owners	—	—	—	—	—	(11,172)	(11,172)
Other comprehensive loss, net of tax of $9.1 million	—	—	—	—	(200,653)	(22,768)	(223,421)
Common stock repurchases	(6,449,425)	(6)	(199,994)	—	—	—	(200,000)
Common stock-based award activity	478,815	—	29,802	—	—	—	29,802
Balance at December 31, 2018	117,275,217	$ 117	$3,057,982	$991,838	$ (780,177)	$ 207,186	$3,476,946

See Notes to Consolidated Financial Statements.

COLFAX CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Dollars in thousands

	Year Ended December 31,		
	2018	2017	2016
Cash flows from operating activities:			
Net income	$154,473	$169,507	145,191
Adjustments to reconcile net income to net cash provided by operating activities:			
Impairment of goodwill, intangibles and property, plant and equipment	7,086	183,751	6,082
Depreciation and amortization	141,877	132,203	137,176
Stock-based compensation expense	25,103	21,548	19,020
Non-cash interest expense	4,415	4,519	4,176
Loss on short term investments	10,128	—	—
Deferred income tax (benefit) expense	(66,573)	12,066	(1,682)
(Gain) loss on sale of property, plant and equipment	(21,108)	(11,243)	531
Loss (Gain) on Sale of Business	4,337	(308,388)	—
Pension settlement (gain) loss	(39)	46,933	48
Changes in operating assets and liabilities:			
Trade receivables, net	(72,405)	(44,345)	(50,958)
Inventories, net	(47,156)	(34,023)	19,665
Accounts payable	70,085	10,266	37,083
Customer advances and billings in excess of costs incurred	18,481	(24,388)	(37,210)
Changes in other operating assets and liabilities	(2,337)	60,364	(32,148)
Net cash provided by operating activities	226,367	218,770	246,974
Cash flows from investing activities:			
Purchases of property, plant and equipment	(69,646)	(68,765)	(63,251)
Proceeds from sale of property, plant and equipment	34,829	21,224	7,249
Acquisitions, net of cash received	(290,918)	(346,764)	(25,992)
Proceeds from sale of business, net	18,404	490,308	—
Sale of short term investments, net	139,480	—	—
Other, net	—	(6,127)	—
Net cash (used in) provided by investing activities	(167,851)	89,876	(81,994)
Cash flows from financing activities:			
Payments under term credit facility	(131,250)	(65,628)	(37,500)
Proceeds from borrowings on revolving credit facilities and other	1,271,051	1,046,457	896,742
Repayments of borrowings on revolving credit facilities and other	(981,563)	(1,632,658)	(978,024)
Proceeds from borrowings on senior unsecured notes	—	374,450	—
Proceeds from issuance of common stock, net	4,699	6,944	2,206
Common stock repurchases	(200,000)	—	(20,812)
Other	(10,090)	(10,012)	(7,830)
Net cash used in financing activities	(47,153)	(280,447)	(145,218)
Effect of foreign exchange rates on Cash and cash equivalents	(28,363)	12,090	4,499
(Decrease) increase in Cash and cash equivalents	(17,000)	40,289	24,261
Cash and cash equivalents, beginning of period	262,019	221,730	197,469
Cash and cash equivalents, end of period	$245,019	$262,019	$221,730
Supplemental Disclosure of Cash Flow Information:			
Non-cash consideration received from sale of business	$—	$206,415	$—
Interest Payments	$50,389	$43,496	$35,838
Income Tax Payments, Net	$97,452	$70,668	$77,104

See Notes to Consolidated Financial Statements.

COLFAX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Nature of Operations

Colfax Corporation (the “Company” or “Colfax”) is a leading diversified 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.

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.

