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 co