HALYARD

Notice Of 2018 Annual Meeting Of Stockholders, 2018 Proxy Statement,

And 2017 Annual Report On Form 10-K

HALYARD

Notice Of 2018 Annual Meeting Of Stockholders

March 9, 2018

Joseph F. Woody
Chief Executive Officer

Fellow Stockholders:

It is our pleasure to invite you to the Annual Meeting of Stockholders of Halyard Health, Inc. (the "Company"). The meeting will be held on Thursday, April 26, 2018, at 9:00 a.m. Eastern time at the Company's headquarters located at 5405 Windward Parkway, Alpharetta, Georgia 30004.

At the Annual Meeting, stockholders will be asked to elect three directors for a three-year term, ratify the selection of the Company's independent auditors, and approve the compensation for our named executive officers. These matters are fully described in the accompanying Notice of Annual Meeting and proxy statement.

Your vote is important. Regardless of whether you plan to attend the meeting, we urge you to vote your shares as soon as possible. You may vote using the included proxy card by completing, signing, and dating it, then returning it by mail. You may also vote your shares by using the telephone or Internet by following the instructions set forth on the proxy card. Additional information about voting your shares is included in the proxy statement.

Sincerely,

Joseph F. Woody
Chief Executive Officer

March 9, 2018

HALYARD

Notice of Annual Meeting of Stockholders

TO BE HELD
April 26, 2018

Important Notice Regarding Availability of Proxy Materials for the Stockholders Meeting to be held on April 26, 2018

This proxy statement along with our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, are available at www.proxyvote.com.

The Annual Meeting of Stockholders of Halyard Health, Inc. (the "Company") will be held at the Company's headquarters, which is located at 5405 Windward Parkway, Alpharetta, Georgia 30004, on Thursday, April 26, 2018, at 9:00 a.m. Eastern time for the following purposes:

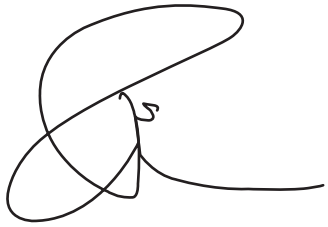
1. To elect as directors the three nominees named in the accompanying proxy statement for a three-year term;
2. To ratify the selection of Deloitte & Touche LLP as our independent auditors for 2018;
3. To approve a non-binding resolution to approve the compensation of our named executive officers; and
4. To take action upon any other business that may properly come before the meeting or any adjournments of the meeting.

Stockholders of record at the close of business on March 2, 2018, are entitled to notice of and to vote at the meeting or any adjournments.

It is important that your shares be represented at the meeting. I urge you to vote promptly by using the telephone or Internet or by signing, dating, and returning the enclosed proxy card.

To attend in person, please register by following the instructions on page 4. If you plan to attend the meeting, we ask that you nevertheless vote promptly by using the telephone or Internet or by signing, dating, and returning the enclosed proxy card. You may revoke your proxy and vote your shares in person if you would like to do so.

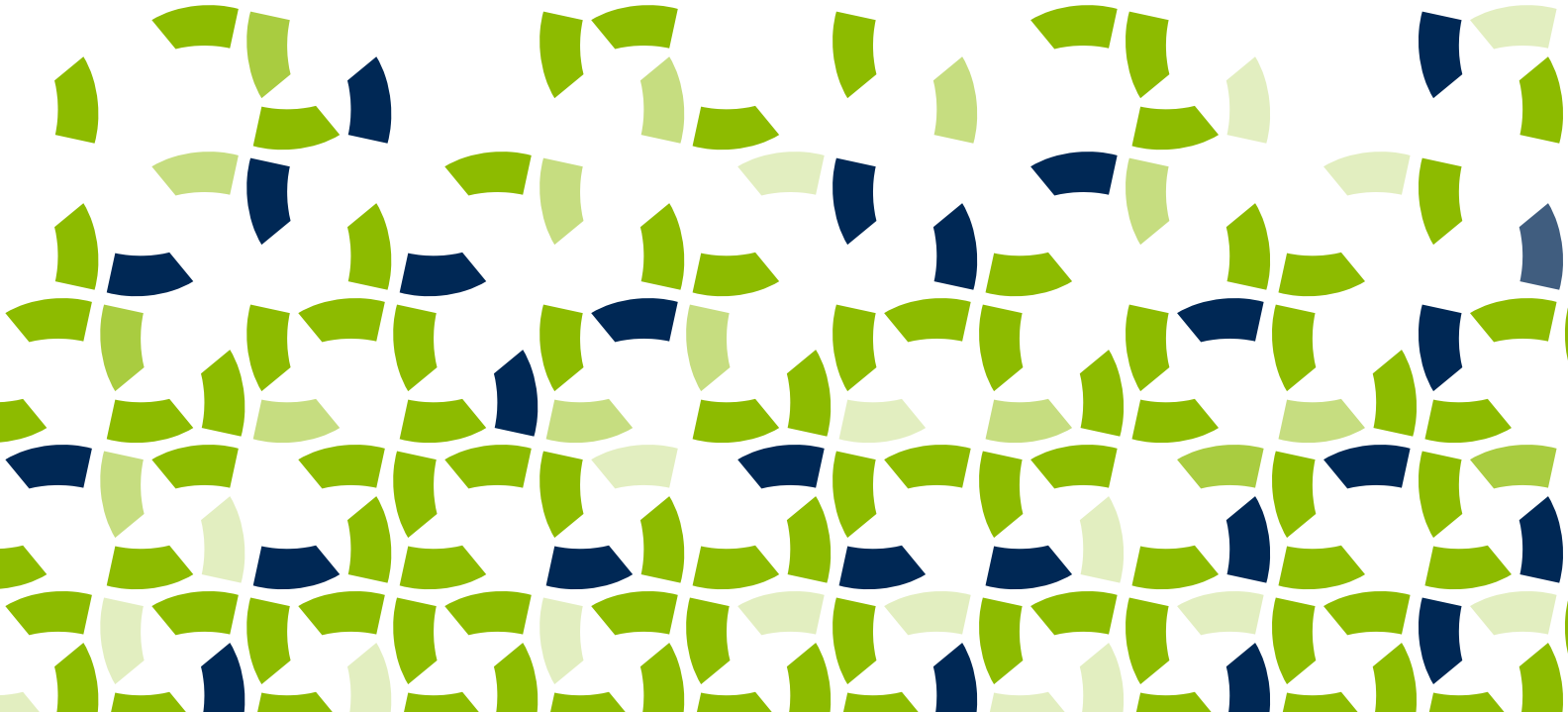
By Order of the Board of Directors.



Ross Mansbach
Vice President—
Deputy General Counsel
and Corporate Secretary

HALYARD

2018 Proxy Statement



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Information About Our Annual Meeting

Halyard Health, Inc. | 5405 Windward Parkway | Alpharetta, GA 30004 | 678-425-9273
March 9, 2018

On behalf of the Board of Directors of Halyard Health, Inc. (the "Company"), we are soliciting your proxy for use at the 2018 Annual Meeting of Stockholders, to be held on April 26, 2018, at 9:00 a.m. Eastern time at the Company's headquarters located at 5405 Windward Parkway, Alpharetta, Georgia 30004.

At the Annual Meeting, stockholders will vote on the following matters:

1. The election of the three nominees named in this proxy statement as directors for a three-year term;
2. The ratification of the selection of Deloitte & Touche LLP as our independent auditors for 2018;
3. A non-binding resolution to approve the compensation of our named executive officers; and
4. Any other business that may properly come before the meeting or any adjournments of the meeting.

Our Board of Directors recommends that you vote your shares **FOR** each of proposals one through three.

How We Provide Proxy Materials

We began providing our proxy statement and form of proxy to stockholders on March 9, 2018.

As Securities and Exchange Commission ("SEC") rules permit, we are making our proxy statement and our annual report available to many of our stockholders via the Internet rather than by mail. This reduces printing and delivery costs and supports our sustainability efforts. You may have received in the mail a "Notice of Electronic Availability" explaining how to access this proxy statement and our annual report on the Internet and how to vote online. If you received this Notice but would like to receive a paper copy of the proxy materials, you should follow the instructions contained in the Notice for requesting these materials.

Who May Vote

If you were a stockholder of record at the close of business on the record date of March 2, 2018, you are eligible to vote at the meeting. Each share of our common stock that you own entitles you to one vote. Shares may not be voted cumulatively.

As of the record date, 46,923,794 shares of common stock were outstanding.

If your shares are held by a bank or brokerage firm, you are considered the "beneficial owner" of the shares held in "street name." If your shares are held in street name, your bank or brokerage firm (the record holder of your shares) forwarded to you these proxy materials, along with a voting instruction card. As the beneficial owner, you have the right to direct your record holder how to vote your shares, and the record holder is required to vote your shares in accordance with your instructions. If you do not give instructions to your bank or brokerage firm, it will nevertheless be entitled to vote your shares with respect to "routine" items, but it will not be permitted to vote your shares with respect to "non-routine" items. In the case of non-routine items, your shares will be considered "broker non-votes" on those proposals.

How to Vote

If you are the record holder of shares of our common stock as of the record date, you may vote by using the telephone or Internet, by completing and returning the enclosed proxy card by mail, or by voting in person at the meeting. To vote by telephone or Internet, see the instructions on the proxy card and have the proxy card available when you place your telephone call or access the Internet website. To vote your proxy by mail, or by voting in person at the meeting, mark your

vote on the proxy card, then follow the instructions on the card to return it by mail.

If your shares are held in street name, please follow the instructions on the voting instruction card to vote your shares.

If you are the record holder of your shares and you attend the meeting, you may deliver your completed proxy card in person. Additionally, we will pass out written ballots to registered stockholders who wish to vote in person at the meeting. **Beneficial owners of shares held in street name who wish to vote at the meeting will need to obtain a power of attorney or proxy from their record holder to do so.**

If you return a completed and properly signed proxy card prior to the meeting, or if you vote by telephone or the Internet prior to the meeting, the persons named as proxies on the proxy card will vote your shares according to your directions. The voting results will be certified by independent Inspectors of Election.

If you are a stockholder of record and you sign and return your proxy card, or if you vote by using the telephone or Internet, but you do not specify how you want to vote your shares, the persons named as proxies on the proxy card will vote your shares as follows:

- **FOR the election of directors named in this proxy statement;**
- **FOR ratification of the selection of our independent auditors; and**
- **FOR approval of the compensation of our named executive officers.**

If any other matters are properly presented at the Annual Meeting for consideration, the persons named as proxies on the proxy card will vote as recommended by the Board of Directors or, if no recommendation is given, in their discretion.

Effect of Not Instructing Your Broker

Routine Matters. If your shares are held in street name and you do not instruct the broker on how to vote your shares, your broker may choose to leave your shares unvoted or to vote your shares on routine matters. "Proposal 2 — Ratification of Auditors" is the only routine matter on the agenda at this year's Annual Meeting.

Non-Routine Matters. Without instructions from you on how to vote your shares, your broker cannot vote your shares on non-routine matters, including Proposals 1 and 3, resulting in what are known as "broker non-votes." Broker non-votes will not be considered present or entitled to vote on non-routine matters and will also not be counted for the purpose of determining the number of votes cast on these proposals. Broker non-votes will not affect the outcome of any proposals considered at the Annual Meeting.

How Withhold Votes and Abstentions Will be Counted

Election of Directors. "Withhold" votes for the election of directors will have no impact on the outcome of the vote. They will not be counted for the purpose of determining the number of votes cast or as votes "for" or "against" a nominee.

Other Proposals. Abstentions will be counted:

- in determining the total number of shares entitled to vote on a proposal, and
- as votes against a proposal

How To Revoke or Change Your Vote

If you are a stockholder of record, there are several ways to revoke or change your vote:

- Mail a revised proxy card with a later date or a written notice of revocation with a later date to the Corporate Secretary of the Company (the revised proxy card or notice of revocation must be received by close of business on April 25, 2018). Use the following address: Halyard Health, Inc., Attn: Corporate Secretary, 5405 Windward Parkway, Suite 100 South, Alpharetta, GA 30004.
- Use the telephone voting procedures or Internet voting website (the revocation or change must be completed by 11:59 p.m. Eastern time on April 25, 2018).
- Attend the meeting and vote in person. Please note that attendance at the meeting will not revoke a proxy if you do not actually vote at the meeting.

If you hold your shares in street name, the above options for changing your vote or revoking your instructions do not apply and you must follow the instructions received from your bank or broker to change your vote or revoke your proxy.

Votes Required

There must be a quorum to conduct business at the Annual Meeting, which is established by having a majority of the outstanding shares of our common stock present in person or represented by proxy. If you vote, your shares will be included in the number of shares to establish the quorum. Abstentions (or "Withhold" votes for the elections of directors) or proxy cards returned without voting instructions and broker non-votes will be counted as present for the purpose of determining whether the quorum requirement is satisfied.