During the year ended December 31, 2016, the Company determined that an other-than-temporary lack of exchangeability between the Venezuelan bolivar and U.S. dollar, due to government controls, has restricted the Company’s Venezuelan operations’ ability to pay dividends and satisfy other obligations denominated in U.S. dollars. In addition, other government-imposed restrictions affecting labor, production, and distribution are prohibiting the Company from controlling key operating decisions. These circumstances have caused the Company to no longer meet the accounting criteria of control in order to continue consolidating its Venezuelan operations. Therefore, the Company deconsolidated the financial statements of its Venezuelan operations as of September 30, 2016. As a result of the deconsolidation, the Company recorded a charge of $2.4 million, of which $0.5 million is included in Selling, general and administrative expense and $1.9 million is included in (Loss) income from discontinued operations, net of taxes, for the year ended December 31, 2016. Substantially all of this amount related to accumulated foreign currency translation charges previously included in Accumulated other comprehensive loss. Due to loss of control, the Company has applied the cost method of accounting for its Venezuelan operations beginning on September 30, 2016. Prior to, and at the date of deconsolidation, the Company’s Venezuelan operations represented less than 1% of the Company’s net assets, revenues and operating income.

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 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. 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, liquidated damages, 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.

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.

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 December 31, 2018 and December 31, 2017, there were $168.3 million and $203.9 million, respectively, of revenues in excess of billings and $68.1 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 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.

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 $48.5 million, $42.9 million and $39.3 million for the years ended December 31, 2018, 2017 and 2016, respectively, are expensed as incurred and are included in Selling, general and administrative expense in the Consolidated Statements of Income. These amounts do not include development and application engineering costs incurred in conjunction with fulfilling customer orders and executing customer projects.

Interest Expense, Net

Interest expense, net includes interest income of $9.6 million, $7.8 million and $6.6 million for the years ended December 31, 2018, 2017 and 2016, respectively, primarily associated with interest bearing deposits in certain foreign subsidiaries.

Cash and Cash Equivalents

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

Short Term Investments

Short term investments included the CIRCOR Shares received as part of the consideration received for the sale of Fluid Handling. The investments were classified as available-for-sale securities and were measured at fair value at the end of each reporting period, with any changes in fair value included in Other comprehensive income (loss).

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.

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 net realizable value. The value of inventory stated using the last-in, first-out method as of December 31, 2018 and 2017 was $107.4 million and $105.9 million, respectively. For Air and 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.

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 carrying value of a reporting unit or asset exceeds its fair value. The Company currently has two reporting units: Air and Gas Handling and Fabrication Technology.

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 elect to forgo the qualitative assessment and proceed directly to the quantitative impairment test. If the carrying value of a reporting unit exceeds its fair value, Goodwill of that reporting unit is impaired. In this case, pursuant to ASU 2017-04, which the Company elected to early adopt in 2017, an impairment loss is recorded equal to the excess of the reporting unit's carrying value over its fair value.

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 flow models indicate 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 flow models 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 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.

The 2016 annual impairment analyses performed as of October 1, 2016 indicated no impairment for both reporting units.

Due to continued declines in various end markets for the Air and Gas Handling reporting unit during the year ended December 31, 2017, the Company decided to perform a quantitative analysis for this reporting unit as of September 29, 2017. The quantitative Goodwill impairment assessment for the Air and Gas Handling reporting unit resulted in a calculated fair value lower than carrying value. As a result, an impairment charge of $150.2 million, which equals the excess of the carrying value over the fair value, was recorded. A qualitative assessment of Goodwill was performed for the Fabrication Technology reporting unit for the year ended December 31, 2018 and 2017, which indicated no impairment existed.

Due to changes in market multiples, weighted average cost of capital and, to a lesser extent, continued declines in various end markets for the Air and Gas Handling reporting unit during the year ended December 31, 2018, the Company decided to perform a quantitative analysis for this reporting unit as of September 30, 2018. The quantitative analysis resulted in a calculated fair value that was higher than the reporting unit’s carrying value by 9%. As a result, no impairment charges were recorded.

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 its 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.

The analyses performed as of October 1, 2016 resulted in no impairment charges.

