TELEFLEX INC
Form 10-Q
May 03, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended April 1, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to .
Commission file number 1-5353

TELEFLEX INCORPORATED
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 23-1147939 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. employer identification no.) |
| 550 E. Swedesford Rd., Suite 400, Wayne, PA | 19087 |
| (Address of principal executive offices) | (Zip Code) |

(610) 225-6800
(Registrant's telephone number, including area code)
(None)
(Former Name, Former Address and Former Fiscal Year, If Changed Since Last Report)

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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 the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large accelerated filer x | Accelerated filer ¨ |
| Non-accelerated filer ¨ (Do not check if a smaller reporting company) | Smaller reporting company ¨ |
| | Emerging growth company ¨ |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

The registrant had 45,543,546 shares of common stock, par value $1.00 per share, outstanding as of April 30, 2018.

TELEFLEX INCORPORATED
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED APRIL 1, 2018
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TELEFLEX INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

| | Three Months Ended | |
| --- | --- | --- |
| | April 1, 2018 | April 2, 2017 |
| | (Dollars and shares in thousands, except per share) | |
| Net revenues | $587,230 | $487,881 |
| Cost of goods sold | 255,960 | 232,321 |
| Gross profit | 331,270 | 255,560 |
| Selling, general and administrative expenses | 215,337 | 163,969 |
| Research and development expenses | 26,027 | 17,827 |
| Restructuring charges | 3,063 | 12,945 |
| Income from continuing operations before interest, loss on extinguishment of debt and taxes | 86,843 | 60,819 |
| Interest expense | 25,943 | 17,726 |
| Interest income | (273) | (169) |
| Loss on extinguishment of debt | — | 5,582 |
| Income from continuing operations before taxes | 61,173 | 37,680 |
| Taxes (benefit) on income from continuing operations | 6,242 | (2,669) |
| Income from continuing operations | 54,931 | 40,349 |
| Operating income (loss) from discontinued operations | 1,235 | (282) |
| Tax benefit on income (loss) from discontinued operations | (18) | (103) |
| Income (loss) from discontinued operations | 1,253 | (179) |
| Net income | $56,184 | $40,170 |
| Earnings per share: | | |
| Basic: | | |
| Income from continuing operations | $1.21 | $0.90 |
| Income (loss) from discontinued operations | 0.03 | (0.01) |
| Net income | $1.24 | $0.89 |
| Diluted: | | |
| Income from continuing operations | $1.18 | $0.87 |
| Income (loss) from discontinued operations | 0.02 | (0.01) |
| Net income | $1.20 | $0.86 |
| Dividends per share | $0.34 | $0.34 |
| Weighted average common shares outstanding | | |
| Basic | 45,329 | 44,893 |
| Diluted | 46,695 | 46,615 |

The accompanying notes are an integral part of the condensed consolidated financial statements.

TELEFLEX INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

| | Three Months Ended | |
|---|---|---|
| | April 1, 2018 | April 2, 2017 |
| | (Dollars in thousands) | |
| Net income | $56,184 | $40,170 |
| Other comprehensive income, net of tax: | | |
| Foreign currency translation, net of tax of $(5,872) and $(7,089) | 81,188 | 46,982 |
| Pension and other postretirement benefit plans adjustment, net of tax of $(234) and $(532) | 881 | 890 |
| Derivatives qualifying as hedges, net of tax of $(211) and $(555) | 621 | 1,728 |
| Other comprehensive income, net of tax: | 82,690 | 49,600 |
| Comprehensive income | $138,874 | $89,770 |

The accompanying notes are an integral part of the condensed consolidated financial statements.

TELEFLEX INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

| | April 1, 2018 | December 31, 2017 |
|---|---|---|
| | (Dollars in thousands) | |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | $378,872 | $333,558 |
| Accounts receivable, net | 359,140 | 345,875 |
| Inventories, net | 403,676 | 395,744 |
| Prepaid expenses and other current assets | 52,998 | 47,882 |
| Prepaid taxes | 7,234 | 5,748 |
| Assets held for sale | 3,239 | — |
| Total current assets | 1,205,159 | 1,128,807 |
| Property, plant and equipment, net | 389,519 | 382,999 |
| Goodwill | 2,264,447 | 2,235,592 |
| Intangible assets, net | 2,390,555 | 2,383,748 |
| Deferred tax assets | 3,969 | 3,810 |
| Other assets | 46,951 | 46,536 |
| Total assets | $6,300,600 | $6,181,492 |
| LIABILITIES AND EQUITY | | |
| Current liabilities | | |
| Current borrowings | $77,500 | $86,625 |
| Accounts payable | 84,686 | 92,027 |
| Accrued expenses | 101,128 | 96,853 |
| Current portion of contingent consideration | 162,061 | 74,224 |
| Payroll and benefit-related liabilities | 80,418 | 107,415 |
| Accrued interest | 20,503 | 6,165 |
| Income taxes payable | 13,500 | 11,514 |
| Other current liabilities | 11,978 | 9,053 |
| Total current liabilities | 551,774 | 483,876 |
| Long-term borrowings | 2,154,217 | 2,162,927 |
| Deferred tax liabilities | 616,711 | 603,676 |
| Pension and postretirement benefit liabilities | 117,874 | 121,410 |
| Noncurrent liability for uncertain tax positions | 12,628 | 12,296 |
| Noncurrent contingent consideration | 119,796 | 197,912 |
| Other liabilities | 167,100 | 168,864 |
| Total liabilities | 3,740,100 | 3,750,961 |
| Commitments and contingencies | | |
| Total shareholders' equity | 2,560,500 | 2,430,531 |
| Total liabilities and shareholders' equity | $6,300,600 | $6,181,492 |

The accompanying notes are an integral part of the condensed consolidated financial statements.

TELEFLEX INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| | Three Months Ended | |
|---|---|---|
| | April 1, 2018 | April 2, 2017 |
| | (Dollars in thousands) | |
| Cash flows from operating activities of continuing operations: | | |
| Net income | $56,184 | $40,170 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| (Income) loss from discontinued operations | (1,253) | 179 |
| Depreciation expense | 14,832 | 14,180 |
| Amortization expense of intangible assets | 37,816 | 18,785 |
| Amortization expense of deferred financing costs and debt discount | 1,178 | 1,406 |
| Loss on extinguishment of debt | — | 5,582 |
| Fair value step up of acquired inventory sold | — | 7,832 |
| Changes in contingent consideration | 9,592 | 179 |
| Stock-based compensation | 4,787 | 4,240 |
| Deferred income taxes, net | (1,472) | (3,081) |
| Other | (1,272) | (2,703) |
| Changes in operating assets and liabilities, net of effects of acquisitions and disposals: | | |
| Accounts receivable | (3,402) | 18,691 |
| Inventories | 32 | (5,322) |
| Prepaid expenses and other current assets | (3,406) | (1,224) |
| Accounts payable and accrued expenses | (27,185) | 2,696 |
| Income taxes receivable and payable, net | 417 | (10,670) |
| Net cash provided by operating activities from continuing operations | 86,848 | 90,940 |
| Cash flows from investing activities of continuing operations: | | |
| Expenditures for property, plant and equipment | (15,747) | (12,894) |
| Proceeds from sale of assets | — | 6,332 |
| Payments for businesses and intangibles acquired, net of cash acquired | (3,684) | (975,524) |
| Net cash used in investing activities from continuing operations | (19,431) | (982,086) |
| Cash flows from financing activities of continuing operations: | | |
| Proceeds from new borrowings | — | 1,194,500 |
| Reduction in borrowings | (18,500) | (138,251) |
| Debt extinguishment, issuance and amendment fees | (74) | (19,114) |
| Net proceeds from share based compensation plans and the related tax impacts | 1,400 | (505) |
| Payments for contingent consideration | (91) | (79) |
| Dividends paid | (15,447) | (15,287) |
| Net cash provided by (used in) financing activities from continuing operations | (32,712) | 1,021,264 |
| Cash flows from discontinued operations: | | |
| Net cash used in operating activities | (206) | (266) |
| Net cash used in discontinued operations | (206) | (266) |
| Effect of exchange rate changes on cash and cash equivalents | 10,815 | 15,488 |
| Net increase in cash and cash equivalents | 45,314 | 145,340 |
| Cash and cash equivalents at the beginning of the period | 333,558 | 543,789 |
| Cash and cash equivalents at the end of the period | $378,872 | $689,129 |

Non cash financing activities of continuing operations:

| | | |
|---|---|---|
| Settlement and exchange of convertible notes with common or treasury stock | $— | $958 |
| Acquisition of treasury stock associated with settlement and exchange of convertible note hedge and warrant agreements | $17,872 | $19,311 |

The accompanying notes are an integral part of the condensed consolidated financial statements.