Election of Directors. The Company has a "plurality-plus" voting policy for directors in uncontested elections. Under our "plurality-plus" voting policy, if any nominee for director receives a greater number of votes "withheld" than votes "for" such nominee in an uncontested election, he or she will promptly tender his or her resignation. The Governance Committee, without the participation of the director who tendered his or her resignation, will then take action to accept or reject the director's resignation and submit its recommendation to the full Board of Directors. The full Board of Directors, without the participation of the director who tendered his or her resignation, will accept or reject the resignation within 90 days of the certification of the election results and, if it chooses not to accept the resignation, will promptly disclose its decision in a Form 8-K or similar filing with the SEC. Further details about our "plurality plus" policy are included in our Corporate Governance Policies, which are available in the Investors' section of our website at www.halyardhealth.com.

Other Proposals or Matters. Approval requires the affirmative vote of a majority of shares that are present at the Annual Meeting in person or by proxy and entitled to vote on the proposal.

If you are a stockholder of record and you do not sign and return a proxy card or vote by telephone or the Internet, your shares will not count toward the quorum requirement and will not affect the outcome of any proposal at the Annual Meeting.

Attending the Annual Meeting

If you are a stockholder of record, you or your duly appointed representative may attend the Annual Meeting in person. Returning your proxy card will not affect your right to attend the Annual Meeting and to vote in person. If you do plan to attend, we ask that you inform us electronically, by telephone, or by checking the appropriate box on your proxy form. This will assist us with meeting preparations and help to expedite your admittance.

If your shares are not registered in your own name and you would like to attend the meeting, please ask the broker, trust, bank or other nominee that holds your shares to provide you with written proof of your share ownership as of the record date. This will enable you to gain admission to the meeting.

If you need directions to the meeting, please contact Stockholder Services by telephone at 678-425-9273 or by e-mail at stockholder.services@hyh.com. Please bring a driver's license or other photo-identification with you to the meeting to facilitate admission to the meeting.

Costs of Solicitation

The Company will bear all costs of this proxy solicitation, including the cost of preparing, printing and delivering materials, and the out-of-pocket expenses of brokers, fiduciaries and other nominees who forward proxy materials to stockholders. In addition to mail and electronic means, our employees may solicit proxies by telephone or otherwise. Our employees will not receive additional compensation for such solicitations. We have retained D. F. King & Co., Inc., to aid in the solicitation at a cost of approximately $10,000 plus reimbursement of out-of-pocket expenses.

Corporate Governance

Our governance structure and processes are based on a number of important governance documents including our Code of Conduct, Certificate of Incorporation, Corporate Bylaws, Corporate Governance Policies and our Board Committee Charters. These documents, which are available in the Investor's section of our website at www.halyardhealth.com, guide the Board and our management in the execution of their responsibilities.

The Company believes that there is a direct connection between good corporate governance and long-term, sustained business success, and we believe it is important to uphold sound governance practices. As such, the Board reviews its governance practices and documents on an ongoing basis, and it considers changing regulatory requirements, governance trends, and issues raised by our stockholders. After careful evaluation, we may periodically make governance changes in view of these matters to maintain current good governance practices and promote stockholder value.

We believe we are in compliance with all applicable corporate governance requirements of the New York Stock Exchange ("NYSE"), the SEC, the Sarbanes-Oxley Act of 2002 and the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 that have become effective as of the date of this proxy statement.

Board Leadership Structure

Prior to June 23, 2017, Robert E. Abernathy served as the Company's Chairman of the Board ("Chairman") and Chief Executive Officer ("CEO"), and Ronald Dollens served as the Company's independent Lead Director. Mr. Abernathy retired as CEO on June 23, 2017, and as Chairman on September 1, 2017. Mr. Dollens assumed the role of Chairman on September 1, 2017, and at that time the Board ceased designating a separate independent Lead Director. The Board believes that this leadership structure provides for dynamic Board leadership while maintaining strong independence and oversight.

Consistent with this leadership structure, at least once a quarter our Chairman, who is an independent director, chairs executive sessions of our non-management directors. Members of the Company's senior management team do not attend these sessions.

Under current circumstances, it is the Board's view that separate Chairman and CEO roles promotes candid discourse and responsible corporate governance. The Board retains the discretion to combine the Chairman and CEO roles, and appoint an independent Lead Director, at any time if it deems that to be in the best interest of our Company and stockholders.

Ronald Dollens serves as our independent Chairman. Our Corporate Governance Policies outline the significant roles and responsibilities of the Chairman, which include:

- Presiding over meetings of the Board and stockholders and providing perspective to the CEO regarding discussions at these meetings
- Chairing executive sessions at which non-management directors meet outside management's presence, and providing feedback from such sessions to the CEO
- Serving as the Chair of the Executive Committee

- Coordinating the activities of the independent directors and serving as a liaison between the independent directors, as a group, and the CEO
- Approving agendas and schedules for Board meetings
- Reviewing, approving, and revising materials for distribution to the Board, in connection with Board meetings or otherwise, as appropriate
- Leading (with the Chairman of the Governance Committee) the annual Board evaluation
- Leading (with the Chairman of the Compensation Committee) the Board's review and discussion of the CEO's performance and compensation
- Providing feedback to individual directors following their periodic evaluations
- Acting as a direct conduit to the Board for stockholders, employees, and others according to the Board's policies
- Assuming such other responsibilities that the Board may designate from time to time.

Director Independence

We believe our independent board helps ensure good corporate governance and strong internal controls.

Our Corporate Governance Policies, as adopted by the Board, provide independence standards consistent with the rules and regulations of the SEC and the listing standards of the NYSE. Our independence standards can be found in Section 17 of our Corporate Governance Policies.

The Governance Committee of the Board has determined that all directors and nominees, except for Joseph F. Woody, are independent directors and meet the independence standards in our Corporate Governance Policies.

Board Meetings

The Board of Directors met 21 times in 2017. All of the directors attended in excess of 75 percent of the total number of meetings of the Board and the committees on which they served.

Although we do not have a formal policy with respect to director attendance at annual meetings, all directors attended the 2017 Annual Meeting, and we expect that all directors, including those standing for election, will be in attendance at the Annual Meeting on April 26, 2018.

Board Committees

In 2017, the standing committees of the Board included the Audit Committee, Compensation Committee, Compliance Committee, Governance Committee, and Executive Committee. In compliance with applicable NYSE corporate governance listing standards, the Board has adopted Charters for all Committees except the Executive Committee.

Our Committee Charters are available in the Investors section of our website at www.halyardhealth.com.

As set forth in our Corporate Governance Policies, and in the charter of each individual committee, the Board's committees all have the authority to retain independent advisors and consultants, with all costs paid by the Company.

Audit Committee

Chairman: Heidi Kunz
Other members: Gary Blackford and Patrick O'Leary

The Board has determined that Ms. Kunz and Messrs. Blackford and O'Leary are "audit committee financial experts" under SEC rules and regulations. In addition, all Audit Committee members satisfy the NYSE's financial literacy requirements and qualify as independent directors under our Corporate Governance Policies.

No member of the Audit Committee serves on the audit committees of more than three public companies. Under our Audit Committee Charter and NYSE corporate governance listing standards, if a member were to serve on more than three such committees, the Board would then determine whether this situation impairs the member's ability to serve effectively on our Audit Committee, and we would post information about this determination on the Investors section of our website at www.halyardhealth.com.

The Committee met 6 times in 2017, including once in joint session with the Compliance Committee.

The Committee's principal functions, as specified in its Charter, include:

- Overseeing:
  - the quality and integrity of our financial statements
  - our compliance programs in coordination with our Compliance Committee
  - our hedging strategies and policies
  - the independence, qualification, and performance of our independent auditors
  - the performance of our internal auditors
- Selecting and engaging our independent auditors, subject to stockholder ratification
- Pre-approving all audit and non-audit services that our independent auditors provide
- Reviewing the scope of audits and audit findings, including any comments or recommendations of our independent auditors
- Establishing policies for our internal audit programs
- Overseeing our risk management program and receiving periodic reports from management on risk assessments, the risk management process, and issues related to the risks of managing our business

For additional information about the Audit Committee's oversight activities with respect to our 2017 financial statements, see "Proposal 2. Ratification of Auditors — Audit Committee Report."

Compensation Committee

Chairman: Julie Shimer
Other members: John Byrnes, William Hawkins, and Maria Sainz.

Each member of this Committee is an independent director. The Committee met 7 times in 2017.

The Committee's principal functions, as specified in its Charter, include:

- Establishing and administering the policies governing annual compensation and long-term compensation, including stock option awards, restricted stock awards, and restricted share unit awards, such that the policies are designed to align compensation with our overall business strategy and performance
- Setting, after an evaluation of his overall performance, the compensation level of the CEO

- Determining, in consultation with the CEO, compensation levels and performance targets for our executive officers
- Setting annual targets and certifying awards for corporate performance under our corporate incentive compensation plans
- Advising the Board on outside director compensation
- Overseeing:
  - leadership development for senior management and future senior management candidates
  - a periodic review of our long-term and emergency succession planning for the CEO and other key officer positions, in conjunction with our Board
  - key organizational effectiveness and engagement policies
- Annually reviewing our compensation policies and practices for the purpose of mitigating risks arising from these policies and practices that could reasonably have a material adverse effect on the Company

Roles of the Committee and the CEO in Compensation Decisions

Each year, the Committee reviews and sets the compensation of our executive officers, including our CEO. The Committee's Charter does not permit the Committee to delegate to anyone the authority to establish any compensation policies or programs for the executive officers. With respect to officers that are not executive officers (our "non-executive officers"), our CEO has the authority to establish compensation programs and, subject to certain limits, to approve equity grants. However, only the Committee may make equity grants to our executive officers.

Our CEO makes a recommendation to the Committee each year on the appropriate target annual compensation for each of the other executive officers. The Committee makes the final determination of the target annual compensation for each executive officer, including our CEO. While our CEO and Chief Human Resources Officer typically each attend Committee meetings, none of the other executive officers is present during the portion of the Committee meetings when compensation for executive officers is set. In addition, neither our CEO nor our Chief Human Resources Officer is present during the portion of the Committee meetings when their compensation is set.

For additional information on the Committee's processes and procedures for determining executive compensation, and for a detailed discussion of our compensation policies, see "Compensation Discussion and Analysis."

Use of Compensation Consultants

The Committee's Charter authorizes the Committee to retain advisors, including compensation consultants, to assist it in its work. The Committee believes that compensation consultants can provide important market information and perspectives that can help it determine compensation programs that best meet the objectives of our compensation policies. In selecting a consultant, the Committee evaluates the independence of the firm as a whole and of the individual advisors who will be working with the Committee.

The Committee retains an independent executive compensation consultant who, according to the Committee's written policy, provides services solely to the Committee and not to the Company. The Committee's consultant has no other business relationship with the Company and receives no payments from the Company other than fees for services to the Committee. The consultant reports directly to the Committee, and the Committee may replace the consultant or hire additional consultants at any time. The Committee has selected Meridian Compensation Partners, LLC ("Meridian") as its independent consultant.

In 2017, the scope of activities for the Committee's independent compensation consultant included:

- Conducting a review of the executive compensation peer group
- Reviewing and commenting on the Company's executive compensation programs
- Conducting a risk assessment of the Company's executive compensation programs
- Attending Committee meetings
- Periodically consulting with the Chairman of the Committee

Committee Assessment of Consultant Conflicts of Interest. The Committee has reviewed whether the work provided by Meridian raises any conflict of interest. Factors considered by the Committee include: (1) whether other services are provided to the Company by the consultant; (2) what percentage of the consultant's total revenue is made up of fees from the Company; (3) policies or procedures of the consultant that are designed to prevent a conflict of interest; (4) any business or personal relationships between individual consultants involved in the engagement and Committee members; (5) any shares of the Company stock owned by individual consultants involved in the engagement; and (6) any business or personal relationships between our executive officers and the consulting firm or the individual consultants involved in the engagement. Based on its review, the Committee does not believe that the compensation consultants that performed services to the Committee in 2017 have a conflict of interest with respect to the work performed for the Committee.

Committee Report

The Committee has reviewed the "Compensation Discussion and Analysis" section of this proxy statement and has recommended that it be included in this proxy statement. The Committee's report is located at "Compensation Discussion and Analysis — Compensation Committee Report."

Compensation Committee Interlocks and Insider Participation

The members of the Compensation Committee during 2017 were Dr. Shimer, Messrs. Byrnes and Hawkins, and Ms. Sainz. None of the members of the Compensation Committee was, during 2017, a current or former officer or employee of the Company. Also, none of the members of the Compensation Committee had any relationship with the Company in 2017 requiring disclosure under Item 404 of Regulation S-K. For information about the Company's policies on transactions with related parties, see "Transactions with Related Parties" later in this proxy statement. During 2017, none of our executive officers served as a member of the board of directors or compensation committee of any entity that had one or more executive officers serving as a member of our Board of Directors or Compensation Committee.

Compliance Committee

Chairman: William Hawkins
Other Members: John Byrnes, Maria Sainz, and Julie Shimer

Each member of this Committee is an independent director. The Committee met 5 times in 2017, including once in joint session with the Audit Committee.