During the annual impairment analysis for the year ended December 31, 2017, quantitative analyses were performed, as of September 29, 2017, for the Air and Gas Handling reporting unit trade names due to continued declines in various end markets. The analyses determined the fair value was lower than carrying value for one indefinite-lived trade name, which resulted in an impairment charge of $2.5 million for that trade name. The calculated fair value of the trade name was $11.7 million and is included in Level Three of the fair value hierarchy. For another indefinite-lived intangible trade name, the analysis determined the fair value was marginally greater than its $22.1 million carrying value. A qualitative assessment was performed for the Fabrication Technology reporting unit trade names for the year ended December 31, 2017, which indicated no impairment existed.

During the annual impairment analysis for the year ended December 31, 2018, quantitative analyses were performed, as of September 30, 2018, for the Air and Gas Handling reporting unit trade names due to continued declines in various end markets. The analyses determined the fair value was higher than carrying value for all trade names, indicating that there were no impairments. A combination of quantitative and qualitative assessment was performed for the Fabrication Technology reporting unit trade names for the year ended December 31, 2018, which indicated no

impairment existed.

Impairment charges related to Goodwill and Indefinite-lived intangible assets are included in Goodwill and intangible assets impairment charges in the Consolidated Statements of Income.

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

Intangible assets 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 25 years based on the present value of the future cash flows expected to be generated from the acquired customers. All other intangible assets 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.

The Company recorded asset impairment losses related to facility closures totaling $9.2 million, $31.0 million and $2.6 million during the years ended December 31, 2018, 2017 and 2016, 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 $49.4 million, $53.7 million and $2.7 million as of December 31, 2018, 2017 and 2016, 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 issued senior unsecured notes with an aggregate principal amount of €350 million (as defined and further discussed in Note 12, “Debt”) during the year ended December 31, 2017, 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 16, “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.

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COLFAX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The activity in the Company's warranty liability, which is included in Accrued liabilities and Other liabilities in the Company's Consolidated Balance Sheets, consisted of the following:

	Year Ended	
	2018	2017
	(In thousands)	
Warranty liability, beginning of period	$34,177	$30,222
Accrued warranty expense	24,796	17,760
Changes in estimates related to pre-existing warranties	1,943	1,453
Cost of warranty service work performed	(27,624)	(22,600)
Acquisitions	6,489	5,277
Foreign exchange translation effect	(2,076)	2,065
Warranty liability, end of period	$37,705	$34,177

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. Deferred income tax assets and liabilities are reported in Other assets and Other liabilities in the Company's Consolidated Balance Sheets, respectively. The effect on deferred income tax assets and liabilities of a change in tax rates is generally recognized in (Benefit) provision for 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 (Benefit) provision for 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 (Benefit) provision for 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.

During the year ended December 31, 2018, the Company recognized net foreign currency transaction loss of $1.3 million and $8.4 million in Interest expense and Selling, general and administrative expense, respectively, in the Consolidated Statement of

Income. During the year ended December 31, 2017, the Company recognized net foreign currency transaction gain of $0.04 million and $3.4 million in Interest expense and Selling, general and administrative expense, respectively, in the Consolidated Statement of Income. During the year ended December 31, 2016, the Company recognized net foreign currency transaction gain of $2.6 million and $5.0 million in Interest expense and Selling, general and administrative expense, respectively, in the Consolidated Statement of Income.

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 $6.9 million and $9.2 million, respectively, were included in the Consolidated Balance Sheets as of December 31, 2018 and 2017, which includes $14.6 million and $12.3 million, respectively, of accumulated amortization. As of December 31, 2018, $2.2 million and $4.7 million of deferred issuance costs were included in Other assets and as a reduction of Long-term debt, respectively. As of December 31, 2017, $3.8 million and $5.4 million of deferred issuance costs were included in Other assets and as a reduction of Long-term debt, respectively. 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 12, “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.