TELEFLEX INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited)

| | Common Stock | | Additional Paid In Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Treasury Stock | | Total |
|---|---|---|---|---|---|---|---|---|
| | Shares | Dollars | | | | Shares | Dollars | |
| | (Dollars and shares in thousands, except per share) | | | | | | | |
| Balance at December 31, 2017 | 46,871 | $46,871 | $591,721 | $2,285,886 | $ (265,091) | 1,704 | $(228,856) | $2,430,531 |
| Cumulative effect adjustment resulting from the adoption of new accounting standards | | | | 2,110 | | | | 2,110 |
| Net income | | | | 56,184 | | | | 56,184 |
| Cash dividends ($0.34 per share) | | | | (15,447) | | | | (15,447) |
| Other comprehensive income | | | | | 82,690 | | | 82,690 |
| Settlements of note hedges associated with convertible notes and warrants | | | (17,884) | | | (132) | 17,872 | (12) |
| Shares issued under compensation plans | 97 | 97 | 992 | | | (43) | 3,033 | 4,122 |
| Deferred compensation | | | | | | (8) | 322 | 322 |
| Balance as of April 1, 2018 | 46,968 | $46,968 | $574,829 | $2,328,733 | $ (182,401) | 1,521 | $(207,629) | $2,560,500 |

The accompanying notes are an integral part of the condensed consolidated financial statements.

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TELEFLEX INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

## Note 1 — Basis of presentation

The accompanying unaudited condensed consolidated financial statements of Teleflex Incorporated and its subsidiaries (“we,” “us,” “our,” “Teleflex” and the “Company”) are prepared on the same basis as its annual consolidated financial statements.

In the opinion of management, the financial statements reflect all adjustments, which are of a normal recurring nature, necessary for the fair presentation of financial statements for interim periods in accordance with accounting principles generally accepted in the United States of America ("GAAP") and with Rule 10-01 of Securities and Exchange Commission ("SEC") Regulation S-X, which sets forth the instructions for financial statements included in Form 10-Q. The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The results of operations for the periods reported are not necessarily indicative of those that may be expected for a full year.

In accordance with applicable accounting standards and as permitted by Rule 10-01 of Regulation S-X, the accompanying condensed consolidated financial statements do not include all of the information and footnote disclosures that are required to be included in the Company's annual consolidated financial statements. Accordingly, the Company's quarterly condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2017.

## Note 2 — New accounting standards

In May 2014, the Financial Accounting Standards Board ("FASB"), in a joint effort with the International Accounting Standards Board ("IASB"), issued new accounting guidance to clarify the principles for recognizing revenue. This new guidance, as amended by additional guidance issued in 2015 and 2016, is encompassed in FASB Accounting Standards Codification Topic 606, “Revenue from Contracts with Customers” (“ASC 606”) and is designed to enhance the comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets, and affects any entity that enters into contracts with customers or enters into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards. The new guidance establishes principles for reporting information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The core principle of the new guidance is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The new guidance is effective for annual periods beginning after December 15, 2017 and interim periods within those years. The Company adopted the new standard on January 1, 2018 using the modified retrospective method applied to all contracts; as a result, the Company recognized the cumulative effect of adopting the guidance as a $0.3 million increase to the Company's opening balance of retained earnings on the adoption date. Also in connection with the adoption of the new standard, the Company reclassified the reserve for product returns from a contra-receivable to a liability. The reserve for returns and allowances was $4.4 million at April 1, 2018. The adoption of this guidance did not have a material impact on the Company's consolidated results of operations, cash flows and financial position. Additional information and disclosures required by this new standard are contained in Note 3.

In February 2016, the FASB issued guidance that will change the requirements for accounting for leases. Under the new guidance, lessees (including lessees under both leases classified as finance leases, which are to be classified based on criteria similar to that applicable to capital leases under current guidance, and leases classified as operating leases) will recognize a right-to-use asset and a lease liability on the balance sheet, initially measured as the present value of lease payments under the lease. Under current guidance, operating leases are not recognized on the balance sheet. The standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements; the guidance provides certain practical expedients. The Company is currently evaluating this guidance to determine its impact on the Company’s consolidated results of operations, cash flows and financial position.

TELEFLEX INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Unaudited)

In October 2016, the FASB issued new guidance requiring companies to recognize the income tax effects of intra-entity sales and transfers of assets, other than inventory, in the income statement as income tax expense (or benefit) in the period in which the transfer occurs. Previously, recognition was prohibited until the assets were sold to an outside party or otherwise utilized. The guidance is effective for annual periods beginning after December 15, 2017. The Company adopted the new standard on January 1, 2018 using the modified retrospective method of adoption; as a result, the Company recognized the cumulative effect of adopting the guidance as a $1.8 million increase to the Company's opening balance of retained earnings on the adoption date. The adoption of this guidance did not have a material impact on the Company's consolidated results of operations, cash flows and financial position.
In March 2017, the FASB issued guidance for employers that sponsor defined benefit pension or other postretirement benefit plans. The guidance requires that these employers disaggregate specified components of net periodic pension cost and net periodic postretirement benefit cost (collectively, "net benefit cost"). Specifically, the guidance generally requires employers to present in the income statement the service cost component of net benefit cost in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017 and generally is required to be applied retrospectively. The Company adopted this guidance on January 1, 2018; the impact was not material to the consolidated financial statements.
In August 2017, the FASB issued guidance with the objective of improving the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. The new guidance provides for changes to current designation and measurement guidance for qualifying hedging relationships and to the method of presenting hedge results. In addition, the new guidance includes certain targeted improvements to ease the application of current guidance related to the assessment of hedge effectiveness. The new guidance is effective for reporting periods beginning after December 15, 2018. Early adoption is permitted. The Company is currently evaluating the impact of the adoption of this guidance on its consolidated results of operations and financial position.
In February 2018, the FASB issued new guidance to address a narrow-scope financial reporting issue that arose as a consequence of the Tax Cuts and Jobs Act ("the TCJA"). Existing guidance requires that deferred tax liabilities and assets be adjusted for a change in tax laws or rates with the effect included in income from continuing operations in the reporting period that includes the enactment date. The guidance is applicable even in situations in which the related income tax effects of items in accumulated other comprehensive income were originally recognized in other comprehensive income (rather than in net income), such as amounts related to benefit plans and hedging activity. As a result, the tax effects of items within accumulated other comprehensive income (referred to as stranded tax effects) do not reflect the appropriate tax rate. The new guidance permits for a reclassification of these amounts to retained earnings, thereby eliminating the stranded tax effects. The new guidance also requires certain disclosures about the stranded tax effects. The guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted for reporting periods for which financial statements have not yet been issued. The new guidance can be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the TCJA is recognized. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements.
From time to time, new accounting guidance is issued by the FASB or other standard setting bodies that is adopted by the Company as of the effective date or, in some cases where early adoption is permitted, in advance of the effective date. The Company has assessed the recently issued guidance that is not yet effective and, unless otherwise indicated above, believes the new guidance will not have a material impact on the its consolidated results of operations, cash flows or financial position.

Note 3 - Net revenues

The Company primarily generates revenue from the sale of medical devices including single use disposable devices and, to a lesser extent, reusable devices, instruments and capital equipment. Revenue is recognized when obligations under the terms of a contract with the Company’s customer are satisfied; this occurs upon the transfer of control of the products. Generally, transfer of control to the customer occurs at the point in time when the Company’s

TELEFLEX INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Unaudited)

products are shipped from the manufacturing facility. The Company markets and sells products through its direct sales force and distributors to customers within the following end markets: (1) hospitals and healthcare providers; (2) other medical device manufacturers; and (3) home care providers such as pharmacies, which comprised 87%, 9% and 4% of consolidated net revenues, respectively, for the three months ended April 1, 2018. Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring goods. Payment is generally due 30 days from the date of invoice.