The Committee's principal functions, as specified in its Charter, include the following:

- Overseeing the Company's compliance program in the areas of Code of Conduct, Conflicts of Interest, Consumer Protection, Ethics, Environment, Government Relations, Health and Safety, Customs and Export Controls, False Claims, Foreign Corrupt Practices Act and similar anti-bribery laws, Fraud and Abuse Laws including Anti-Kickback, Information Systems Security, Intellectual Property, International Distributors, Labor & Employment, Physical Security, Quality, Recalls, Regulatory, including FDA, Safety, Sunshine Act, and Transportation
- Overseeing the Company's sustainability, corporate social responsibility, and corporate citizenship matters
- Monitoring the Company's efforts to implement programs, policies, and procedures relating to compliance matters
- Overseeing the investigation of any significant instances of noncompliance with laws or the Company's compliance program, policies, or procedures, other than any instances involving financial noncompliance
- Reviewing the Company's compliance risk assessment plan
- Identifying and investigating emerging compliance issues and trends which may affect the Company

Governance Committee

Chairman: Gary D. Blackford
Other Members: Heidi Kunz and Patrick O'Leary

Each member of this Committee is an independent director. The Committee met 5 times in 2017.

The Committee's principal functions, as specified in its Charter, include the following:

- Overseeing the screening and recruitment of prospective Board members and making recommendations to the Board of Directors regarding specific director nominees, as well as overseeing the process for Board nominations
- Overseeing corporate governance matters, including developing and recommending to the Board changes to our Corporate Governance Policies
- Advising the Board on:
  - Board organization, membership, function, and performance
  - committee structure and membership
  - policies and positions regarding significant stockholder relations issues
- Reviewing director independence standards and making recommendations to the Board with respect to the determination of director independence
- Monitoring and recommending improvements to the Board's practices and procedures
- Reviewing stockholder proposals and considering how to respond to them

The Committee, in accordance with its Charter and our Certificate of Incorporation, has established criteria and processes for director nominations, including those proposed by stockholders. Those criteria and processes are described in "Proposal 1. Election of Directors — Process and Criteria for Nominating Directors" and "Other Information — Stockholder Nominations for Board of Directors."

Executive Committee

Chairman: Ron Dollens (Chairman of the Board)
Other Members: Heidi Kunz, William Hawkins, Julie Shimer, and Joseph Woody

The Committee did not meet in 2017.

The Committee's principal function is to exercise, when necessary between Board meetings, the Board's powers to direct our business and affairs. Accordingly, the Committee has no regularly scheduled meetings and it is expected that, each year, the Committee will meet infrequently or not at all.

Communicating with Directors

The Board has established processes by which stockholders and other interested parties may communicate with the Board, as well as with the Audit Committee and Compliance Committee. Those processes can be found in the Investors section of our website at www.halyardhealth.com.

Other Corporate Governance Policies and Practices

Corporate Governance Policies. The Board has adopted Corporate Governance Policies. These policies guide the Company and the Board on matters of corporate governance, including: director responsibilities, Board committees and their charters, director independence, director compensation and performance assessments, director orientation and education, director access to management, Board access to outside financial, business, and legal advisors, and management development and succession planning. To see these policies, go to the Investors section of our website at www.halyardhealth.com.

Code of Conduct. The Company has a Code of Conduct that applies to all of our directors, executive officers and employees, including our CEO, Chief Financial Officer, and Vice President and Controller. It is available in the Investors section of our website at www.halyardhealth.com. Any amendments to or waivers of our Code of Conduct applicable to our CEO, Chief Financial Officer, or Vice President and Controller will also be posted at that location.

Board and Management Roles in Risk Oversight. The Board is responsible for providing risk oversight with respect to our operations. In connection with this oversight, the Board particularly focuses on our strategic and operational risks, as well as related risk mitigation. In addition, the Board reviews and oversees management's response to key risks facing the Company.

The Board's committees review particular risk areas to assist the Board in its overall risk oversight of the Company:

- The Audit Committee monitors risks relating to such matters as our internal controls, financial statement integrity and fraud risks, and related risk mitigation. In connection with this oversight, the Audit Committee receives regular reports from management on risk assessments, the risk management process, and issues related to the risks of managing our business. The Audit Committee also receives an annual enterprise risk management update, which discusses our key financial, strategic, operational and compliance risks.
- The Compensation Committee reviews the risk profile of our compensation policies and practices. This process includes a review of an assessment of our compensation programs, as described in "Compensation Discussion and Analysis — Analysis of Compensation-Related Risks."
- The Compliance Committee monitors risks relating to certain compliance matters, such as those described in the section "Compliance Committee," and recommends appropriate actions in response to those risks.
- The Governance Committee monitors risks relating to governance matters and recommends appropriate actions in response to those risks.

Complementing the Board's overall risk oversight, our senior executive team identifies and monitors key enterprise-wide and business unit risks, providing the basis for the Board's risk review and oversight process. Our senior management team is supported by management members from core business units and from our finance, treasury, information technology, global risk management, compliance and legal functions. Management identifies significant risks for review and updates our policies for risk management in areas such as hedging, foreign currency, and country risks, product liability, property and casualty risks, and supplier and customer risks. The Board believes the allocation of risk management responsibilities described above supplements the Board's leadership structure by allocating risk areas to an appropriate committee for oversight, allows for an orderly escalation of issues as necessary, and helps the Board satisfy its risk oversight responsibilities.

Whistleblower Procedures. The Audit Committee has established procedures for receiving, recording and addressing any complaints we receive regarding accounting, internal accounting controls, or auditing matters, and for the confidential and anonymous submission, by our employees or others, of any concerns about our accounting or auditing practices. The Compliance Committee has adopted similar procedures for receiving, recording, and addressing any complaints we receive regarding compliance matters other than those addressed by the Audit Committee. The Audit Committee's and Compliance Committee's procedures are available in the Investor's section of our website at www.halyardhealth.com. We also maintain a toll-free Code of Conduct telephone line and a website, each allowing our employees and others to voice their concerns anonymously.

Management Succession Planning. In conjunction with the Board, the Compensation Committee is responsible for periodically reviewing the long-term management development plans and succession plans for the CEO and other key officers, as well as the emergency succession plan for the CEO and other key officers if any of these officers unexpectedly becomes unable to perform his or her duties.

Disclosure Committee. We have established a Disclosure Committee to assist in fulfilling our obligations to maintain disclosure controls and procedures and to coordinate and oversee the process of preparing our periodic securities filings with the SEC. This committee is composed of members of management and is chaired by our Vice President and Controller.

No Executive Loans. We do not extend loans to our executive officers or directors and therefore do not have any such loans outstanding.

Charitable Contributions. The Governance Committee has adopted guidelines for the review and approval of charitable contributions by the Company to organizations or entities with which a director or an executive officer may be affiliated. We will disclose in the Investors section of our website at www.halyardhealth.com any contributions made by us to a tax-exempt organization under the following circumstances:

- An independent director serves as an executive officer of the tax-exempt organization; and
- If within the preceding three years, contributions in any single year from the Company to the organization exceeded the greater of $1 million or 2 percent of the tax-exempt organization's consolidated gross revenues.

Proposal 1. Election of Directors

Our Board is divided into three classes, as required by our Certificate of Incorporation, with one class of directors elected each year for a three-year term. As of the date of this proxy statement, the Board consists of nine directors. Three of the directors have terms that expire at this year's Annual Meeting (Class of 2018), three have terms that expire at next year's Annual Meeting (Class of 2019), and three have terms that expire at the 2020 Annual Meeting (Class of 2020).

The three nominees standing for election at the Annual Meeting are being nominated to serve for a term to expire at the 2021 Annual Meeting of Stockholders (Class of 2021), and until their successors have been duly elected and qualified. All nominees have advised us that they will serve if elected; however, should any nominee become unable to serve, the Board may reduce the number of directors to be elected or select a substitute nominee. If the Board selects a substitute nominee, the shares represented by valid proxies will be voted for the substitute nominee, other than shares voted "Withhold" with respect to the original nominee.

Given the independent status of the nominees, if all nominees are elected at the Annual Meeting, eight of the nine directors on our Board will be independent directors.

Process and Criteria for Nominating Directors

The Board is responsible for approving candidates for Board membership. The Board has delegated the screening and recruitment process to the Governance Committee, in consultation with the Chairman and CEO. The Committee therefore recommends to the Board any new appointments and nominees for election as directors at our annual meeting of stockholders. It also recommends nominees to fill any vacancies. As provided in our Certificate of Incorporation, the Board may elect a new director when a vacancy occurs between annual meetings of stockholders.

The Committee may receive recommendations for Board candidates from various sources, including our directors, management, and stockholders. Stockholders may submit recommendations for Board candidates to the Chairman of the Governance Committee at Halyard Health, Inc., c/o Corporate Secretary, 5405 Windward Parkway, Suite 100 South, Alpharetta, GA 30004. Board candidates recommended by stockholders are evaluated using the same criteria as candidates recommended by other sources. For details on this process, see "Other Information — Stockholder Nominations for Board of Directors." In addition, the Governance Committee may periodically retain a search firm to assist it in identifying and recruiting director candidates meeting the criteria specified by the Committee.

The Committee believes that the criteria for director nominees should foster effective corporate governance, support our strategies and businesses, take diversity into account, and ensure that our directors, as a group, have an overall mix of the attributes needed for an effective Board. The criteria should also support the successful recruitment of qualified candidates.

Qualified candidates for director are those who, in the judgment of the Committee, possess all of the personal attributes and a sufficient mix of the experience attributes listed below to ensure effective service on the Board.

PERSONAL ATTRIBUTES

Leadership
- Lead in personal and professional lives.

Ethical Character
- Possess high standards for ethical behavior.

Collaborative
- Actively participate in Board and committee matters.

Independence
- Independent of management and Company (for non-management directors only).

Ability to communicate
- Possess good interpersonal skills.

Effectiveness
- Bring a proactive and solution-oriented approach.

EXPERIENCE ATTRIBUTES

ATTRIBUTE	FACTORS THAT MAY BE CONSIDERED
Financial acumen Has good knowledge of business finance and financial statements	• Satisfies the financial literacy requirements of the NYSE • Qualifies as an audit committee financial expert under the rules and regulations of the SEC • Has an accounting, finance or banking background
General business experience Possesses experience that will aid in judgments concerning business issues	• Has leadership experience as a chief or senior executive officer • Has experience setting compensation
Industry knowledge Possesses knowledge about our industries	• Has substantial knowledge of the healthcare industry, including with respect to caregiving, cost reimbursement or regulatory environment • Has governance/public company board experience
Diversity of background and viewpoint Brings to the Board an appropriate level of diversity	• Brings a diverse viewpoint that is representative of our customer, consumer, employee, and stockholder base • Provides a different perspective (stemming, for example, from an academic background or experience from outside the healthcare industries)
Special business experience Possesses global management experience and experience with healthcare supplies and medical devices	• Has international experience • Has a track record of successful innovation • Has supply chain management expertise

Committee Review of Attributes of Current Directors

The Governance Committee has reviewed the background of each of our current directors and their service on the Board in light of the personal and experience attributes described above. The Committee has determined that each director possesses all of the personal attributes as well as a sufficient mix of the experience attributes.

For details about each director's specific experience attributes, see "The Nominees" and "Directors Continuing in Office" below.

Diversity of Directors

As noted above, the Governance Committee believes that diversity of backgrounds and viewpoints is a key attribute for directors. As a result, the Committee seeks to have a diverse Board that is representative of our customer, product user, employee and stockholder base. While the Committee carefully considers this diversity when considering nominees for director, the Committee has not established a formal policy regarding diversity in identifying director nominees.

The Nominees

The following three individuals are nominated for election to the Board for a three-year term expiring at the 2021 Annual Meeting of Stockholders (Class of 2021):

William A. Hawkins

William A. Hawkins, age 63, was elected to our Board of Directors in December 2015. Mr. Hawkins is the Chairman of our Compliance Committee. Mr. Hawkins serves as a Senior Advisor to EW Healthcare Partners. He also serves as the Lead Director at Immucor, Inc., a leading provider of transfusion and transplantation diagnostic products worldwide. He served as President and Chief Executive Officer of Immucor from October 2011 to July 2015. From 2008 to 2011, he served as Chairman and Chief Executive Officer of Medtronic, Inc., a global leader in medical technology. He served as President and Chief Executive Officer of Medtronic, Inc. from 2007 to 2008, President and Chief Operating Officer of Medtronic, Inc. from 2004 to 2007, and Senior Vice President and President, Vascular of Medtronic, Inc. from 2001 to 2004. From 1998 to 2001 Mr. Hawkins served as President and Chief Executive Officer of Novoste Corporation, a medical equipment company. Prior thereto, Mr. Hawkins served in a variety of senior roles at American Home Products, a consumer products company, Johnson & Johnson, a healthcare company, Guidant Corporation, a medical products company, and Eli Lilly and Company, a global pharmaceutical company. Mr. Hawkins also serves as Chairman of the Board of KeraNetics, LLC, and Bioventus, LLC, and as a director of Trice Medical, Inc., and Baebies, Inc., all of which are medical products companies. Mr. Hawkins has been a member of the Duke University Board of Trustees since 2011. Mr. Hawkins was selected to serve as a member of our Board of Directors due to his leadership experience as a chief executive officer, knowledge of, and experience in, the healthcare industry, international experience and governance and public company board experience.