COLFAX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

3. 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 Company applied two practical expedients during the transition period. First, the Company did not restate contracts that began and ended in the same reporting period. Additionally, the transaction price at the completion of each contract was used rather than estimating variable consideration. 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 6, “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:	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	January 1, 2018

Intra-Entity Asset Transfers of Assets Other than Inventory	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.	
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 CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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% U.S. federal tax rate. At December 31, 2018 the Company has made adjustments to reduce the provisional amounts recorded in the prior year by $10.8 million relating to the transition tax. Additionally, the Company made an adjustment of ($0.7m) relating to the remeasurement of its deferred tax assets and liabilities to a 21% U.S. statutory rate.	December 31, 2017
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 tax expense in determining its income tax provision. The Company has elected to account for GILTI as a current tax expense in the year the tax is incurred.	December 31, 2018

COLFAX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

New Accounting Guidance to be Implemented

Standards Pending Adoption	Description	Anticipated Impact	Effective/Adoption Date
ASU 2016-02, Leases (Topic 842)	The ASU requires, among other things, a lessee to recognize assets and liabilities associated with the rights and obligations attributable to most leases but also recognize expenses similar to current lease accounting. The ASU also requires qualitative and quantitative disclosures designed to assess the amount, timing and uncertainty of cash flows arising from leases, along with additional key information about leasing arrangements. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The new guidance must be adopted using a modified retrospective transition and provides for certain practical expedients.	The Company is analyzing and updating data collected as well as implementing 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. Additionally, the Company will elect the optional transition method that allows for a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption and will not restate prior periods. 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 impact 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	The ASU amends the current hedge accounting model and eliminates the requirement to separately measure and report hedge ineffectiveness and	The impact of this ASU on the Company’s financial statements is expected to be immaterial.	January 1, 2019

Improvements to Accounting for Hedging Activities	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 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.

COLFAX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Standards Pending Adoption	Description	Anticipated Impact	Effective/Adoption Date
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.	January 1, 2019
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

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4. 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 were as follows:

	Year Ended December 31,		
	2018	2017	2016
	(In thousands)		
Net sales	$—	$436,682	$461,294
Cost of Sales	—	294,946	308,025
Selling, general and administrative expense[1]	7,156	118,740	136,380
Divestiture-related expense, net[2]	4,321	5,257	—
Restructuring and other related items[3]	—	(6,768)	15,674
Operating (loss) income	(11,477)	24,507	1,215
Interest income[4]	—	473	260
(Loss) gain on disposal	(4,337)	308,388	—
(Loss) income from discontinued operations before income taxes	(15,814)	333,368	1,475
Income tax expense [5]	12,536	109,321	11,036
(Loss) income from discontinued operations, net of taxes	$(28,350)	$224,047	$(9,561)

(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 Consolidated Statements of Income as part of (Loss) income from discontinuing operations. See Note 17, "Commitments and Contingencies" for further information.
(2) Primarily related to professional and consulting fees associated with due diligence and preparation of regulatory filings, as well as employee benefit arrangements and other disposition-related activities.
(3) During the year ended December 31, 2017, the Company recorded a gain of approximately $12 million from the sale of a facility that was previously closed as part of restructuring activities.
(4) Interest expense has not been allocated to the discontinued operations.
(5) Income tax expense for the year ended December 31, 2018 includes incremental tax expense due to changes in the estimated gain allocation by jurisdiction.

Cash used in operating activities of discontinued operations for the year ended December 31, 2018 primarily includes net cash outflows related to asbestos claims of $5.6 million. Cash provided by operating activities of discontinued operations for the years ended December 31, 2017 and 2016 was $65.2 million and $23.1 million, respectively. Cash used in investing activities of discontinued operations was $10.1 million and $3.9 million for the years ended December 31, 2017 and 2016, respectively.

5. Acquisitions

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

Air and Gas Handling

During the year ended December 31, 2018, the Company completed two acquisitions in our Air and Gas Handling segment for total consideration, net of cash received, of $39.9 million, subject to certain purchase price adjustments. These acquisitions will expand the segment’s technology and service offering for mining ventilation applications.

During the year ended December 31, 2017, the Company completed two acquisitions in our Air and Gas Handling segment for total consideration, net of cash received, of $219.6 million. These acquisitions broadened the segment's range of compression solutions and expanded its product offering into smaller steam turbines.