The Company has made the following accounting policy elections and elected to use certain practical expedients, as permitted by the FASB, in applying ASC 606: (1) the Company accounts for amounts collected from customers for sales and other taxes, net of related amounts remitted to tax authorities; (2) the Company does not adjust the promised amount of consideration for the effects of a significant financing component because, at contract inception, the Company expects the period between the time when the Company transfers a promised good or service to the customer and the time when the customer pays for that good or service will be one year or less; (3) the Company expenses costs to obtain a contract as they are incurred if the expected period of benefit, and therefore the amortization period, is one year or less; (4) the Company accounts for shipping and handling activities that occur after control transfers to the customer as a fulfillment cost rather than an additional promised service; and (5) the Company classifies shipping and handling costs within cost of goods sold.

The amount of consideration the Company receives and revenue the Company recognizes varies as a result of changes in customer sales incentives, including discounts and rebates, and returns offered to customers. The estimate of revenue is adjusted upon the earlier of the following events: (i) the most likely amount of consideration expected to be received changes or (ii) the consideration becomes fixed. The Company's policy is to accept returns only in cases in which the product is defective and covered under the Company's standard warranty provisions. When the Company gives customers the right to return products, the Company estimates the expected returns based on an analysis of historical experience. The reserve for returns and allowances was $4.4 million and $4.7 million as of April 1, 2018 and April 2, 2017, respectively. In estimating customer rebates, the Company considers the lag time between the point of sale and the payment of the customer's rebate claim, customer-specific trend analyses, contractual commitments, including stated rebate rates, historical experience with respect to specific customers and other relevant information as the Company has a history of providing similar rebates on similar products to similar customers. The reserve for customer incentive programs, including customer rebates, was $13.2 million and $10.1 million at April 1, 2018 and April 2, 2017, respectively. The Company expects the amounts subject to the reserve as of April 1, 2018 to be paid within 90 days subsequent to period-end.

The following table disaggregates revenue by global product category for the three months ended April 1, 2018 and April 2, 2017.

| | Three Months Ended | |
|---|---|---|
| | April 1, 2018 | April 2, 2017 |
| Revenue by global product category (1) (2) | (Dollars in thousands) | |
| Vascular access | $144,241 | $130,022 |
| Anesthesia | 85,418 | 81,205 |
| Interventional | 71,680 | 43,966 |
| Surgical | 85,632 | 87,304 |
| Interventional urology | 42,300 | — |
| OEM | 45,872 | 43,346 |

| | | |
|---|---|---|
| Other (3) | 112,087 | 102,038 |
| Net revenues | $587,230 | $487,881 |

(1) The product categories listed above are presented on a global basis; in contrast, the Company's North American reportable segments generally are defined based on the particular products sold by the segments, and its non-North American reportable segments are defined based on the geographic location of segment operations (with the exception of the Original Equipment and Development Services ("OEM") reportable segment, which operates globally). The Company's EMEA and Asia reportable segments, as well as its Latin America operating segment, include net revenues from each of the product categories listed above.

TELEFLEX INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Unaudited)

(2) Products included within certain of the product categories listed in the table above differ from those included within the similarly named reportable segment. The differences are due to the fact that segment classification generally is determined based on the call point within the customer's organization from which those sales originated, while the classification of products within the product categories listed above includes sales originating from multiple call points within the customer's organization.
(3) Other revenues in the table above comprise the Company’s respiratory, urology and cardiac product categories.

Note 4 — Acquisitions
During 2017, the Company completed several acquisitions; the largest of which were Vascular Solutions, Inc. ("Vascular Solutions") and NeoTract, Inc. ("NeoTract"), which are summarized below. The fair value of the consideration transferred for the 2017 acquisitions was $2.0 billion.
Vascular Solutions
On February 17, 2017, the Company acquired Vascular Solutions, a medical device company that developed and marketed products for use in minimally invasive coronary and peripheral vascular procedures. The aggregate consideration paid by the Company in connection with the acquisition was $975.5 million.
NeoTract
On October 2, 2017, the Company acquired NeoTract, a medical device company that developed and commercialized the UroLift System, a minimally invasive medical device for treating lower urinary tract symptoms due to benign prostatic hyperplasia, or BPH. The fair value of consideration transferred by the Company was $975.2 million, which included initial payments of $725.6 million in cash less a favorable working capital adjustment of $1.4 million (payment for which remains outstanding as of April 1, 2018) and $251.0 million in estimated fair value of contingent consideration related to revenue-based milestones. The contingent consideration liability represents the estimated fair value of the Company’s obligations, under the acquisition agreement, to make additional payments of up to $375 million in the aggregate if specified sales goals through the end of 2020 are achieved. Financial information of NeoTract is primarily presented within the Interventional Urology North America operating segment, which is included in the "all other" category in the Company's presentation of segment information.
The Company is continuing to evaluate the initial purchase price allocations in connection with its acquisition of NeoTract, and further adjustments may be necessary as a result of the Company's assessment of additional information related to the fair values of the assets acquired and liabilities assumed, primarily deferred tax liabilities, certain intangible assets and goodwill.
Pro forma combined financial information
The following unaudited pro forma combined financial information for the three months ended April 2, 2017 gives effect to the Vascular Solutions and NeoTract acquisitions as if they had occurred on January 1, 2016. The pro forma information is presented for informational purposes only and is not necessarily indicative of the results of operations that actually would have occurred under the ownership and management of the Company.

| | Three Months Ended April 2, 2017 (Dollars and shares in thousands, except per |
|---|---|

| | share) |
|---|---|
| Net revenue | $ 533,318 |
| Net income | $ 37,108 |
| Basic earnings per common share: | |
| Net income | $ 0.83 |
| Diluted earnings per common share: | |
| Net income | $ 0.80 |
| Weighted average common shares outstanding: | |
| Basic | 44,893 |
| Diluted | 46,615 |

TELEFLEX INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Unaudited)

The unaudited pro forma combined financial information presented above includes the accounting effects of the Vascular Solutions and NeoTract acquisitions, including, to the extent applicable, amortization charges from acquired intangible assets; adjustments for depreciation of property, plant and equipment; interest expense; the revaluation of inventory; and the related tax effects. The unaudited pro forma financial information also includes non-recurring charges specifically related to the Vascular Solutions and NeoTract acquisitions.

Note 5 — Restructuring charges

The following tables provide information regarding restructuring charges recognized by the Company for the three months ended April 1, 2018 and April 2, 2017:

Three Months Ended April 1, 2018

| | Termination benefits | Other restructuring costs (2) | Total |
|---|---|---|---|
| | (Dollars in thousands) | | |
| 2016 Footprint realignment plan | $1,955 | $ 194 | $2,149 |
| 2014 Footprint realignment plan | 116 | 8 | 124 |
| Other restructuring programs (1) | 585 | 205 | 790 |
| Restructuring charges | $2,656 | $ 407 | $3,063 |

Three Months Ended April 2, 2017

| | Termination benefits | Other restructuring costs (2) | Total |
|---|---|---|---|
| | (Dollars in thousands) | | |
| Vascular Solutions Integration Program | $4,482 | $ — | $4,482 |
| EMEA Restructuring Program | 7,121 | — | 7,121 |
| 2016 Footprint realignment plan | 539 | (30) | 509 |
| 2014 Footprint realignment plan | 303 | 8 | 311 |
| Other restructuring programs (3) | 305 | 217 | 522 |
| Restructuring charges | $12,750 | $ 195 | $12,945 |

(1) Other restructuring programs in 2018 include the Vascular Solutions integration program and the EMEA restructuring program (both initiated in 2017) as well as the other 2016 restructuring programs. For a description of these programs, see Note 4 to the Company’s consolidated financial statements included in its annual report on Form 10-K for the year ended December 31, 2017.

(2) Other restructuring costs include facility closure, contract termination, and other exit costs.

(3) Other restructuring programs in 2017 primarily includes the other 2016 restructuring programs.

2016 Footprint Realignment Plan

In 2016, the Company initiated a restructuring plan (the “2016 Footprint realignment plan") involving the relocation of certain manufacturing operations, the relocation and outsourcing of certain distribution operations and a related workforce reduction at certain of the Company's facilities. These actions commenced in the first quarter of 2016 and are expected to be substantially completed by the end of 2018. The Company estimates that it will incur aggregate pre-tax restructuring and restructuring related charges in connection with the 2016 Footprint realignment plan of between approximately $34 million to $44 million, of which an estimated $27 million to $31 million are expected to result in future cash outlays. Most of these charges, and the related cash outlays, are expected to be made prior to the end of 2018.

In addition to the restructuring charges shown in the tables above, the Company recorded restructuring related charges with respect to the 2016 Footprint realignment plan of $1.4 million and $2.1 million for the three months ended

April 1, 2018 and April 2, 2017, respectively, within cost of goods sold.