Gary D. Blackford

Gary D. Blackford, age 60, was elected to our Board in October 2014. Mr. Blackford is the Chairman of our Governance Committee. From 2002 until February 2015, Mr. Blackford was the Chairman of the Board and Chief Executive Officer of Universal Hospital Services, Inc. ("UHS"), a leading, nationwide provider of medical technology outsourcing and services to the health care industry. Mr. Blackford was the Chief Executive Officer of Curative Health Services, Inc., a specialty pharmacy and health services company, from 2001 to 2002. He was also the Chief Executive Officer of ShopforSchool, Inc., an online retailer, from 1999 to 2001. Mr. Blackford has been a director of Wright Medical Group, N.V. (WMGI), since 2008, ReShape Lifesciences, Inc. (RSLS), since 2016, PipelineRX, Inc. (private), since 2016, and Children's Hospitals and Clinics of Minnesota since 2017. Mr. Blackford has been selected to serve as a member of our Board of Directors

due to his executive leadership experience as a chief executive officer, financial literacy and experience in finance and accounting, international experience, and governance and public company board experience.

Patrick J. O'Leary

Patrick J. O'Leary, age 60, was elected to our Board in October 2014. Mr. O'Leary served as Executive Vice President and Chief Financial Officer of SPX Corporation, a global industrial and technological services and products company, from December 2004 until August 2012, when he retired. Prior to that time, he served as Chief Financial Officer and Treasurer of SPX Corporation from October 1996 to December 2004. Mr. O'Leary has been a director of PulteGroup, Inc. (NYSE: PHM), since 2005 and a director and Chairman of SPX Corporation (NYSE: SPXC), since 2015. Mr. O'Leary has been selected to serve as a member of our Board of Directors due to his executive leadership experience as a chief financial officer, financial literacy and experience in finance and accounting, international experience, and governance and public company board experience.

The Board of Directors unanimously recommends a vote FOR the election of each of the three nominees for director named above.

Directors Continuing in Office

The following members of the Board of Directors are continuing in office and have terms expiring as indicated below:

Term Expiring at the 2020 Annual Meeting (Class of 2020):

Joseph F. Woody

Joseph F. Woody, age 52, was appointed as our CEO and elected as a member of our Board of Directors as of June 26, 2017. Mr. Woody has more than 20 years of experience in the healthcare sector. Prior to joining the Company, Mr. Woody served as Director, President and Chief Executive Officer of Acelity Holdings, Inc. ("Acelity"), a global advanced wound care and regenerative medicine company, from August 2015 until April 2017. Prior to that, Mr. Woody served as President and Chief Executive Officer for the combined organization of Kinetic Concepts, Inc. (" KCI"), LifeCell Corporation ("LifeCell"), and Systagenix Wound Management B.V., which became Acelity, from September 2013 until August 2015. Prior to that, Mr. Woody served in leadership roles at KCI and LifeCell from November 2011 until September 2013, having been promoted to President and Chief Executive Officer of KCI in January 2012 and interim Chief Executive Officer of LifeCell in April 2013. Previously, Mr. Woody served as global president of Vascular Therapies for Covidien plc., and global president for Smith & Nephew Advanced Wound Management, and he held other leadership positions at Alliance Imaging, Inc., Acuson and GE Medical Systems. Mr. Woody was selected to serve as a member of the Board of Directors due to his leadership experience as our CEO, and knowledge of, and experience in, the healthcare industry, including significant acquisition and integration experience, international experience, and company board experience.

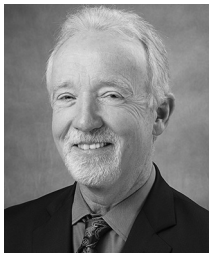
Ronald W. Dollens

Ronald W. Dollens, age 71, was elected to our Board in October 2014, and as Chairman of the Board in September 2017. As Chairman of the Board, Mr. Dollens serves as the Chairman of the Executive Committee. Mr. Dollens retired as the President and Chief Executive Officer of Guidant Corporation, a global producer of cardiovascular therapeutic devices and related products, in 2005, where he had served since its spin-off from Eli Lilly & Company in 1994. Prior to that time, he held various management positions at Eli Lilly & Company from 1972 until 1994. From 2000 until 2011, he served on the Board of Directors of Kinetic Concepts, Inc., a publicly-traded global medical technology company devoted to the discovery, development, manufacturing and marketing of innovative, high-technology therapies and products, and served as Chairman from 2005 until 2011. Mr. Dollens has also served on the Board of Directors of Abiomed, Inc. from 2006 until October 2010, and Beckman Coulter, Inc. from 1999 until April 2005. Mr. Dollens has been selected to serve as the Chairman of our Board of Directors due to his leadership experience as a chief executive officer, knowledge of, and experience in, the healthcare industry, international experience and governance and public company board experience.

Heidi Kunz

Heidi Kunz, age 63, was elected to our Board in October 2014. Ms. Kunz is the Chairperson of the Audit Committee. Ms. Kunz retired as the Executive Vice President and Chief Financial Officer of Blue Shield of California, a not-for-profit health plan provider, where she served from 2003 to 2012. Prior to that time, she served as the Executive Vice President and Chief Financial Officer of Gap, Inc., a multinational clothing and accessories retailer, from 1999 until 2003. Ms. Kunz also serves as a director of Agilent Technologies, Inc., a public research development and manufacturing company, and as a director of Financial Engines, Inc., an investment advisement company. Ms. Kunz has been selected to serve as a member of our Board of Directors due to her executive leadership experience as a chief financial officer, financial literacy and experience in finance and accounting, knowledge of, and experience in, the healthcare industry, international experience and governance and public company board experience.

Term Expiring at the 2019 Annual Meeting (Class of 2019):



John P. Byrnes

John P. Byrnes, age 59, was elected to our Board in October 2014. Mr. Byrnes served as the Chairman of the Board of Lincare Holdings, Inc. ("Lincare"), a provider of home respiratory care, infusion therapy and medical equipment, from March 2000 through March 2015 and as a director of Lincare from May 1997 to August 2015. Mr. Byrnes was the Chief Executive Officer of Lincare from 1997 until March 2015 and served as Lincare's President from June 1996 until April 2003. Prior to becoming Lincare's President, Mr. Byrnes served in a number of capacities at Lincare over a ten-year period, including serving as Chief Operating Officer throughout 1996. Mr. Byrnes was a director of Kinetic Concepts, Inc., a publicly-traded global medical technology company devoted to the discovery, development, manufacturing and marketing of innovative, high-technology therapies and products, from January 2003 until February 2011 and of U.S. Renal Care, Inc., a dialysis provider, from August 2005 until 2012. Mr. Byrnes has served on the Board of Tenet Healthcare Corporation since 2016. Mr. Byrnes has been selected to serve as a member of our Board of Directors due to his leadership experience as a chief executive officer, knowledge of, and experience in, the healthcare industry, international experience and governance and public company board experience.

Maria Sainz

Maria Sainz, age 52, was elected to our Board in February 2015. Ms. Sainz has served as the President and Chief Executive Officer of Cardiokinetix, a medical device company pioneering a catheter-based treatment for heart failure, from May 2012 through June 2017. She was the President and Chief Executive Officer of Concentric Medical, Inc., a developer of minimally invasive products for the treatment of acute ischemic stroke, from April 2008 until May 2012. In October 2011, Concentric Medical was acquired by Stryker Corporation, a medical technology company, where she was named General Manager of the business unit of Stryker Neurovascular. From 2006 to 2008, Ms. Sainz led integration activities following the acquisition of Guidant Corporation by Boston Scientific. From February 2003 through July 2006, Ms. Sainz served as President of the Cardiac Surgery division of Guidant Corporation. From January 2001 through February 2003, Ms. Sainz served as Vice President, Global Marketing for the Vascular Intervention division of Guidant Corporation. From late 1998 through early 2001, Ms. Sainz served as Vice President of the Intermedics Cardiac Rhythm Management business of Guidant Corporation in Europe. Ms. Sainz also serves as a director of Orthofix International, N.V, a global medical device company, MRI Interventions, Inc., a medical device company, and Levita Magnetics, a private medical start up. Ms. Sainz has been selected to serve as a member of our Board of Directors due to her leadership experience as a chief executive officer, knowledge of, and experience in, the healthcare industry, international experience, and public company board experience.

Dr. Julie Shimer

Dr. Julie Shimer, age 65, was elected to our Board in October 2014. Dr. Shimer is the Chairman of the Compensation Committee. She is currently a private investor and has 30 years of product development experience, including many years with major communications companies. From March 2007 to April 2012 she served as Chief Executive Officer of Welch Allyn, Inc., a manufacturer of frontline medical products and solutions, having served on the board of directors beginning in July 2002. Previously, Dr. Shimer was President, Chief Executive Officer, and a member of the board of directors of Vocera Communications, Inc., a provider of wireless communications systems. She also has served as general manager at 3Com Corporation and Motorola and has been a product development leader at Motorola and AT&T Bell Laboratories. She has served as the Chairwoman of Empire State Development Corp., the State of New York's economic development organization, and as an advisor to two private companies, Kitchology, a mobile platform empowering families dealing with special diets through the power of technology and community, and CPLANE Networks, a leader in end-to-end data center and wide area network service orchestration that enables software-defined networking (SDN) and network function virtualization (NFV) services to be launched and managed in a single environment. She also serves on the boards of directors of three nonprofit organizations. Dr. Shimer serves as a director of Netgear, Inc., a provider of home and small business network solutions, and Windstream, a leading telecommunications and cloud services provider. Dr. Shimer has been selected to serve as a member of our Board of Directors due to her leadership experience as a chief executive officer, knowledge of, and experience in, the healthcare industry, international experience and governance and public company board experience.

Director Compensation

Directors who are not officers or employees of the Company or any of our subsidiaries, affiliates or equity companies are Outside Directors for compensation purposes and are compensated for their services under our Outside Directors' Compensation Plan. All independent directors currently on our Board are Outside Directors and are compensated under this Plan.

Our objectives for Outside Director compensation are:

- to attract qualified candidates for Board service
- to remain competitive with the median compensation paid to Outside Directors of comparable companies
- to keep pace with changes in practices in director compensation
- to reinforce our practice of encouraging stock ownership by our directors

In 2015, our Outside Director compensation was established based on the median non-management director compensation for our peers.

The table below shows how we structure Outside Director compensation:

Board Members

Cash retainer: $70,000 annually, paid in four quarterly payments at the beginning of each quarter.

Restricted share units: Annual grant with a value of $140,000, awarded and valued on the first business day of the year.

Chairman of the Board

Additional cash compensation of $115,000, paid in four quarterly payments at the beginning of each quarter.

Lead Director

Additional cash compensation of $20,000, paid in four quarterly payments at the beginning of each quarter.

Committee Chairs

Additional cash compensation of $15,000, paid in four quarterly payments at the beginning of each quarter.

New Outside Directors receive a pro-rated annual retainer and grant of restricted share units based on the month when they join the Board.

We also reimburse Outside Directors for expenses incurred in attending Board or committee meetings.

Restricted share units are not shares of our common stock. Rather, restricted share units represent the right to receive a pre-determined number of shares of our common stock within 90 days following a "restricted period" that begins on the date of grant and expires on the date the Outside Director retires from or otherwise terminates service on the Board. In this way, they align the director's interests with the interests of our stockholders. Outside Directors may not dispose of the units or use them in a pledge or similar transaction. Outside Directors also receive additional restricted share units equivalent in value to the dividends, if any, that would have been paid to them if the restricted share units granted to them were shares of our common stock. The Company does not currently pay dividends on its common stock.

2017 Outside Director Compensation

The following table shows the compensation paid to each Outside Director for his or her service in 2017:

NAME	FEES EARNED OR PAID IN CASH ($)	STOCK AWARDS ($) (1)(2)	TOTAL ($)
Gary D. Blackford	85,000	140,000	225,000
John P. Byrnes	70,000	140,000	210,000
Ronald W. Dollens	145,417(3)	140,000	285,417
William A. Hawkins, III	85,000	140,000	225,000
Heidi Kunz	85,000	140,000	225,000
Patrick O'Leary	70,000	140,000	210,000
Maria Sainz	70,000	140,000	210,000
Dr. Julie Shimer	85,000	140,000	225,000

(1) Amounts shown reflect the grant date fair value of those grants, determined in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 718 — Stock Compensation ("ASC Topic 718") for restricted share unit awards granted pursuant to our Outside Directors' Compensation Plan. See Note 12 to our audited consolidated and combined financial statements included in our Annual Report on Form 10-K for 2017 for the assumptions used in valuing these restricted share units.
(2) Each director received 3,749 restricted share units on January 3, 2017.
(3) Mr. Dollens assumed the role of Chairman of the Board effective September 1, 2017. Prior to that date, his compensation was as the Lead Director, and after that date his compensation was as Chairman of the Board, as described above.