Fabrication Technology

During year ended December 31, 2018, the Company completed two acquisitions in our Fabrication Technology segment for total consideration, net of cash received, of $245.1 million, subject to certain purchase price adjustments. These acquisitions expand the segment's presence in specialty gas applications and broaden the Company's global presence.

During the year ended December 31, 2017, the Company completed three acquisitions in our Fabrication Technology segment for total consideration, net of cash received, of $129.2 million. These acquisitions expanded and improved the segment's high quality welding equipment and consumables.

During 2016, the Company deployed approximately $26 million to acquire a business that increased the segment's product and technology offerings.

General

During the years ended December 31, 2018, 2017, and 2016, the Company's Consolidated Statements of Income included $88.1 million, $58.5 million, and $1.3 million of Net sales associated with acquisitions consummated during the respective period. Net Income attributable to Colfax Corporation common shareholders associated with acquisitions consummated during the years ended December 31, 2018, 2017, and 2016 was not material for each respective period.

Acquisitions consummated during the year ended December 31, 2018 are accounted for under the acquisition method of accounting. The assets acquired and liabilities assumed reported on the Consolidated Balance Sheets represent the Company's best estimate. These amounts, including property, plant and equipment acquired, are based upon certain valuations and studies that have yet to be finalized and are subject to adjustment once the detailed analyses are completed.

DJO Global Inc.

In November 2018, the Company entered into a definitive agreement to acquire DJO Global Inc. ("DJO") for $3.2 billion in cash. DJO is a global leader in orthopedic solutions, providing orthopedic devices, reconstructive implants, software and services spanning the full continuum of patient care, from injury prevention to rehabilitation. DJO has approximately 5,000 employees across 18 locations around the world. DJO's revenue was approximately $1.2 billion for the twelve-month period ending September 2018.

This acquisition is expected to be completed during the three months ended March 29, 2019. The DJO acquisition represents a strategic evolution of Colfax that creates a new growth platform in the high-margin orthopedic solutions

market. See Note 20, “Subsequent Events” for further information.

6. Revenue

The following table disaggregates the Company’s revenue by segment and timing of transfer:

	Year Ended December 31,					
	2018		2017		2016	
	Fabrication Technology	Air and Gas Handling	Fabrication Technology	Air and Gas Handling	Fabrication Technology	Air and Gas Handling
	(in thousands)					
Point in time	$2,192,823	$596,095	$1,932,550	$633,288	$1,795,876	$753,378
Over time	260	877,634	4,732	729,614	4,616	631,883
Total	$2,193,083	$1,473,729	$1,937,282	$1,362,902	$1,800,492	$1,385,261

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 where revenue is recognized over time, based on progress to date. As of

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December 31, 2018, the Air and Gas Handling business had $832.2 million of remaining performance obligations, which is also referred to as total backlog. Of that total backlog, the Company expects to recognize approximately 74% as revenue in 2019 and an additional 26% thereafter.

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 December 31, 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, 2018, 2017 and 2016, total contract liabilities were $140.0 million, $133.3 million and $132.4 million, respectively. During the years ended December 31, 2018 and 2017, revenue recognized that was included in the contract liability balance at the beginning of the year was $115.0 million and $117.9 million, respectively. Of this total 69.0% and 66.6%, respectively, was related to long-term contracts which have met the criteria for over time recognition.