As of April 1, 2018, the Company has incurred restructuring charges in connection with the 2016 Footprint realignment plan aggregating to $16.8 million. Additionally, as of April 1, 2018, the Company has incurred restructuring

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related charges aggregating to $16.1 million related to the 2016 Footprint realignment plan, consisting of accelerated depreciation and certain other costs that principally resulted from the transfer of manufacturing operations to new locations. The restructuring related charges primarily were included in cost of goods sold. As of April 1, 2018, the Company has a restructuring reserve of $6.5 million related to this plan, all of which related to termination benefits.

2014 Footprint Realignment Plan

In 2014, the Company initiated a restructuring plan (“the 2014 Footprint realignment plan”) involving the consolidation of operations and a related reduction in workforce at certain facilities, and the relocation of manufacturing operations from certain higher-cost locations to existing lower-cost locations. These actions commenced in the second quarter 2014 and are expected to be substantially completed by the end of the first half of 2020. The Company estimates that it will incur aggregate pre-tax restructuring and restructuring related charges in connection with the 2014 Footprint realignment plan of approximately $46 million to $51 million, of which an estimated $38 million to $43 million are expected to result in future cash outlays. The Company expects to incur $24 million to $30 million in aggregate capital expenditures under the plan.

In addition to the restructuring charges set forth in the tables above, the Company recorded restructuring related charges with respect to the 2014 Footprint realignment plan of $0.4 million and $1.6 million for the three months ended April 1, 2018 and April 2, 2017 respectively, within cost of goods sold.

As of April 1, 2018, the Company has incurred restructuring charges in connection with the 2014 Footprint realignment plan aggregating to $11.9 million. Additionally, as of April 1, 2018, the Company has incurred restructuring related charges aggregating to $27.3 million related to the 2014 Footprint realignment plan, consisting of accelerated depreciation and certain other costs that principally resulted from the transfer of manufacturing operations from the existing locations to new locations. These restructuring related charges primarily were included in cost of goods sold. As of April 1, 2018, the Company has a restructuring reserve of $3.7 million in connection with the plan, all of which related to termination benefits.

For additional information regarding the Company's restructuring programs, see Note 4 to the Company's consolidated financial statements included in its annual report on Form 10-K for the year ended December 31, 2017.

Restructuring charges by reportable operating segment, and by all other operating segments in the aggregate, for the three months ended April 1, 2018 and April 2, 2017 are set forth in the following table:

| | Three Months Ended | |
|---|---|---|
| | April 1, 2018 | April 2, 2017 |
| | (Dollars in thousands) | |
| Vascular North America | $321 | $728 |
| Interventional North America | 545 | 4,215 |
| Anesthesia North America | 34 | 247 |
| EMEA | 251 | 7,527 |
| All other | 1,912 | 228 |
| Restructuring charges | $3,063 | $12,945 |

Note 6 — Inventories, net

Inventories as of April 1, 2018 and December 31, 2017 consisted of the following:

| | April 1, 2018 | December 31, 2017 |
|---|---|---|
| | (Dollars in thousands) | |
| Raw materials | $94,786 | $98,451 |
| Work-in-process | 66,185 | 62,381 |
| Finished goods | 242,705 | 234,912 |
| Inventories, net | $403,676 | $395,744 |

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Note 7 — Goodwill and other intangible assets, net

The following table provides information relating to changes in the carrying amount of goodwill by reportable operating segment, and by all other operating segments in the aggregate, for the three months ended April 1, 2018:

| | Vascular North America | Interventional North America | Anesthesia North America | Surgical North America | EMEA | Asia | OEM | All Other | Total |
|---|---|---|---|---|---|---|---|---|---|
| | (Dollars in thousands) | | | | | | | | |
| December 31, 2017 | $264,869 | $ 433,049 | $ 157,289 | $250,912 | $494,548 | $209,200 | $4,883 | $420,842 | $2,235,592 |
| Goodwill related to acquisitions | — | — | — | — | 9 | 3 | — | 145 | 157 |
| Currency translation adjustment | — | 5,630 | 303 | — | 16,225 | 4,048 | — | 2,492 | 28,698 |
| April 1, 2018 | $264,869 | $ 438,679 | $ 157,592 | $250,912 | $510,782 | $213,251 | $4,883 | $423,479 | $2,264,447 |

The Company's gross carrying amount of, and accumulated amortization relating to, intangible assets as of April 1, 2018 and December 31, 2017 were as follows:

| | Gross Carrying Amount | | Accumulated Amortization | |
|---|---|---|---|---|
| | April 1, 2018 | December 31, 2017 | April 1, 2018 | December 31, 2017 |
| | (Dollars in thousands) | | | |
| Customer relationships | $1,044,509 | $1,023,837 | $(295,480) | $(281,263) |
| In-process research and development | 31,698 | 34,672 | — | — |
| Intellectual property | 1,312,598 | 1,287,487 | (282,907) | (258,580) |
| Distribution rights | 23,922 | 23,697 | (17,490) | (16,996) |
| Trade names | 578,646 | 571,510 | (25,990) | (22,069) |
| Non-compete agreements | 24,964 | 23,429 | (3,915) | (1,976) |
| | $3,016,337 | $2,964,632 | $(625,782) | $(580,884) |

Note 8 — Financial instruments

Foreign Currency Forward Contracts

The Company uses derivative instruments for risk management purposes. Foreign currency forward contracts designated as cash flow hedges are used to manage exposure related to foreign currency transactions. Foreign currency forward contracts not designated as hedges for accounting purposes are used to manage exposure related to near term foreign currency denominated monetary assets and liabilities. For the three months ended April 1, 2018 the Company recognized a gain related to non-designated foreign currency forward contracts of $0.6 million. For the three months ended April 2, 2017, the Company recognized a loss related to non-designated foreign currency forward contracts of $0.8 million.

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The following table presents the locations in the condensed consolidated balance sheet and fair value of derivative financial instruments as of April 1, 2018 and December 31, 2017:

| | April 1, 2018 | December 31, 2017 |
|---|---|---|
| | Fair Value (Dollars in thousands) | |
| Asset derivatives: | | |
| Designated foreign currency forward contracts | $1,989 | $ 914 |
| Non-designated foreign currency forward contracts | 198 | 307 |
| Prepaid expenses and other current assets | $2,187 | $ 1,221 |
| Total asset derivatives | $2,187 | $ 1,221 |
| Liability derivatives: | | |
| Designated foreign currency forward contracts | $993 | $ 1,373 |
| Non-designated foreign currency forward contracts | 455 | 53 |
| Other current liabilities | $1,448 | $ 1,426 |
| Total liability derivatives | $1,448 | $ 1,426 |

The total notional amount for all open foreign currency forward contracts designated as cash flow hedges as of April 1, 2018 and December 31, 2017 was $117.3 million and $88.5 million, respectively. The total notional amount for all open non-designated foreign currency forward contracts as of April 1, 2018 and December 31, 2017 was $111.5 million and $110.6 million, respectively. All open foreign currency forward contracts as of April 1, 2018 have durations of twelve months or less.

There was no ineffectiveness related to the Company’s cash flow hedges during the three months ended April 1, 2018 and April 2, 2017.

Concentration of Credit Risk

Concentrations of credit risk with respect to trade accounts receivable are generally limited due to the Company’s large number of customers and their diversity across many geographic areas. However, a portion of the Company’s trade accounts receivable outside the United States, include sales to government-owned or supported healthcare systems in several countries, which are subject to payment delays. Payment is dependent upon the creditworthiness of the healthcare systems in those countries and the financial stability of those countries' economies.

Certain of the Company’s customers, particularly in Greece, Italy, Spain and Portugal, have extended or delayed payments for products and services already provided, raising collectability concerns regarding the Company’s accounts receivable from these customers. As a result, the Company continues to closely monitor the allowance for doubtful accounts with respect to these customers. The following table provides information regarding the Company's allowance for doubtful accounts, the aggregate net current and long-term trade accounts receivable related to customers in Greece, Italy, Spain and Portugal and the percentage of the Company’s total net current and long-term trade accounts receivable represented by these customers' trade accounts receivable at April 1, 2018 and December 31, 2017:

| | April 1, 2018 | December 31, 2017 |
|---|---|---|
| | (Dollars in thousands) | |
| Allowance for doubtful accounts (1) | $9,865 | $10,255 |
| Current and long-term trade accounts receivable, net in Greece, Italy, Spain and Portugal (2) | $56,940 | $49,054 |

| | | |
|---|---|---|
| Percentage of total net current and long-term trade accounts receivable - Greece, Italy, Spain and Portugal | 16.3 % | 14.6 % |

(1) The current portion of the allowance for doubtful accounts was $3.1 million and $3.5 million as of April 1, 2018 and December 31, 2017, respectively, and was recognized in accounts receivable, net.