Other than the cash retainer and grants of restricted share units previously described, no Outside Director received any compensation or perquisites from the Company for services as a director in 2017.

A director who is not an Outside Director does not receive any compensation for services as a member of the Board or any committee, but is reimbursed for expenses incurred as a result of the services.

Proposal 2. Ratification of Auditors

The Audit Committee of the Board of Directors is directly responsible for the appointment, compensation, retention, and oversight of our independent auditors. The Audit Committee is also responsible for overseeing the negotiation of the audit fees associated with retaining our independent auditors. To assure continuing auditor independence, the Audit Committee periodically considers whether a different audit firm should perform our independent audit work. Also, in connection with the mandated rotation of the independent auditor's lead engagement partner, the Audit Committee and its chairman are directly involved in the selection of the lead engagement partner.

For 2017, the Audit Committee has selected Deloitte & Touche LLP (along with its member firms and affiliates, "Deloitte") as the independent registered public accounting firm to audit our financial statements. In engaging Deloitte for 2018, the Audit Committee utilized a review and selection process that included the following:

- a review of management's assessment of the services Deloitte provided in 2017
- discussions, in executive session, with the Chief Financial Officer and the Vice President and Controller regarding their viewpoints on the selection of the 2018 independent auditors and on Deloitte's performance
- discussions, in executive session, with representatives of Deloitte about their possible engagement
- Audit Committee discussions, in executive session, about the selection of the 2018 independent auditors
- a review and approval of Deloitte's proposed estimated fees for 2018
- a review and assessment of Deloitte's independence

The Audit Committee and the Board believe that the continued retention of Deloitte to serve as our independent auditor is in the best interests of the Company and its stockholders, and they recommend that stockholders ratify this selection.

Representatives of Deloitte are expected to be present at the Annual Meeting with the opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions.

Stockholders are not required to ratify the appointment of Deloitte as our independent auditor. However, we are submitting the ratification to our stockholders as a matter of good corporate practice. If our stockholders fail to ratify the appointment of Deloitte, or even if our stockholders do ratify the appointment of Deloitte, the Audit Committee in its discretion may select a different independent auditor at any time during the year if it determines that such change would be in the best interest of the Company and our stockholders.

The Board of Directors unanimously recommends a vote FOR ratification of Deloitte's selection as the Company's auditor for 2018.

Principal Accounting Firm Fees

Our aggregate fees to Deloitte (excluding value added taxes) with respect to the fiscal years ended December 31, 2017 and 2016, were as follows:

NAME	2017 ($)	2016 ($)
Audit Fees (1)	3,512,000	3,894,391
Audit-Related Fees (2)	1,830,000	—
Tax Fees (3)	15,000	360,150
All Other Fees	245,000	—

(1) These amounts represent fees billed or expected to be billed for professional services rendered by Deloitte for the audit of the Company's annual financial statements for the fiscal years ended December 31, 2017 and December 31, 2016, reviews of the financial statements included in the Company's Form 10-Qs, and other services that are normally provided by the independent registered public accounting firm in connection with statutory or regulatory filings or engagements for each of those fiscal years, including: fees for consolidated financial audits, statutory audits, comfort letters, attest services, consents, assistance with and review of SEC filings and other related matters.
(2) These amounts represent aggregate fees billed or expected to be billed by Deloitte for assurance and related services reasonably related to the performance of the audit or review of our financial statements for the fiscal years ended December 31, 2017 and December 31, 2016, which are not included in the audit fees listed above. The audit-related fees in 2017 were associated with Deloitte's work on carve-out financials for the company's S&IP business as part of the sale of that business to Owens & Minor, Inc.
(3) These amounts represent Deloitte's aggregate fees for tax compliance, tax advice and tax planning for 2017 and 2016.

Audit Committee Approval of Audit and Non-Audit Services

Using the following procedures, the Audit Committee pre-approves all audit and non-audit services provided by Deloitte to the Company:

- Before the first face-to-face Audit Committee meeting of the year, our Vice President and Controller prepares a detailed memorandum regarding non-audit services to be provided by Deloitte during the year. This memorandum includes the services to be provided, the estimated cost of these services, reasons why it is appropriate to have Deloitte provide these services, and reasons why the requested service is not inconsistent with applicable auditor independence rules;
- At the first face-to-face Audit Committee meeting each year, our Vice President and Controller presents a proposal, including fees, to engage Deloitte for audit and non-audit services; and
- Before each subsequent meeting of the Audit Committee, our Vice President and Controller prepares an additional memorandum that includes updated information regarding the approved services and highlights any new audit and non-audit services to be provided by Deloitte. All new non-audit services to be provided are described in individual requests for services.

The Audit Committee reviews the requests presented in these proposals and memoranda and approves all services it finds acceptable.

To ensure prompt handling of unexpected matters, the Audit Committee has delegated to the Chairperson of the Audit Committee the authority to amend or modify the list of audit and non-audit services and fees between meetings, as long as the additional or amended services do not affect Deloitte's independence under applicable rules. Any actions taken under this authority are reported to the Audit Committee at its next meeting.

All Deloitte services and fees in 2017 were pre-approved by the Audit Committee or the Audit Committee Chairperson.

Audit Committee Report

In accordance with its Charter adopted by the Board, the Audit Committee assists the Board in overseeing the quality and integrity of the Company's accounting, auditing, and financial reporting practices.

In discharging its oversight responsibility for the audit process, the Audit Committee obtained from the independent registered public accounting firm (the "auditors") a formal written statement describing all relationships between the auditors and the Company that might bear on the auditors' independence, as required by Public Company Accounting Oversight Board ("PCAOB") Rule 3526, *Communication with Audit Committees Concerning Independence,* discussed with the auditors any relationships that may impact their objectivity and independence, and satisfied itself as to the auditors' independence. The Audit Committee also discussed with management, the internal auditors, and the auditors, the quality and adequacy of the Company's internal controls and the internal audit function's organization, responsibilities, budget, and staffing. The Audit Committee reviewed with both the auditors and the internal auditors their audit plans, audit scope, and identification of audit risks.

The Audit Committee discussed and reviewed with the auditors all communications required by the PCAOB's auditing standards, including those required by PCAOB AS 16, "Communication with Audit Committees." Also, with and without management present, it discussed and reviewed the results of the auditors' examination of our financial statements.

Management is responsible for preparing the Company's financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP") and for establishing and maintaining the Company's internal control over financial reporting. The auditors have the responsibility for performing an independent audit of the Company's financial statements, and expressing opinions on the conformity of the Company's financial statements with GAAP. The Audit Committee discussed and reviewed the Company's audited financial statements as of and for the fiscal year ending December 31, 2017, with management and the auditors.

Based on the above-mentioned review and discussions with management and the auditors, the Audit Committee recommended to the Board that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, for filing with the SEC. The Audit Committee also has selected and recommended to the Company's stockholders for ratification the reappointment of Deloitte as the independent registered public accounting firm for 2018.

AUDIT COMMITTEE OF THE BOARD OF DIRECTORS
Heidi Kunz, Chairperson
Patrick O'Leary
Gary Blackford

Proposal 3. Advisory Vote to Approve Named Executive Officer Compensation

In the Compensation Discussion and Analysis that follows, we describe in detail our executive compensation program, including its objectives, policies, and components. Our executive compensation program seeks to align the compensation of our executives with the objectives of our business plans and strategies. To this end, the Compensation Committee (the "Committee") approved an executive compensation program for 2017 that was designed to achieve the following objectives:

- *Pay-for-Performance.* Support a performance-oriented environment that rewards achievement of our financial and non-financial goals.
- *Focus on Long-Term Success.* Reward executives for long-term strategic management and stockholder value enhancement.
- *Stockholder Alignment.* Align the financial interest of our executives with those of our stockholders.
- *Quality of Talent.* Attract and retain executives whose abilities are considered essential to our long-term success.

For a more detailed discussion of how our executive compensation program reflects these objectives, including information about the 2017 compensation of our named executive officers, see "Compensation Discussion and Analysis," below.

We are asking our stockholders to support our executive compensation as described in this proxy statement. This proposal, commonly known as a "say-on-pay" proposal, gives our stockholders the opportunity to express their views on our executive compensation. This vote is not intended to address any specific item of compensation, but rather the overall compensation of our executives and the objectives, policies, and practices described in this proxy statement. Accordingly, our stockholders are being asked to vote on the following non-binding resolution at the Annual Meeting:

> RESOLVED, that the compensation paid to the Company's named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables, and narrative discussion, is hereby approved by the Company's stockholders on an advisory basis.

The say-on-pay vote is advisory and is therefore not binding on the Company, the Committee, or our Board. Nonetheless, the Committee and our Board value the opinions of our stockholders. Therefore, to the extent there is any significant vote against the executive compensation as disclosed in this proxy statement, the Committee and our Board will consider our stockholders' concerns and will evaluate whether any actions are necessary to address those concerns.

The Board of Directors unanimously recommends a vote FOR the approval of named executive officer compensation, as disclosed in this proxy statement pursuant to the SEC's compensation disclosure rules.

Compensation Discussion and Analysis

This Compensation Discussion and Analysis ("CD&A") is intended to provide investors with an understanding of the compensation policies and decisions regarding 2017 compensation for our named executive officers as well as information on 2018 compensation decisions as of the date of this proxy statement.

For 2017, our named executive officers were:

NAMED EXECUTIVE OFFICER	TITLE
Joseph F. Woody	Chief Executive Officer
Robert E. Abernathy	Retired Chairman of the Board and Chief Executive Officer
Steven E. Voskuil	Senior Vice President and Chief Financial Officer
Rhonda D. Gibby	Senior Vice President and Chief Human Resources Officer
Christopher M. Lowery	Senior Vice President and Chief Operating Officer
John W. Wesley	Senior Vice President and General Counsel

To assist stockholders in finding important information, this CD&A is organized as follows:

Compensation Executive Summary

This executive summary provides a brief overview of our key accomplishments in 2017 and our key compensation principles and practices.

2017 Highlights

Business and Results:

- 2017 net sales for the Company were $1.624 million, a 2% increase over 2016 net sales of $1.592 million. 2017 net sales of Medical Devices were $612 million, an 8% increase over 2016 net sales of $566 million, including 3% growth attributed to the Company's acquisition of Corpak. As described later in this CD&A, 2017 net sales on a constant currency basis and adjusted to eliminate sales to Kimberly-Clark and the impact of the Corpak acquisition, which we refer to as Adjusted Net Sales, was a performance metric under our 2016 incentive compensation programs.

- 2017 net income for the Company was $79 million, a 99% increase over 2016 net income of $40 million. For 2017, adjusted net income was $110 million, a 19% increase over 2016 net income of $93 million.

- 2017 diluted earnings per share were $1.69, a 99% increase over 2016 diluted earnings of $0.85 per share. For 2017 adjusted diluted earnings per share were $2.35, an 18% increase over 2016 adjusted diluted earnings of $1.99 per share. As described later in this CD&A, 2017 adjusted diluted earnings per share was a performance metric under our 2017 incentive compensation programs.

Adjusted net income and adjusted diluted earnings per share are non-GAAP financial measures. A description of these measures and a reconciliation to the most directly comparable GAAP financial measures is provided in Appendix A to this 2018 Proxy Statement.

Performance-Based Compensation

Pay-for-performance is a key objective of our compensation program. Consistent with that objective, performance-based compensation constituted a significant portion of our named executive officers' target direct annual compensation for 2017. Also, to further align the financial interests of our executives with those of our stockholders, a majority of our executives' target direct annual compensation for 2017 was equity-based. As discussed later in this CD&A, because the Company's and management's performance was above expectations for the year, management's compensation for 2017 was above target.

Compensation Design Principles And Governance Practices

The design principles for our executive compensation program are intended to protect and promote the interests of our stockholders. Below we summarize certain practices we have implemented to drive performance and those we have not implemented because we do not believe they would serve our stockholders' long-term interests:

What We Do	What We Don't Do
Pay for performance	Maintain employment contracts
Perform an annual compensation risk assessment	Provide excise tax gross-up on change-in-control payments or perquisites (other than on certain relocation benefits)
Utilize an independent compensation consultant	Allow repricing of underwater options without stockholder approval
Require that change-in-control agreements contain a double trigger	Allow current payment of dividends or dividend equivalents on unearned long-term incentives
Maintain share ownership guidelines	Provide more than minimal perquisites
Maintain a clawback policy on incentive payments in case of financial restatement	Allow executive officers to engage in hedging or pledging transactions
Benchmark our compensation practices to ensure executive compensation is consistent with our peer group	
Cap short and long-term incentive payments at reasonable levels	

Committee Consideration Of Stockholder Advisory Votes On Compensation

At our 2017 Annual Meeting, our executive compensation program received the support of over 95 percent of shares represented at the meeting. Our Compensation Committee (the "Committee") has considered the results of this vote and views this outcome as evidence of stockholder support of its executive compensation decisions and policies.

As noted under "Proposal 3. Advisory Vote to Approve Named Executive Officer Compensation," the Committee will continue to review stockholder votes on our executive compensation and determine whether to make any changes to the program in light of those vote results.