7. Net Income (Loss) Per Share from Continuing Operations

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

	Year Ended December 31,		
	2018	2017	2016
	(In thousands, except share data)		
Computation of Net income per share from continuing operations:			
Net income (loss) from continuing operations attributable to Colfax Corporation [1]	$168,546	$ (72,957)	$ 137,672
Weighted-average shares of Common stock outstanding - basic	120,288,297	123,229,806	122,911,581
Net income (loss) per share from continuing operations - basic	$1.40	$ (0.59)	$ 1.12
Computation of Net income per share from continuing operations - diluted:			
Net income (loss) from continuing operations attributable to Colfax Corporation [1]	$168,546	$ (72,957)	$ 137,672
Weighted-average shares of Common stock outstanding - basic	120,288,297	123,229,806	122,911,581
Net effect of potentially dilutive securities - stock options and restricted stock units	506,759	—	287,145
Weighted-average shares of Common stock outstanding - diluted	120,795,056	123,229,806	123,198,726
Net income (loss) per share from continuing operations - diluted	$1.40	$ (0.59)	$ 1.12

[1] Net income (loss) from continuing operations attributable to Colfax Corporation for the respective periods is calculated using Net income (loss) 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 years ended December 31, 2018, 2017 and 2016 excludes 3.4 million, 5.0 million and 4.5 million outstanding stock-based compensation awards, respectively, as their inclusion would be anti-dilutive.

Included in the calculation of diluted net (loss) income per share from discontinued operations are 0.8 million potentially dilutive securities for the year ended December 31, 2017.

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8. Income Taxes

Income (loss) from continuing operations before income taxes and (Benefit) provision for income taxes consisted of the following:

	Year Ended December 31,		
	2018	2017	2016
	(In thousands)		
Income (loss) from continuing operations before income taxes:			
Domestic operations	$(25,610)	$(29,470)	$(34,015)
Foreign operations	208,412	17,484	240,539
	$182,802	$(11,986)	$206,524
Provision for (benefit from) income taxes:			
Current:			
Federal	$(6,805)	$49,259	$621
State	1,698	(439)	(592)
Foreign	71,659	53,274	60,651
	$66,552	$102,094	$60,680
Deferred:			
Domestic operations	$(25,573)	$(54,226)	$(2,924)
Foreign operations	(41,000)	(5,314)	(5,984)
	(66,573)	(59,540)	(8,908)
	$(21)	$42,554	$51,772

See Note 4, “Discontinued Operations” for the income (loss) from discontinued operations before income taxes and related income taxes.

On December 22, 2017, the Tax Act was signed into law making significant changes to the Internal Revenue Code which included how the U.S. imposes income tax on multinational corporations. Key changes in the Tax Act which were relevant to the Company and generally effective January 1, 2018 include a flat corporate income tax rate of 21 percent to replace the marginal rates that range from 15 percent to 35 percent, elimination of the corporate alternative minimum tax, the creation of a territorial tax system replacing the worldwide tax system, a one-time tax on accumulated foreign subsidiary earnings to transition to the territorial system, a “minimum tax” on certain foreign earnings above an enumerated rate of return, a new base erosion anti-abuse tax that subjects certain payments made by a U.S. company to its foreign subsidiary to additional taxes, and an incentive for U.S. companies to sell, lease or license goods and services outside the U.S. by taxing the income at a reduced effective rate. The new tax also imposes limits on executive compensation and interest expense deductions, while permitting the immediate expensing for the cost of new investments in certain property acquired after September 27, 2017.

On December 22, 2017, the SEC issued Staff Accounting Bulletin No. 118 (“SAB 118”) to address 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 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. The Company filed its 2017 U.S. income tax return in the fourth quarter of 2018 which changed our tax basis in temporary differences and Transition Tax estimated as of December 31, 2017 resulting in an adjustment to the tax provision to the re-measurement amount recorded in the financial statements.

ASC 740 requires changes in tax rates and tax laws to be accounted for in the period of enactment in continuing operations. Accordingly, of significance, the Company included a provisional estimate of approximately $52 million for the Transition Tax, payable over 8 years for its year ended December 31, 2017. Pursuant to SAB 118, the Company reduced its provisional amount for Transition Tax by $10.8 million for the year ended December 31, 2018. 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 continues to maintain its indefinite reinvestment assertion related to its foreign earnings.

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The Company's (Benefit) provision for income taxes from continuing operations differs from the amount that would be computed by applying the U.S. federal statutory rate as follows:

	Year Ended December 31,		
	2018	2017	2016