(2) The long-term portion of trade accounts receivable, net from customers in Greece, Italy, Spain and Portugal at April 1, 2018 and December 31, 2017 was $3.7 million and $3.3 million, respectively.

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For the three months ended April 1, 2018 and April 2, 2017, net revenues from customers in Greece, Italy, Spain and Portugal were $38.3 million and $31.5 million, respectively.

Note 9 — Fair value measurement

For a description of the fair value hierarchy, see Note 10 to the Company's consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2017.

The following tables provide information regarding the Company's financial assets and liabilities that are measured at fair value on a recurring basis as of April 1, 2018 and December 31, 2017:

| | Total carrying value at April 1, 2018 | Quoted prices in active markets (Level 1) | Significant other observable Inputs (Level 2) | Significant unobservable Inputs (Level 3) |
|---|---|---|---|---|
| | (Dollars in thousands) | | | |
| Investments in marketable securities | $ 8,989 | $ 8,989 | $ — | $ — |
| Derivative assets | 2,187 | — | 2,187 | — |
| Derivative liabilities | 1,448 | — | 1,448 | — |
| Contingent consideration liabilities | 281,857 | — | — | 281,857 |

| | Total carrying value at December 31, 2017 | Quoted prices in active markets (Level 1) | Significant other observable Inputs (Level 2) | Significant unobservable Inputs (Level 3) |
|---|---|---|---|---|
| | (Dollars in thousands) | | | |
| Investments in marketable securities | $ 9,045 | $ 9,045 | $ — | $ — |
| Derivative assets | 1,221 | — | 1,221 | — |
| Derivative liabilities | 1,426 | — | 1,426 | — |
| Contingent consideration liabilities | 272,136 | — | — | 272,136 |

There were no transfers of financial assets or liabilities reported at fair value among Level 1, Level 2 or Level 3 within the fair value hierarchy during the three months ended April 1, 2018.

Valuation Techniques

The Company's financial assets valued based upon Level 1 inputs are comprised of investments in marketable securities held in trust, which are available to satisfy benefit obligations under Company benefit plans and other arrangements. The investment assets of the trust are valued using quoted market prices.

The Company's financial assets and liabilities valued based upon Level 2 inputs are comprised of foreign currency forward contracts. The Company uses foreign currency forward contracts to manage foreign currency transaction exposure as well as exposure to foreign currency denominated monetary assets and liabilities. The Company measures the fair value of the foreign currency forward contracts by calculating the amount required to enter into offsetting contracts with similar remaining maturities as of the measurement date, based on quoted market prices, and taking into account the creditworthiness of the counterparties.

The Company's financial liabilities valued based upon Level 3 inputs are comprised of contingent consideration arrangements pertaining to the Company's acquisitions.

Contingent consideration

As of April 1, 2018, the Company estimates that contingent consideration payments will occur in 2018 through 2029, and the maximum amount of undiscounted payments the Company could make under contingent consideration arrangements is $400.4 million. The contingent consideration liabilities, which primarily consist of Company obligations payable if specified net sales goals are achieved, are remeasured to fair value each reporting period using assumptions including estimated revenues (based on internal operational budgets and long-range strategic plans), discount rates, probability of payment and project payment dates.

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The contingent consideration fair value measurement is based on significant inputs not observable in the market and therefore constitute Level 3 inputs within the fair value hierarchy. The contingent consideration liability related to the NeoTract acquisition represents the estimated fair value of the Company's obligations to make payments of up to $375 million in the aggregate if specified sales goals are achieved. Specifically, the payments are based on net sales (as defined in the NeoTract acquisition agreement) for the periods from January 1, 2018 through April 30, 2018 and the years ended December 31, 2018, 2019 and 2020. The fair value of the contingent consideration related to the NeoTract acquisition was estimated using a Monte Carlo valuation approach, which simulates future revenues during the earn out-period using management's best estimates. The Company determines the value of its other contingent consideration liabilities based on a probability-weighted discounted cash flow analysis. Increases in projected revenues and probabilities of payment may result in significantly higher fair value measurements; decreases in these items may have the opposite effect. Increases in the discount rates may result in significantly lower fair value measurements; decreases in these items may have the opposite effect.

The table below provides additional information regarding the valuation technique and inputs used in determining the fair value of contingent consideration recognized in connection with the NeoTract acquisition.

| | Valuation Technique | Unobservable Input | Range | |
|---|---|---|---|---|
| Contingent consideration | Monte Carlo simulation | Revenue volatility | 21.1 | % |
| | | Risk free rate | Cost of debt structure | |
| | | Projected year of payment | 2018 - 2021 | |

The following table provides information regarding changes, during the three months ended April 1, 2018, in Level 3 financial liabilities related to contingent consideration:

| | Contingent consideration 2018 (Dollars in thousands) | |
|---|---|---|
| Balance - December 31, 2017 | $ 272,136 | |
| Payment | (91 | ) |
| Revaluations | 9,592 | |
| Translation adjustment | 220 | |
| Balance - April 1, 2018 | $ 281,857 | |

Note 10 — Shareholders’ equity

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed in the same manner except that the weighted average number of shares is increased to include dilutive securities. The following table provides a reconciliation of basic to diluted weighted average number of common shares outstanding:

| | Three Months Ended | |
|---|---|---|
| | April 1, 2018 | April 2, 2017 |
| | (Shares in thousands) | |
| Basic | 45,329 | 44,893 |
| Dilutive effect of share-based awards | 1,044 | 821 |
| Dilutive effect of convertible notes and warrants | 322 | 901 |

| | | |
|---|---|---|
| Diluted | 46,695 | 46,615 |

In connection with the issuance by the Company in 2010 of convertible notes that matured in August 2017, and as part of hedging arrangements between the Company and two institutional counterparties, the Company issued warrants to the counterparties, entitling them to purchase Company common stock. These transactions are described in greater detail in Note 11 to the consolidated financial statements included in the Company's Annual Report on Form

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10-K for the year ended December 31, 2017. At April 1, 2018, warrants to purchase 374,418 shares at an exercise price of $74.65 per share remained outstanding. The remaining warrants expire ratably over a period ending on August 31, 2018. At April 1, 2018, the intrinsic value of the warrants (i.e. the excess of the aggregate market price of the underlying shares over the aggregate exercise price of the warrants) was $67.5 million.
The weighted average number of shares that were antidilutive and therefore excluded from the calculation of earnings per share were 0.6 million and 0.5 million for the three months ended April 1, 2018 and April 2, 2017, respectively.
The following tables provide information relating to the changes in accumulated other comprehensive loss, net of tax, for the three months ended April 1, 2018 and April 2, 2017:

| | Cash Flow Hedges | Pension and Other Postretirement Benefit Plans | Foreign Currency Translation Adjustment | Accumulated Other Comprehensive (Loss) Income |
|---|---|---|---|---|
| | (Dollars in thousands) | | | |
| Balance as of December 31, 2017 | $340 | $ (138,808) | $(126,623) | $ (265,091) |
| Other comprehensive income (loss) before reclassifications | 1,341 | (478) | 81,188 | 82,051 |
| Amounts reclassified from accumulated other comprehensive income | (720) | 1,359 | — | 639 |
| Net current-period other comprehensive income | 621 | 881 | 81,188 | 82,690 |
| Balance as of April 1, 2018 | $961 | $ (137,927) | $(45,435) | $ (182,401) |

| | Cash Flow Hedges | Pension and Other Postretirement Benefit Plans | Foreign Currency Translation Adjustment | Accumulated Other Comprehensive (Loss) Income |
|---|---|---|---|---|
| | (Dollars in thousands) | | | |
| Balance at December 31, 2016 | $(2,424) | $ (136,596) | $(299,697) | $ (438,717) |
| Other comprehensive (loss) before reclassifications | 350 | (241) | 46,982 | 47,091 |
| Amounts reclassified from accumulated other comprehensive loss | 1,378 | 1,131 | — | 2,509 |
| Net current-period other comprehensive income | 1,728 | 890 | 46,982 | 49,600 |
| Balance at April 2, 2017 | $(696) | $ (135,706) | $(252,715) | $ (389,117) |

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The following table provides information relating to the location in the statements of operations and amount of reclassifications of losses/(gains) in accumulated other comprehensive (loss) income into expense/(income), net of tax, for the three months ended April 1, 2018 and April 2, 2017:

| | Three Months Ended | |
|---|---|---|
| | April 1, 2018 | April 2, 2017 |
| | (Dollars in thousands) | |
| (Gains) losses on foreign exchange contracts: | | |
| Cost of goods sold | $(833) | $1,645 |
| Total before tax | (833) | 1,645 |
| Taxes (benefit) | 113 | (267) |
| Net of tax | $(720) | $1,378 |
| Amortization of pension and other postretirement benefit items: | | |
| Actuarial losses (1) | $1,746 | $1,726 |
| Prior-service costs(1) | 24 | 29 |
| Total before tax | 1,770 | 1,755 |
| Tax benefit | (411) | (624) |
| Net of tax | $1,359 | $1,131 |
| Total reclassifications, net of tax | $639 | $2,509 |

(1) These accumulated other comprehensive (loss) income components are included in the computation of net benefit expense for pension and other postretirement benefit plans (see Note 12 for additional information).