Executive Compensation Objectives and Policies

The Committee is responsible for establishing and administering our policies governing the compensation of our executive officers. The Committee reviews our executive officer compensation objectives and policies annually, including determining whether they continue to support our business objectives and are consistent with the Committee's charter.

Our 2017 executive officer compensation policies were designed to achieve the following objectives:

OBJECTIVE	DESCRIPTION	RELATED POLICIES
Pay for Performance	Support a performance-oriented environment that rewards achievement of our financial and non-financial goals.	The majority of executive officer pay varies with the levels at which annual and long-term performance goals are achieved. Performance goals are aligned with our strategies for sustained growth and profitability.
Focus on Long-Term Success	Reward executive officers for long-term strategic management and stockholder value enhancement.	A significant component of executive officer annual target compensation is in the form of performance-based restricted share units. The number of shares actually received on payout of these units depends on our performance over a three-year period.
Stockholder Alignment	Align the financial interest of our executive officers with those of our stockholders.	Equity-based awards make up the largest part of executive officer annual target compensation. Our executive officers also receive stock options, which vest over time and have value only if our stock price rises after the option grants are made. We also have other policies that link our executive officers' interests with those of our stockholders, including stock ownership guidelines.
Quality of Talent	Attract and retain executive officers whose abilities are considered essential to our long-term success as a global company.	The Committee reviews peer group data to ensure our executive officer compensation program remains competitive so we can continue to attract and retain this talent.

Executive Compensation Design Philosophy and Guiding Principles

The Committee has adopted the following design philosophies to guide the manner in which the key executive officer compensation objectives and policies are implemented:

PHILOSOPHY	DESCRIPTION	GUIDING PRINCIPLES
Aligned	A majority of executive officer compensation should be at risk and vary with the performance outcomes of stockholders	• 50% or more of executive officer compensation is incentive based • Incentive metrics aligned to stockholder value • Performance goals should generally reflect year-over-year growth to achieve target funding • No annual grants of time-based restricted share units to executive officers • Within business groups, a majority of performance is placed on business unit performance goals
Compelling	The value and structure of executive officer compensation provided should assist in the attraction of key executive talent	• Base salaries at or above the 50th percentile with variance based on skills, experience, and performance • Actual total compensation payout opportunities are set well above the 50th percentile, allowing for meaningful upside payouts for over performance
Simple	The executive officer compensation arrangements should maximize simplicity and focus on broad performance factors	• Use minimal number of metrics; typically one or two • Strategic metrics (i.e., non-financial) are generally avoided • Special or one-time incentive awards are used sparingly • Perquisites and other special executive benefits are generally avoided
Sound	Executive officer compensation policies and structure should support strong corporate governance and drive an ownership culture among executives	• Ownership culture is reinforced through use of good governance • Individual contracts are avoided and severance practices should be conservative • Compensation deferral opportunities provided consistent with market practices • Encourage innovation while deterring excessive risk taking

The Committee retains the right to deviate from the guiding principles set out above whenever it determines that to do so is consistent with our overall executive officer compensation objectives and is in the best interest of the Company and its stockholders.

Components of Our Executive Compensation Program

The table below gives an overview of the compensation components used in our 2017 executive officer compensation program and matches each with one or more of the objectives described above.

COMPONENT	OBJECTIVES	PURPOSE	TARGET COMPETITIVE POSITION
Base salary	Quality of talent	Provide annual cash income based on: • level of responsibility, performance and experience • comparison to market pay information	• Compared to median of peer group • Actual base salary will vary based on the individual's performance and experience in the position
Annual cash incentive	Pay-for-performance Quality of talent	Motivate and reward achievement of annual performance goals	• Target compared to median of peer group • Actual payout will vary based on actual corporate and business unit or staff function performance
Long-term equity incentive	Stockholder alignment Focus on long-term success Pay-for-performance Quality of talent	Provide an incentive to deliver stockholder value and to achieve our long-term objectives through awards of: • performance-based restricted share units • stock option grants Time-vested restricted share units may be granted from time to time for recruiting, retention or other purposes	• Target compared to median of peer group • Actual payout of performance-based restricted share units will vary based on actual performance • Actual payout will also vary based on actual stock price performance
Retirement benefits	Quality of talent	Provide competitive retirement plan benefits through 401(k) plan and other defined contribution plans	• Benefits comparable to those of peer group
Perquisites	Quality of talent	Provide minimal market-based additional benefits	• Determined by the Committee
Post-termination compensation (severance and change of control)	Quality of talent	Encourage attraction and retention of executives critical to our long-term success and competitiveness: • Severance Pay Plan, which provides eligible employees, including executives, with payments and benefits in the event of certain involuntary terminations • Executive Severance Plan, which provides eligible executives with payments in the event of a qualified separation from service following a change of control	• Determined by the Committee

Setting Annual Compensation

This section describes the processes followed in setting 2017 target annual compensation for our executive officers.

FOCUS ON TOTAL DIRECT ANNUAL COMPENSATION

In setting 2017 compensation for our executive officers, including our Chief Executive Officer ("CEO"), the Committee focused on total direct annual compensation, which consists of annual cash compensation (base salary and target annual cash incentive) and long-term equity incentive compensation (performance-based restricted share units and stock options). The Committee considered annual cash and long-term equity incentive compensation both separately and as a package to help ensure that the executive officer compensation objectives are met.

BENCHMARKING – EXECUTIVE COMPENSATION PEER GROUP

To ensure that our executive officer compensation program is reasonable and competitive in the marketplace, our program is compared to programs at other companies. In setting 2017 compensation for our executive officers, the Committee used the following peer group for the Company's executive compensation:

2017 Executive Compensation Peer Group

Align Technology, Inc.	Haemonetics Corporation	NuVasive, Inc.
C.R. Bard, Inc.	Hill-Rom Holdings, Inc.	ResMed Inc.
CONMED Corporation	Invacare	Sirona Dental Systems, Inc.
The Cooper Companies, Inc.	Hologic, Inc.	STERIS Corporation
DENTSPLY International Inc.	Integer Holdings Corp	Teleflex Incorporated
Edwards Lifesciences Corp	Integra Lifesciences Holding Corp	Varian Medical Systems, Inc.
Greatbatch, Inc.	Merit Medical Systems, Inc.	West Pharmaceutical Services, Inc.

The peer group is intended to consist of companies with whom we compete for talent. We believe that we generally compete for talent with healthcare and medical device companies with annual revenues ranging from approximately one-third to three times our annual revenues.

The Committee (working with its independent compensation consultant) reviews the executive compensation peer group annually to ensure that it continues to serve as an appropriate comparison for our compensation program.

PROCESS FOR SETTING TOTAL DIRECT ANNUAL COMPENSATION TARGETS

In setting the total direct annual compensation of our executive officers, both market data provided by the independent compensation consultant and information on the performance of each executive officer for prior years is evaluated. To remain competitive in the marketplace for executive talent, the target levels for the executive officers' compensation components, including our CEO, are compared to the median of the peer group.

To reinforce a pay-for-performance culture, targets for individual executive officers may be set above or below this median depending on the individual's performance in prior years and experience in the position, as well as any applicable retention concerns. The Committee believes that comparing target levels to the median, setting targets as described above, and providing incentive compensation opportunities that will enable executives to earn above-target compensation if they deliver above-target performance on their performance goals, are consistent with the objectives of our executive officer compensation policies. In particular, the Committee believes that this approach enables us to attract and retain skilled and talented executive officers to guide and lead our businesses and supports a pay-for-performance culture.

When setting annual compensation for our executive officers, the Committee considers each compensation component (base salary, annual cash incentive and long-term equity incentive), but its decision regarding a particular component does not necessarily impact its decision about other components.

In setting compensation for executive officers that join us from other companies, the Committee will evaluate both market data for the position to be filled and the candidate's compensation history. The Committee recognizes that in order to successfully recruit a candidate to leave his or her current position and to join the Company, the candidate's compensation package may have to exceed his or her current compensation, which could result in a compensation package above the median of our peer group.

CEO TOTAL DIRECT ANNUAL COMPENSATION

Our CEO's total direct annual compensation is determined in the same manner as the direct annual compensation of the other named executive officers. The difference between our CEO's compensation and that of the other named executive officers reflects the fact that our CEO's responsibilities for management and oversight of a global enterprise are significantly greater than those of the other executive officers. As a result, the market pay level for our CEO is appropriately higher than the market pay for our other executive officer positions.

TOTAL DIRECT ANNUAL COMPENSATION TARGETS FOR 2017

Consistent with the focus on total direct annual compensation, the Committee established the following 2017 direct annual compensation targets for our named executive officers based on their roles and responsibilities:

NAME	2017 TOTAL DIRECT ANNUAL COMPENSATION TARGET ($)
Joseph F. Woody	5,442,750
Robert E. Abernathy	4,724,992
Steven E. Voskuil	1,539,225
Rhonda D. Gibby	831,415
Christopher M. Lowery	1,918,690
John W. Wesley	1,080,000

These 2017 direct annual compensation target amounts differ from the amounts set forth in the Summary Compensation Table in the following ways:

- Amounts paid or payable to Mr. Woody and Mr. Abernathy are prorated for the portion of the year in which they held their positions, while the amounts in the table above reflect full year targets.
- Annual cash incentive compensation is included at the target level, while the Summary Compensation Table reflects the actual higher amounts earned for 2017;
- Performance-based restricted share units are valued for direct annual compensation target purposes as equal to the value of a share of Halyard common stock on the date of grant, while the Summary Compensation Table reflects the grant date fair value as determined in accordance with ASC Topic 718 and as required by SEC rules (see Note 12 to our audited consolidated and combined financial statements included in our Annual Report on Form 10-K for the year-ended December 31, 2017, for the assumptions used in valuing performance-based restricted share units); and
- In setting total direct annual compensation targets, the Committee does not include deferred compensation earnings or other compensation, while those amounts are required to be included in the Summary Compensation Table.

Executive Compensation for 2017

To help achieve the objectives discussed above, our executive officer compensation program for 2017 consisted of fixed and performance-based components, as well as short-term and long-term components.

BASE SALARY

To attract and retain high-caliber executives, we pay our executive officers an annual fixed salary that we believe to be competitive in the marketplace.

Salary ranges and individual salaries for executive officers are reviewed annually, and salary adjustments generally are effective on April 1 of each year. In determining individual salaries, salary levels for similar positions at our peer group companies are considered, as well as the executive officer's performance and experience in his or her position. This performance evaluation is based on how the executive officer performs during the year against results-based objectives established at the beginning of the year. In general, an experienced executive officer who is performing at a satisfactory level will receive a base salary at or around the median of our peer group companies. However, executive officers may be paid above or below the median depending on their experience and performance. From time to time, if warranted, executive officers and other employees may receive additional salary increases because of promotions, changes in duties and responsibilities, retention concerns, or market conditions.

The following table shows the 2017 base salaries in effect for each named executive officer during the year.

NAME	2017 BASE SALARY JANUARY TO MARCH ($)	2017 BASE SALARY APRIL TO DECEMBER ($)
Joseph F. Woody	N/A	885,000
Robert E. Abernathy	837,375	862,496
Steven E. Voskuil	436,450	449,544
Rhonda D. Gibby	314,650	320,943
Christopher M. Lowery	482,125	496,589
John W. Wesley	393,750	393,750

ANNUAL CASH INCENTIVE PROGRAM

Consistent with our pay-for-performance compensation objective, our executive officer compensation program includes an annual cash incentive program to motivate and reward executives to achieve annual performance objectives established by the Committee.

2017 TARGETS

The target payment amount for annual cash incentives is a percentage of the executive officer's base salary. The range of possible payouts is expressed as a percentage of the target payment amount. These ranges are set based on competitive factors. The following table sets forth the target payment amounts and range of possible payouts for each named executive officer in 2017:

TARGET PAYMENT AMOUNTS AND RANGE OF POSSIBLE PAYOUTS FOR 2017 ANNUAL CASH INCENTIVE PROGRAM

NAME	TARGET PAYMENT AMOUNT	RANGE OF POTENTIAL PAYOUT
Joseph F. Woody	115% of base salary	0% - 225% of target payment amount
Robert E. Abernathy	100% of base salary	0% - 225% of target payment amount
Steven E. Voskuil	70% of base salary	0% - 225% of target payment amount
Rhonda D. Gibby	50% of base salary	0% - 225% of target payment amount
Christopher M. Lowery	85% of base salary	0% - 225% of target payment amount
John W. Wesley	60% of base salary	0% - 225% of target payment amount

2017 Performance Goals, Performance Assessments, and Payouts

Payment amounts under the annual cash incentive program are dependent on performance measured against goals established at the beginning of the year. These performance goals are derived from our financial goals.