Note 11 — Taxes on income from continuing operations

| | Three Months Ended | |
|---|---|---|
| | April 1, 2018 | April 2, 2017 |
| Effective income tax rate | 10.2% | (7.1)% |

The Tax Cuts and Jobs Act (the “TCJA”) was enacted on December 22, 2017. The legislation significantly changes U.S. tax law by, among other things, permanently reducing corporate income tax rates from a maximum of 35% to 21%, effective January 1, 2018; implementing a territorial tax system, by generally providing for, among other things, a dividends received deduction on the foreign source portion of dividends received from a foreign corporation if specified conditions are met; imposing two new U.S. base erosion provisions: (1) the global intangible low-taxed income ("GILTI") provisions and (2) the base erosion and anti-abuse tax ("BEAT") provisions; and imposing a one-time repatriation tax on undistributed post-1986 foreign subsidiary earnings and profits, which are deemed repatriated for purposes of the tax.

In accordance with the applicable provisions of SEC Staff Accounting Bulletin No. 118, the Company included in its consolidated financial statements as of December 31, 2017 provisional amounts reflecting the tax impact related to deemed repatriated earnings and the revaluation of deferred tax assets and liabilities. Once the Company's accounting for the income tax effects of the TCJA is complete, the amounts with respect to the income tax effects of the TCJA may differ from the provisional amounts, possibly materially, due to, among other things, additional analysis, changes in interpretations and assumptions the Company has made, additional regulatory guidance that may be issued, and actions the Company may take as a result of the TCJA.

The effective income tax rate for the three months ended April 1, 2018 and April 2, 2017 was 10.2% and (7.1)%, respectively. The effective income tax rate for the three months ended April 1, 2018 includes the benefit of a lower U.S. corporate income tax rate of 21.0% from the enactment of the TCJA, partially offset by a tax cost associated with GILTI and other TCJA related changes. The effective income tax rate for the three months ended April 2, 2017 reflects a tax benefit associated with costs incurred in connection with the Vascular Solutions acquisition.

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Note 12 — Pension and other postretirement benefits
The Company has a number of defined benefit pension and postretirement plans covering eligible U.S. and non-U.S. employees. As of April 1, 2018, no further benefits are being accrued under the Company's U.S. defined benefit pension plans and the Company's other postretirement benefit plans, other than certain postretirement benefit plans covering employees subject to a collective bargaining agreement.
Net pension and other postretirement benefits expense (income) consist of the following:

| | Pension Three Months Ended | | Other Postretirement Benefits Three Months Ended | |
|---|---|---|---|---|
| | April 1, 2018 | April 2, 2017 | April 1, 2018 | April 2, 2017 |
| | (Dollars in thousands) | | | |
| Service cost | $378 | $717 | $ 52 | $ 74 |
| Interest cost | 3,722 | 3,785 | 378 | 378 |
| Expected return on plan assets | (7,421 ) | (6,743) | — | — |
| Net amortization and deferral | 1,707 | 1,690 | 62 | 65 |
| Net benefits expense (income) | $(1,614) | $(551) | $ 492 | $ 517 |

Note 13 — Commitments and contingent liabilities
Environmental: The Company is subject to contingencies as a result of environmental laws and regulations that in the future may require the Company to take further action to correct the effects on the environment of prior disposal practices or releases of chemical or petroleum substances by the Company or other parties. Much of this liability results from the U.S. Comprehensive Environmental Response, Compensation and Liability Act, often referred to as Superfund, the U.S. Resource Conservation and Recovery Act and similar state laws. These laws require the Company to undertake certain investigative and remedial activities at sites where the Company conducts or once conducted operations or at sites where Company-generated waste was disposed.
Remediation activities vary substantially in duration and cost from site to site. These activities, and their associated costs, depend on the mix of unique site characteristics, evolving remediation technologies, the regulatory agencies involved and their enforcement policies, as well as the presence or absence of other potentially responsible parties. At April 1, 2018, the Company has recorded $1.0 million and $5.7 million in accrued liabilities and other liabilities, respectively, relating to these matters. Considerable uncertainty exists with respect to these liabilities and, if adverse changes in circumstances occur, the potential liability may exceed the amount accrued as of April 1, 2018. The time frame over which the accrued amounts may be paid out, based on past history, is estimated to be 15-20 years.
Litigation: The Company is a party to various lawsuits and claims arising in the normal course of business. These lawsuits and claims include actions involving product liability, intellectual property, employment, environmental and other matters. As of April 1, 2018, the Company has recorded accrued liabilities of $1.8 million in connection with such contingencies, representing its best estimate of the cost within the range of estimated possible losses that will be incurred to resolve these matters.
Based on information currently available, advice of counsel, established reserves and other resources, the Company does not believe that the outcome of any outstanding litigation and claims is likely to be, individually or in the aggregate, material to its business, financial condition, results of operations or liquidity. However, in the event of unexpected further developments, it is possible that the ultimate resolution of these matters, or other similar matters, if unfavorable, may be materially adverse to the Company's business, financial condition, results of operations or

liquidity. Legal costs such as outside counsel fees and expenses are charged to selling, general and administrative expenses in the period incurred.

Tax audits and examinations: The Company and its subsidiaries are routinely subject to tax examinations by various tax authorities. As of April 1, 2018, the most significant tax examinations in process are in Germany, Italy, and the United States. The Company may establish reserves with respect to its uncertain tax positions, after which it adjusts the reserves to address developments with respect to its uncertain tax positions, including developments in these tax examinations. Accordingly, developments in tax audits and examinations, including resolution of uncertain tax positions,

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could result in increases or decreases to the Company’s recorded tax liabilities, which could impact the Company’s financial results.

Other: The Company has various purchase commitments for materials, supplies and other items occurring in the ordinary conduct of its business. On average, such commitments are not at prices in excess of current market prices.

Note 14 — Segment information

Following the Company's acquisition of Vascular Solutions, the Company commenced an integration program under which it is combining the Vascular Solutions' business with some of its legacy businesses. As a result, effective during the fourth quarter 2017, the Company realigned its operating segments. The changes to the operating segments were also made to reflect the manner in which the Company’s chief operating decision maker assesses business performance and allocates resources. The Company now has the following seven reportable segments: Vascular North America, Interventional North America, Anesthesia North America, Surgical North America, Europe, Middle East and Africa ("EMEA"), Asia and Original Equipment and Development Services ("OEM"). In connection with the presentation of segment information, the Company will continue to present certain operating segments, which currently include the Interventional Urology North America, Respiratory North America and Latin America operating segments, in the “all other” category because they are not material. All prior comparative periods presented have been restated to reflect these changes.