The table below shows the performance goals and weights established for 2017:

ANNUAL CASH INCENTIVE PROGRAM
2017 PERFORMANCE GOALS AND WEIGHTS

	JOSEPH F. WOODY	ROBERT E. ABERNATHY	STEVEN E. VOSKUIL	RHONDA D. GIBBY	CHRISTOPHER M. LOWER	JOHN W. WESLEY
Adjusted Net Sales	50%	50%	50%	50%	50%	50%
Adjusted EPS	50%	50%	50%	50%	50%	50%
Cash conversion cycle	multiplier	multiplier	multiplier	multiplier	multiplier	multiplier

In February 2018, the Committee determined the extent to which the goals were met in 2017 and the resulting payout. Below we explain how the Committee assessed the performance of the goals for the year and show the payout that was determined.

For 2017, the Committee chose the following as the performance goals for the annual cash incentive program:

2017 GOAL	EXPLANATION	REASON FOR USE AS A PERFORMANCE MEASURE
Adjusted Net Sales	Net sales for 2017 on a constant currency basis, and adjusted to eliminate sales to Kimberly-Clark and corporate sales	A key indicator of overall growth
Adjusted EPS	Diluted net income per share, adjusted for spin-off related charges, intangible asset amortization, certain litigation costs, the impact of the Corpak acquisition, and the impact of certain tax reforms	A key indicator of overall performance
Cash Conversion Cycle	Days it takes to convert raw materials into finished goods and then collect on the sales of those finished goods	A measure of operational efficiency

To determine the payout percentage, the Committee used the following process:

First, it determined an initial payout percentage based on how the Company performed against the adjusted net sales and adjusted EPS goals. For 2017, the Committee set these goals and the corresponding initial payout percentages at the following levels:

	RANGE OF PERFORMANCE LEVELS		
MEASURE (EACH WEIGHTED 50%)	THRESHOLD	TARGET	MAXIMUM
Adjusted Net Sales (millions)	$ 1,473	$ 1,550	$ 1,628
Adjusted EPS	$ 1.77	$ 1.97	$ 2.27
Initial Payout Percentage	0%	100%	200%

Second, the Committee applied a multiplier to this initial payout percentage. The multiplier was based on how the Company performed against its cash conversion cycle goals. Depending on the level of improvement in cash conversion cycle, the multiplier would either decrease or increase the initial payout percentage (but the amount of the final payout percentage could not exceed a 225 percent cap).

For 2017, the Committee set the following ranges for this cash conversion cycle multiplier:

	RANGE OF PERFORMANCE LEVELS		
	THRESHOLD	TARGET	MAXIMUM
Cash Conversion Cycle	114 days	104 days	95 days
Cash Conversion Cycle Multiplier Applied to Initial Payout Percentage	0.8 x	1.0 x	1.2 x

Actual results and actual payout percentages. For 2017, the Committee determined that the Company's adjusted net sales were $1,542 million and its adjusted EPS was $2.33. Based on these results, the Committee determined the initial payout percentage to be 144.8 percent of target. To this percentage, the Committee then applied a cash conversion cycle multiplier of 115.6 percent, which was based on the actual 2017 cash conversion cycle of 97 days. After taking into account performance on all of these goals, the Committee determined that the payout percentage for achieving the 2017 performance goals should be 167.4 percent of target.

ANNUAL CASH INCENTIVE PAYOUTS FOR 2017

The following table shows the payout opportunities and the actual payouts of annual cash incentives for 2017 for each of our named executive officers. Payouts were based on the payout percentages for each element, weighted for each executive as shown above.

	ANNUAL INCENTIVE TARGET OPPORTUNITY		ANNUAL INCENTIVE MAXIMUM OPPORTUNITY		ACTUAL 2017 ANNUAL INCENTIVE PAYOUT	
NAME	% OF BASE SALARY	AMOUNT ($)	% OF TARGET	AMOUNT ($)	% OF TARGET	AMOUNT ($)
Joseph F. Woody	115%	1,017,750	225%	2,289,938	167.4%	884,124*
Robert E. Abernathy	100%	862,496	225%	1,940,616	167.4%	952,032**
Steven E. Voskuil	70%	314,681	225%	708,032	167.4%	522,939
Rhonda D. Gibby	50%	160,472	225%	361,062	167.4%	267,312
Christopher M. Lowery	85%	422,101	225%	949,727	167.4%	701,451
John W. Wesley	60%	236,250	225%	531,563	167.4%	395,482

*Mr. Woody's incentive payout for 2017 was prorated based on his first day of employment, June 23, 2017.
**Mr. Abernathy's incentive payout for 2017 was prorated based on his last day of employment, August 31, 2017.

The Committee believes that the 2017 annual incentive payout is consistent with the pay-for-performance objective of our executive officer compensation program.

LONG-TERM EQUITY INCENTIVE COMPENSATION

Our executive officers receive annual long-term equity incentive grants as part of their overall compensation package. These awards are consistent with the objectives of aligning our senior leaders' interests with the financial interests of our stockholders, focusing on our long-term success, supporting our performance-oriented environment, and offering competitive compensation packages.

Information regarding long-term equity incentive awards granted to our named executive officers can be found under "Summary Compensation," "Grants of Plan-Based Awards," and "Discussion of Summary Compensation and Plan-Based Awards Tables."

2017 Grants

In determining the 2017 long-term equity incentive award amounts for our named executive officers, the following factors were considered by the Committee, among others: the specific responsibilities and performance of the

executive, business performance, retention needs, stock price performance, and other market factors. Because these awards are part of the annual compensation program that compares total direct annual compensation to the median of the peer group comparison, grants from prior years were not considered when setting 2017 targets or granting awards.

To determine target values, each executive officer's total direct annual compensation was compared to the median of the peer group, and then individual performance and the other factors listed above, as applicable, were considered. Target grant values were then approved by the Committee and were divided into two types:

- Performance-based restricted share units (60 percent of the target grant value).
- Stock options (40 percent of the target grant value).

The Committee believed this allocation between performance-based restricted share units (PRSUs) and stock options supports the pay-for-performance and stockholder alignment objectives of our executive officer compensation program. In 2017, the following annual long-term equity incentive awards were granted to our named executive officers:

NAME	TARGET GRANT VALUE OF AWARDS ($)	TARGET PRSUS AWARDED (#)	TARGET STOCK OPTIONS AWARDED (#)
Joseph F. Woody	3,540,000	53,193	149,053
Robert E. Abernathy	3,000,000	46,083	134,680
Steven E. Voskuil	800,000	12,289	35,915
Rhonda D. Gibby	350,000	5,376	15,713
Christopher M. Lowery	1,025,000	15,745	46,016
John W. Wesley	450,000	7,680	22,447

For valuation purposes, each PRSU granted was assigned a value equal to the closing price of one share of Company common stock at the end of the day on the date of grant, and each stock option was assigned a value equal to the Black-Scholes valuation for that option at the end of the day on the date of grant.

Performance Goals and Potential Payouts for 2015 – 2017 PRSUs

For the PRSUs granted in 2015, the actual number of shares to be received by our named executive officers can range from zero to 200 percent of the target levels established by the Committee for each executive, depending on the degree to which the performance objectives for these awards are met over a three-year period.

The performance objectives for the 2015 awards are based on compounded annual net sales growth and adjusted EBITDA growth for the period January 1, 2015 through December 31, 2017. The potential payouts at varying levels of performance for the 2015-2017 PRSUs were:

GOAL	WEIGHT	THRESHOLD	TARGET	MAXIMUM
Net Sales (compounded)	50%	0%	2.3%	4.4%
Payout Scale		0%	100%	200%
Adjusted EBITDA Growth	50%	1.0%	4.0%	7.0%
Payout Scale		0%	100%	200%

Payout of 2015-2017 PRSUs

In February 2017, the Committee evaluated the results of the three-year performance for the 2015 PRSUs. The Committee determined that net sales growth during that period was-1.6%, and Adjusted EBITDA growth during that period was -4.1%. As a result, the Committee determined that the payout percentage for these PRSUs would be zero.

Vesting Levels of Outstanding PRSUs

The performance goals of the PRSUs granted in 2017 and 2016 are based on relative total stockholder return and will vest on February 28, 2020 and March 1, 2019, respectively. As a result of the Company's performance since those PRSUs were granted, the 2017 and 2016 PRSUs are on pace to vest at 81 percent and 200 percent of target, respectively.

Benefits and Other Compensation

RETIREMENT BENEFITS

Our named executive officers received contributions from the Company under the Halyard Health, Inc. 401(k) Plan (the "401(k) Plan") and the Halyard Health, Inc. Supplemental Retirement 401(k) Plan (the "Supplemental 401(k) Plan"). The Company does not have a defined benefit pension plan in the United States, and none of our named executive officers participate in any Company defined benefit pension plans.

The 401(k) Plan and Supplemental 401(k) Plan are consistent with those maintained by our peer group companies and are therefore necessary to remain competitive for recruiting and retaining executive talent. The Committee believes that these retirement benefits are important parts of our compensation program. For more information, see "Nonqualified Deferred Compensation – Overview of Qualified and Non-Qualified Plans" and "Pension Benefits."

OTHER COMPENSATION

We believe the perquisites provided to our executive officers are minimal and well below the median of those provided by our peer group. In addition, the Company does not provide tax reimbursement or gross-ups for perquisites offered to executive officers, except for certain relocation benefits.

POST-TERMINATION BENEFITS

We maintain two severance plans that cover our executive officers: the Severance Pay Plan and the Executive Severance Plan. An executive officer may not receive severance payments under more than one severance plan. Benefits under these plans are payable only if the executive's employment terminates under the conditions specified in the applicable plan. We believe that our severance plans are consistent with those maintained by our peer group companies and that they are therefore important for attracting and retaining executives who are critical to our long-term success and competitiveness. For more information about these severance plans and their terms, see "Potential Payments on Termination or Change of Control – Severance Benefits."

Severance Pay Plan

Our Severance Pay Plan provides severance benefits to most of our U.S. hourly and salaried employees, including our named executive officers, who are involuntarily terminated under the circumstances described in the plan. The objective of this plan is to facilitate the employee's transition to his or her next position, and it is not intended to serve as a reward for the employee's past service.

Executive Severance Plan

Our Executive Severance Plan provides severance benefits to eligible executives, including our named executive officers, in the event of a qualified termination of employment (as defined in the plan) in connection with a change of control. For an eligible employee to receive a payment under this plan, two things must occur: there must be a change of control of the Company, and the executive must have been involuntarily terminated without cause or have resigned for good reason (as defined in the plan) within two years of the change of control (often referred to as a "double trigger"). The objective of this plan is to encourage the executive to stay with the Company in the event of a change of control transaction to ensure a smooth transition. Each of our named executive officers has entered into an agreement under the plan that expires on October 31, 2020.

Executive Compensation for 2018

On October 31, 2017, the Company entered into a Purchase Agreement ("Purchase Agreement") with Owens & Minor, Inc. ("OMI"). The Purchase Agreement provides for the sale of substantially all of the Company's Surgical and Infection Prevention ("S&IP") business, among other things. The Company expects the transaction to close early in the second quarter of 2018. After the transaction closes, the Company will transform from a one that sells medical supplies and devices with annual net sales of about $1.6 billion into a pure-play medical devices company with annual net sales in excess of $600 million.

The Committee considered this expected transformation when it established executive compensation for 2018. As an initial matter, the Committee determined that the Company's post-transaction peer group will be different. It will consist of the following 15 medical device equipment companies with a median annual revenue of about $1 billion.

2018 Executive Compensation Peer Group

Abiomed, Inc.	Hologic, Inc.	Orthofix International Nv
Cantel Medical Corp	Integer Holdings Corp.	ResMed Inc.
CONMED Corporation	Integra Lifesciences Holding Corp	STERIS Corporation
Globus Medical Inc.	Masimo Corp	Teleflex Incorporated
Hill-Rom Holdings, Inc.	NuVasive, Inc.	Wright Medical Group Nv

The Committee asked its compensation consultant, Meridian Compensation Partners LLC, to review the Company's executive compensation practices in light of the new peer group. As a result of that analysis, the Committee decided not to change the Company's compensation objectives and policies, its compensation design philosophy and guiding principles, or the components of its executive compensation program. However, in light of the sale of the S&IP business and the new peer group, and taking into account the factors described above in the section on the "Process for Setting Total Direct Annual Compensation Targets," the Committee made 2018 base salary and short and long term incentive compensation award decisions for the named executive officers are described below:

2018 BASE SALARY

In February 2018, the Committee approved the base salaries for our named executive officers, effective April 1, 2018:

NAME	2018 BASE SALARY ($)	
	JANUARY TO MARCH	APRIL TO DECEMBER
Joseph F. Woody	885,000	911,550
Steve E. Voskuil	449,544	463,030
Rhonda D. Gibby	320,943	324,152
John W. Wesley	393,750	393,750

2018 ANNUAL CASH INCENTIVE TARGETS

In February 2018, the Committee also established objectives for 2018 annual cash incentives, which will be payable in 2019. The target payment amounts and range of possible payouts for 2018 are as follows:

	TARGET PAYMENT AMOUNT	POSSIBLE PAYOUT
Joseph F. Woody	115% of base salary	0% - 200% of target payment amount
Steven E. Voskuil	70% of base salary	0% - 200% of target payment amount
Rhonda D. Gibby	50% of base salary	0% - 200% of target payment amount
John W. Wesley	60% of base salary	0% - 200% of target payment amount

The Committee sets the appropriate split among the different elements of performance that make up our performance goals. The following are the 2018 performance goals and relative weights for our named executive officers.