The following tables present the Company’s segment results for the three months ended April 1, 2018 and April 2, 2017:

| | Three Months Ended | |
|---|---|---|
| | April 1, 2018 | April 2, 2017 |
| | (Dollars in thousands) | |
| Vascular North America | $83,048 | $79,011 |
| Interventional North America | 60,196 | 39,946 |
| Anesthesia North America | 50,565 | 48,207 |
| Surgical North America | 40,677 | 45,944 |
| EMEA | 159,870 | 133,574 |
| Asia | 58,244 | 50,168 |
| OEM | 45,854 | 43,346 |
| All other | 88,776 | 47,685 |
| Net revenues | $587,230 | $487,881 |

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| | Three Months Ended | |
|---|---|---|
| | April 1, 2018 | April 2, 2017 |
| | (Dollars in thousands) | |
| Vascular North America | $24,662 | $18,290 |
| Interventional North America | 14,120 | (8,035 ) |
| Anesthesia North America | 17,333 | 13,304 |
| Surgical North America | 14,748 | 16,380 |
| EMEA | 31,770 | 21,310 |
| Asia | 13,368 | 10,884 |
| OEM | 9,016 | 9,121 |
| All other | (11,973 ) | 9,327 |
| Total segment operating profit (1) | 113,044 | 90,581 |
| Unallocated expenses (2) | (26,201 ) | (29,762 ) |
| Income from continuing operations before interest, loss on extinguishment of debt and taxes | $86,843 | $60,819 |

(1) Segment operating profit includes segment net revenues from external customers reduced by the segment's standard cost of goods sold, adjusted for fixed manufacturing cost absorption variances, selling, general and administrative expenses, research and development expenses and an allocation of corporate expenses. Corporate expenses are allocated among the segments in proportion to the respective amounts of one of several items (such as net revenues, numbers of employees, and amount of time spent), depending on the category of expense involved.

(2) Unallocated expenses primarily include manufacturing variances other than fixed manufacturing cost absorption variances, restructuring charges and gain on sale of assets.

The following table provides total net revenues by geographic region (based on the Company's selling location) for the three months ended April 1, 2018 and April 2, 2017:

| | Three Months Ended | |
|---|---|---|
| | April 1, 2018 | April 2, 2017 |
| | (Dollars in thousands) | |
| United States | $344,357 | $286,314 |
| Europe | 171,320 | 141,022 |
| Asia | 49,555 | 43,004 |
| All other | 21,998 | 17,541 |
| Net revenues | $587,230 | $487,881 |

Note 15 — Condensed consolidating guarantor financial information
The Company’s $250 million principal amount of 5.25% Senior Notes due 2024 (the “2024 Notes”), $400 million principal amount of 4.875% Senior Notes due 2026 (the “2026 Notes”) and $500 million principal amount of 4.625% Senior Notes due 2027 (the “2027 Notes," and collectively with the 2024 Notes and the 2026 Notes, the "Senior Notes") are issued by Teleflex Incorporated (the “Parent Company”), and payment of the Parent Company's obligations under the Senior Notes are guaranteed, jointly and severally, by certain of the Parent Company’s subsidiaries (each, a “Guarantor Subsidiary” and collectively, the “Guarantor Subsidiaries”). The 2024 Notes, 2026 Notes and 2027 Notes are guaranteed by the same Guarantor Subsidiaries. The guarantees are full and unconditional, subject to certain customary release provisions. Each Guarantor Subsidiary is directly or indirectly 100% owned by the Parent Company. The Company’s condensed consolidating statements of income and comprehensive income for the three months ended April 1, 2018 and April 2, 2017, condensed consolidating balance sheets as of April 1, 2018 and December 31, 2017 and condensed consolidating statements of cash flows for the three months ended April 1, 2018 and April 2, 2017, provide consolidated information for:

a. Parent Company, the issuer of the guaranteed obligations;
b. Guarantor Subsidiaries, on a combined basis;
c. Non-Guarantor Subsidiaries (i.e., those subsidiaries of the Parent Company that have not guaranteed payment of the Senior Notes), on a combined basis; and
d. Parent Company and its subsidiaries on a consolidated basis.

The same accounting policies as described in Note 1 to the consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017 are used by the Parent Company and each of its subsidiaries in connection with the condensed consolidating financial information, except for the use of the equity method of accounting to reflect ownership interests in subsidiaries, which are eliminated upon consolidation. Consolidating entries and eliminations in the following condensed consolidated financial statements represent adjustments to (a) eliminate intercompany transactions between or among the Parent Company, the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries, (b) eliminate the investments in subsidiaries and (c) record consolidating entries.

During the first quarter 2018, a Guarantor Subsidiary merged with and into Parent; the transaction was reflected as of the beginning of the earliest period presented in the condensed consolidating financial statements.

TELEFLEX INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Unaudited)

TELEFLEX INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

| | Three Months Ended April 1, 2018 | | | | |
|---|---|---|---|---|---|
| | Parent Company | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Condensed Consolidated |
| | (Dollars in thousands) | | | | |
| Net revenues | $— | $ 379,419 | $ 320,009 | $ (112,198 ) | $ 587,230 |
| Cost of goods sold | — | 217,604 | 142,008 | (103,652 ) | 255,960 |
| Gross profit | — | 161,815 | 178,001 | (8,546 ) | 331,270 |
| Selling, general and administrative expenses | 9,181 | 130,914 | 75,771 | (529 ) | 215,337 |
| Research and development expenses | 227 | 19,368 | 6,432 | — | 26,027 |
| Restructuring charges | — | 908 | 2,155 | — | 3,063 |
| (Loss) income from continuing operations before interest and taxes | (9,408 ) | 10,625 | 93,643 | (8,017 ) | 86,843 |
| Interest, net | 22,141 | 2,931 | 598 | — | 25,670 |
| (Loss) income from continuing operations before taxes | (31,549 ) | 7,694 | 93,045 | (8,017 ) | 61,173 |
| (Benefit) taxes on (loss) income from continuing operations | (13,192 ) | 6,423 | 14,177 | (1,166 ) | 6,242 |
| Equity in net income of consolidated subsidiaries | 74,567 | 76,876 | 293 | (151,736 ) | — |
| Income from continuing operations | 56,210 | 78,147 | 79,161 | (158,587 ) | 54,931 |
| Operating (loss) income from discontinued operations | (44 ) | — | 1,279 | — | 1,235 |
| Tax benefit on loss from discontinued operations | (18 ) | — | — | — | (18 ) |
| (Loss) income from discontinued operations | (26 ) | — | 1,279 | — | 1,253 |
| Net income | 56,184 | 78,147 | 80,440 | (158,587 ) | 56,184 |
| Other comprehensive income | 82,690 | 70,119 | 87,227 | (157,346 ) | 82,690 |
| Comprehensive income | $ 138,874 | $ 148,266 | $ 167,667 | $ (315,933 ) | $ 138,874 |

TELEFLEX INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Unaudited)

| | Three Months Ended April 2, 2017 | | | | |
|---|---|---|---|---|---|
| | Parent Company | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Condensed Consolidated |
| | (Dollars in thousands) | | | | |
| Net revenues | $— | $ 315,643 | $ 276,315 | $ (104,077 ) | $ 487,881 |
| Cost of goods sold | — | 192,001 | 143,896 | (103,576 ) | 232,321 |
| Gross profit | — | 123,642 | 132,419 | (501 ) | 255,560 |
| Selling, general and administrative expenses | 20,519 | 94,043 | 48,844 | 563 | 163,969 |
| Research and development expenses | 235 | 11,186 | 6,406 | — | 17,827 |
| Restructuring charges | — | 5,374 | 7,571 | — | 12,945 |
| (Loss) income from continuing operations before interest, extinguishment of debt and taxes | (20,754 ) | 13,039 | 69,598 | (1,064 ) | 60,819 |
| Interest, net | 24,273 | (7,562 ) | 846 | — | 17,557 |
| Loss on extinguishment of debt | 5,582 | — | — | — | 5,582 |
| (Loss) income from continuing operations before taxes | (50,609 ) | 20,601 | 68,752 | (1,064 ) | 37,680 |
| (Benefit) taxes on (loss) income from continuing operations | (21,333 ) | 5,911 | 12,229 | 524 | (2,669 ) |
| Equity in net income of consolidated subsidiaries | 69,625 | 55,802 | 216 | (125,643 ) | — |
| Income from continuing operations | 40,349 | 70,492 | 56,739 | (127,231 ) | 40,349 |
| Operating loss from discontinued operations | (282 ) | — | — | — | (282 ) |
| Tax benefit on loss from discontinued operations | (103 ) | — | — | — | (103 ) |
| Loss from discontinued operations | (179 ) | — | — | — | (179 ) |
| Net income | 40,170 | 70,492 | 56,739 | (127,231 ) | 40,170 |
| Other comprehensive income | 49,600 | 49,404 | 53,901 | (103,305 ) | 49,600 |
| Comprehensive income | $ 89,770 | $ 119,896 | $ 110,640 | $ (230,536 ) | $ 89,770 |

TELEFLEX INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Unaudited)

TELEFLEX INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATING BALANCE SHEETS

| | April 1, 2018 | | | | |
|---|---|---|---|---|---|
| | Parent Company | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Condensed Consolidated |
| | (Dollars in thousands) | | | | |
| ASSETS | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | $28,407 | $10,200 | $ 340,265 | $— | $378,872 |
| Accounts receivable, net | 2,822 | 35,826 | 315,300 | 5,192 | 359,140 |
| Accounts receivable from consolidated subsidiaries | 25,239 | 994,384 | 346,925 | (1,366,548) | — |
| Inventories, net | — | 246,289 | 192,343 | (34,956) | 403,676 |
| Prepaid expenses and other current assets | 15,470 | 12,482 | 21,064 | 3,982 | 52,998 |
| Prepaid taxes | — | — | 7,234 | — | 7,234 |
| Assets held for sale | — | 3,239 | — | — | 3,239 |
| Total current assets | 71,938 | 1,302,420 | 1,223,131 | (1,392,330) | 1,205,159 |
| Property, plant and equipment, net | 2,340 | 205,115 | 182,064 | — | 389,519 |
| Goodwill | — | 1,247,150 | 1,017,297 | — | 2,264,447 |
| Intangibles assets, net | — | 1,333,983 | 1,056,572 | — | 2,390,555 |
| Investments in consolidated subsidiaries | 5,963,828 | 1,827,988 | 19,723 | (7,811,539) | — |
| Deferred tax assets | — | — | 6,230 | (2,261) | 3,969 |
| Notes receivable and other amounts due from consolidated subsidiaries | 2,171,364 | 2,189,631 | — | (4,360,995) | — |
| Other assets | 30,864 | 6,426 | 9,661 | — | 46,951 |
| Total assets | $8,240,334 | $8,112,713 | $ 3,514,678 | $(13,567,125) | $6,300,600 |
| LIABILITIES AND EQUITY | | | | | |
| Current liabilities | | | | | |
| Current borrowings | $27,500 | $— | $ 50,000 | $— | $77,500 |
| Accounts payable | 2,954 | 45,416 | 36,316 | — | 84,686 |
| Accounts payable to consolidated subsidiaries | 1,014,612 | 275,625 | 76,311 | (1,366,548) | — |
| Accrued expenses | 20,314 | 33,152 | 47,662 | — | 101,128 |
| Current portion of contingent consideration | — | 162,061 | — | — | 162,061 |
| Payroll and benefit-related liabilities | 15,618 | 24,212 | 40,588 | — | 80,418 |
| Accrued interest | 20,463 | — | 40 | — | 20,503 |
| Income taxes payable | 936 | — | 13,730 | (1,166) | 13,500 |
| Other current liabilities | 1,466 | 5,355 | 5,157 | — | 11,978 |
| Total current liabilities | 1,103,863 | 545,821 | 269,804 | (1,367,714) | 551,774 |
| Long-term borrowings | 2,154,217 | — | — | — | 2,154,217 |
| Deferred tax liabilities | 88,632 | 270,305 | 260,035 | (2,261) | 616,711 |
| Pension and postretirement benefit liabilities | 66,986 | 32,393 | 18,495 | — | 117,874 |
| Noncurrent liability for uncertain tax positions | 1,396 | 8,237 | 2,995 | — | 12,628 |
| Notes payable and other amounts due to consolidated subsidiaries | 2,114,287 | 2,048,841 | 197,867 | (4,360,995) | — |

| | | | | | |
|---|---|---|---|---|---|
| Noncurrent contingent consideration | — | 108,727 | 11,069 | — | 119,796 |
| Other liabilities | 150,453 | 5,802 | 10,845 | — | 167,100 |
| Total liabilities | 5,679,834 | 3,020,126 | 771,110 | (5,730,970 ) | 3,740,100 |
| Total shareholders' equity | 2,560,500 | 5,092,587 | 2,743,568 | (7,836,155 ) | 2,560,500 |
| Total liabilities and shareholders' equity | $8,240,334 | $8,112,713 | $ 3,514,678 | $(13,567,125) | $ 6,300,600 |

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TELEFLEX INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Unaudited)

| | December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | Parent Company | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Condensed Consolidated |
| | (Dollars in thousands) | | | | |
| ASSETS | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | $37,803 | $8,933 | $ 286,822 | $— | $ 333,558 |
| Accounts receivable, net | 2,414 | 57,818 | 280,980 | 4,663 | 345,875 |
| Accounts receivable from consolidated subsidiaries | 14,478 | 1,177,246 | 343,115 | (1,534,839) | — |
| Inventories, net | — | 245,533 | 176,490 | (26,279) | 395,744 |
| Prepaid expenses and other current assets | 14,874 | 9,236 | 19,790 | 3,982 | 47,882 |
| Prepaid taxes | — | — | 5,748 | — | 5,748 |
| Total current assets | 69,569 | 1,498,766 | 1,112,945 | (1,552,473) | 1,128,807 |
| Property, plant and equipment, net | 2,088 | 213,663 | 167,248 | — | 382,999 |
| Goodwill | — | 1,246,144 | 989,448 | — | 2,235,592 |
| Intangibles assets, net | — | 1,355,275 | 1,028,473 | — | 2,383,748 |
| Investments in consolidated subsidiaries | 5,806,244 | 1,674,077 | 19,620 | (7,499,941) | — |
| Deferred tax assets | — | — | 6,071 | (2,261) | 3,810 |
| Notes receivable and other amounts due from consolidated subsidiaries | 2,452,101 | 2,231,832 | — | (4,683,933) | — |
| Other assets | 31,173 | 6,397 | 8,966 | — | 46,536 |
| Total assets | $8,361,175 | $8,226,154 | $ 3,332,771 | $(13,738,608) | $ 6,181,492 |
| LIABILITIES AND EQUITY | | | | | |
| Current liabilities | | | | | |
| Current borrowings | $36,625 | $— | $ 50,000 | $— | $ 86,625 |
| Accounts payable | 4,269 | 46,992 | 40,766 | — | 92,027 |
| Accounts payable to consolidated subsidiaries | 1,211,568 | 261,121 | 62,150 | (1,534,839) | — |
| Accrued expenses | 17,957 | 31,827 | 47,069 | — | 96,853 |
| Current portion of contingent consideration | — | 74,224 | — | — | 74,224 |
| Payroll and benefit-related liabilities | 21,145 | 44,009 | 42,261 | — | 107,415 |
| Accrued interest | 6,133 | — | 32 | — | 6,165 |
| Income taxes payable | 4,352 | — | 7,162 | — | 11,514 |
| Other current liabilities | 1,461 | 3,775 | 3,817 | — | 9,053 |
| Total current liabilities | 1,303,510 | 461,948 | 253,257 | (1,534,839) | 483,876 |
| Long-term borrowings | 2,162,927 | — | — | — | 2,162,927 |
| Deferred tax liabilities | 88,512 | 265,426 | 251,999 | (2,261) | 603,676 |
| Pension and postretirement benefit liabilities | 70,860 | 32,750 | 17,800 | — | 121,410 |
| Noncurrent liability for uncertain tax positions | 1,117 | 8,196 | 2,983 | — | 12,296 |
| Notes payable and other amounts due to consolidated subsidiaries | 2,155,146 | 2,320,611 | 208,176 | (4,683,933) | — |
| Noncurrent contingent consideration | — | 186,923 | 10,989 | — | 197,912 |
| Other liabilities | 148,572 | 7,850 | 12,442 | — | 168,864 |
| Total liabilities | 5,930,644 | 3,283,704 | 757,646 | (6,221,033) | 3,750,961 |
| Total shareholders' equity | 2,430,531 | 4,942,450 | 2,575,125 | (7,517,575) | 2,430,531 |

| | | | | | |
|---|---|---|---|---|---|
| Total liabilities and shareholders' equity | $8,361,175 | $8,226,154 | $ 3,332,771 | $(13,738,608) | $6,181,492 |

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TELEFLEX INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Unaudited)

TELEFLEX INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

| | Three Months Ended April 1, 2018 | | | |
|---|---|---|---|---|
| | Parent Company | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Condensed Consolidated |
| | (Dollars in thousands) | | | |
| Net cash (used in) provided by operating activities from continuing operations | $(108,377) | $134,198 | $ 61,027 | $ 86,848 |
| Cash flows from investing activities of continuing operations: | | | | |
| Expenditures for property, plant and equipment | (159) | (5,015) | | |