ANNUAL CASH INCENTIVE PROGRAM 2018 PERFORMANCE GOALS AND WEIGHTS

	JOSEPH F. WOODY	STEVEN E. VOSKUIL	RHONDA D. GIBBY	JOHN W. WESLEY
Adjusted Net Sales	70%	70%	70%	70%
Adjusted EBITDA	30%	30%	30%	30%

The performance goals for 2018 are designed to encourage a continued focus on executing our long-term business plans and objectives.

2018 LONG-TERM EQUITY COMPENSATION INCENTIVE AWARDS

In February 2018, the Committee approved long-term incentive compensation awards for the named executive officers consisting of awards of performance-based restricted share units with a value equal to 60 percent of the target grant value for long-term equity incentive compensation, with the balance of the value to be granted in stock options. The performance objectives for the performance-based restricted share unit awards granted in 2018 are based on relative total stockholder return for the period January 1, 2018 through December 31, 2020. The actual number of shares to be received by our named executive officers will range from zero to 200 percent of the target levels established by the Committee for each executive, depending on the degree to which the performance objectives are met.

PERFORMANCE-BASED RESTRICTED SHARE UNITS GRANTED IN 2018

NAME	TARGET AMOUNT OF SHARES (#)	MAXIMUM AMOUNT OF SHARES (#)
Joseph F. Woody	43,436	86,872
Steven E. Voskuil	9,509	19,018
Rhonda D. Gibby	4,294	8,588
John W. Wesley	5,521	11,042

The Committee also approved the dollar amount of stock options to be granted to our named executive officers in May 2018, along with our annual stock option grants to other employees. The number of options they will receive will be based on the fair market value of our stock on the date of grant.

NAME	VALUE OF STOCK OPTIONS TO BE GRANTED ($)
Joseph F. Woody	1,416,000
Steven E. Voskuil	310,000
Rhonda D. Gibby	140,000
John W. Wesley	140,000

Additional Information about Our Compensation Practices

As a matter of sound governance, we follow certain practices with respect to our executive officer compensation program. We regularly review and evaluate our executive officer compensation practices in light of regulatory developments, market standards and other considerations.

USE OF INDEPENDENT COMPENSATION CONSULTANT

The Committee engaged Meridian Compensation Partners LLC ("Meridian") as its independent consultant to assist it in determining the appropriate executive officer compensation under our compensation policies described above. Consistent with the Committee's policy in which its independent consultant may provide services only to the Committee, Meridian had no other business relationship with the Company and received no payments from us other than fees and expenses for services to the Committee. See "Corporate Governance—Compensation Committee" for information about the use of compensation consultants.

ROLE OF THE CHIEF EXECUTIVE OFFICER IN COMPENSATION DECISIONS

Our CEO makes a recommendation to the Committee each year on the appropriate target annual compensation for each of the other executive officers. The Committee makes the final determination of the target annual compensation for each executive officer, including our CEO. While our CEO and Chief Human Resources Officer typically attend

Committee meetings, none of the other executive officers is present during the portion of the Committee's meetings when compensation for executive officers is set. In addition, neither our CEO nor our Chief Human Resources Officer is present during the portion of the Committee's meetings when their compensation is set.

ADJUSTMENT OF FINANCIAL MEASURES FOR ANNUAL AND LONG-TERM EQUITY INCENTIVES

Financial measures for the annual and long-term equity incentive programs are developed based on expectations about our planned activities and reasonable assumptions about the performance of our key business drivers for the applicable period. From time to time, however, discrete items or events may arise that were not contemplated by these plans or assumptions. These could include accounting and tax law changes, tax credits from items not within the ordinary course of our business operations, restructuring and write-off charges, significant acquisitions or dispositions, and significant gains or losses from litigation matters.

Under the Committee's exception guidelines regarding our annual and long-term equity incentive program measures, the Committee may adjust in the future the calculation of financial measures for these incentive programs to eliminate the effect of the types of items or events described above. In making these adjustments, the Committee's policy is to seek to neutralize the impact of the unexpected or unplanned items or events, whether positive or negative, in order to provide consistent and equitable incentive payments that the Committee believes are reflective of our performance. In considering whether to make a particular adjustment under its guidelines, the Committee will consider the potential tax impact of the adjustment under Code Section 162(m) and will review whether the item or event was one for which management was responsible and accountable, treatment of similar items in prior periods, the extent of the item's or event's impact on the financial measure, and the item's or event's characteristics relative to normal and customary business practices. Generally, the Committee will apply an adjustment to all compensation that is subject to that financial measure.

PRICING AND TIMING OF STOCK OPTION GRANTS AND TIMING OF PERFORMANCE-BASED EQUITY GRANTS

Our policies and our Equity Participation Plan require stock options to be granted at no less than the closing price of our common stock on the date of grant, except for the options granted to replace Kimberly-Clark stock options forfeited as a result of the spin-off (which were priced to preserve the intrinsic value of the forfeited Kimberly-Clark options), and the other options granted following the spin-off which used a five-day variable weighted price. Stock option grants to our executive officers are generally made annually at a meeting of the Committee that is scheduled at least one year in advance, and the grants are effective on the date of this meeting. However, if the meeting occurs during a period when we do not permit insiders to trade Company common stock (a "Blackout Period"), the stock option grants will not be effective until the first business day following the end of the Blackout Period. Our Blackout Periods end at 11:59 p.m. on the day we issue our quarterly earnings press releases. Our executives are not permitted to choose the grant date for their individual stock option grants.

The CEO has been delegated the limited authority to approve equity grants, including stock options, to employees for recruiting and special employee recognition and retention purposes. These grants may not exceed 100,000 shares in calendar year 2018. The CEO is not permitted to make any grants to any of our executive officers.

Annual stock option grants to non-executive officers are effective on the same date as the annual stock option grants to our executive officers. Recruiting, special recognition, and retention stock-based awards are generally made on a pre-determined date following our quarterly earnings release.

The Committee awards performance-based restricted share units to executive officers at its February meetings. We believe this practice is consistent with award practices at other public companies of comparable size. Our executives are not permitted to choose the grant date for their individual restricted share unit awards.

POLICY ON INCENTIVE COMPENSATION CLAWBACK

As described in detail above, a significant percentage of our executive officer compensation is incentive-based. The determination of the extent to which the incentive objectives are achieved is based in part on the Committee's discretion and in part on our published financial results. The Committee has the right to reassess its determination of the performance awards if the financial statements on which it relied are restated. The Committee has the right to direct management to seek to recover from any executive officer any amounts determined to have been inappropriately received by the individual executive officer. In addition, under the Company's Equity Participation Plan, the Committee may require awards with performance goals under the Plan to be subject to any policy we may adopt relating to the recovery of that award to the extent it is determined that performance goals relating to the awards were not actually achieved. Further, the Sarbanes-Oxley Act of 2002 mandates that the CEO and the chief financial officer reimburse us for any bonus or other incentive-based or equity-based compensation paid to them in a year following the issuance of financial statements that are later required to be restated as a result of misconduct. The Committee intends to review and revise the incentive compensation clawback policy once the SEC issues final regulations on clawbacks under the Dodd-Frank legislation enacted in 2010.

STOCK OWNERSHIP GUIDELINES

We strongly believe that the financial interests of our executive officers should be aligned with those of our stockholders. Accordingly, the Committee has established the following stock ownership guidelines for our executive officers:

TARGET STOCK OWNERSHIP AMOUNTS

POSITION	OWNERSHIP LEVEL
Chief Executive Officer	Five times annual base salary
Other named executive officers	Two times annual base salary

Failure to attain these targeted stock ownership levels within five years from date of hire for, or appointment to, an eligible position can result in the reduction of part or all of the executive's annual cash incentive (with a corresponding grant of time-vested restricted share units or restricted stock in that amount), or a reduction in future long-term equity incentive awards, either of which may continue until the ownership guideline is achieved. In determining whether our stock ownership guidelines have been met, any restricted stock and time-vested restricted share units held are counted as owned, but performance-based restricted share units are excluded until they vest. Executive officer stock ownership levels will be reviewed annually for compliance with these guidelines.

OTHER POLICES RELATING TO TRANSACTIONS IN COMPANY SECURITIES

We require all executive officers to pre-clear transactions involving our common stock (and other securities related to our common stock) with our Legal Department.

We do not permit our executive officers to engage in transactions that hedge an executive officer's economic risk of owning shares of our common stock. Additionally, our executives are not permitted to pledge shares of our common stock owned by them as collateral for loans or other obligations.

COMMITTEE EXERCISE OF DISCRETION TO REDUCE ANNUAL CASH INCENTIVE PAYMENT

In establishing performance goals and target levels under the annual cash incentive program, the Committee is exercising its discretion to limit the amount of the incentive payments, consistent with our pay-for-performance objective. In the absence of this exercise of discretion, our CEO would be entitled to an award equal to four percent of our earnings before unusual items, and each of our other executive officers would be entitled to an award equal to two percent of our earnings before unusual items; however, the Committee has exercised its discretion to limit the amount of the incentive payments each year of the program, and this potential maximum award has never been paid to any of the executive officers.

CORPORATE TAX DEDUCTION FOR EXECUTIVE COMPENSATION

The United States income tax laws generally limit the deductibility of compensation paid to any of a company's named executive officers to $1,000,000 per year. Prior to the enactment of the Tax Cuts and Jobs Act of 2017 (the "New Tax Law"), this limitation did not apply to compensation paid to the chief financial officer or to qualified performance-based forms of compensation if certain requirements were met. Several classes of our executive compensation, including option awards and portions of our long-term equity grants to executive officers, were designed to meet the requirements for deductibility.

Among other things, the New Tax Law included the chief financial officer as one of the covered employees and eliminated exceptions to the limit for qualified performance-based forms of compensation. Compensation paid to our named executive officers in excess of $1,000,000 will no longer be deductible unless it qualifies for the transition relief provisions of the New Tax Law, which are limited to certain arrangements that were in place as of November 2, 2017. Despite the fact that certain of our executive programs that were in place prior such date were intended to qualify as performance-based compensation and have not been materially amended or modified, the Company recognizes that the applicability of the New Tax Law is ambiguous and subject to further interpretation. Accordingly, there can be no assurance that these awards will be fully deductible under the transition relief provisions of the New Tax Law.

Although tax deductibility of compensation is preferred, it is not a primary objective of our compensation programs. In the Committee's view, meeting the compensation objectives set forth above is more important than the benefit of being able to deduct the compensation for tax purposes. The Committee has always reserved the ability to award compensation that is not exempt from the deduction limits of 162(m).

Compensation Committee Report

In accordance with its written charter adopted by the Board, the Compensation Committee of the Company has oversight of compensation policies designed to align executive officers' compensation with our overall business strategy, values, and management initiatives. In discharging its oversight responsibility, the Committee has retained an independent compensation consultant to advise the Committee regarding market and general compensation trends.

The Committee has reviewed and discussed the Compensation Discussion and Analysis with our management, which has the responsibility for preparing the Compensation Discussion and Analysis. Based upon this review and discussion, the Committee recommended to the Board that the Compensation Discussion and Analysis be included in this proxy statement and incorporated by reference in our Annual Report on Form 10-K filed with the SEC for the fiscal year ended December 31, 2017.

COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS
Julie Shimer, Chairperson
John Byrnes
William Hawkins
Maria Sainz

Analysis of Compensation-Related Risks

The Committee has reviewed an assessment of our compensation programs for our employees, including our executive officers, to analyze the risks arising from our compensation systems. The Committee's independent consultant assisted with the review of our executive compensation programs.

Based on this assessment, the Committee believes that the design of our compensation programs, including our executive compensation program, does not encourage our executives or employees to take excessive risks and that the risks arising from these programs are not reasonably likely to have a material adverse effect on the Company.

Several factors contributed to the Committee's conclusion, including:

- The Committee believes the Company maintains a values-driven, ethics-based culture supported by a strong tone at the top.
- The performance targets for annual cash incentive programs are selected to ensure that they are reasonably attainable in a manner consistent with the Company's business plans without encouraging executives or employees to take inappropriate risks.
- An analysis by the Committee's consultant indicated that our compensation programs are consistent with those of our peer group. In addition, the analysis noted that target levels for direct annual compensation are compared to the median of our peer group.
- The Committee believes the allocation among the components of direct annual compensation provides an appropriate balance between annual and long-term incentives, total fixed, and performance-based compensation.
- Annual cash incentives and long-term performance-based restricted share unit awards under our executive compensation program are capped at a reasonable percent of the target award, and all other material non-executive cash incentive programs are capped at reasonable levels, which the Committee believes protects against disproportionately large incentives.
- The Committee believes the performance measures and the multi-year vesting features of the long-term equity incentive compensation component encourage participants to seek sustainable growth and value creation.
- The Committee believes inclusion of share-based compensation through the long-term equity incentive compensation component encourages appropriate decision-making that is aligned with the long-term interests of stockholders.
- Our stock ownership guidelines further align the interests of management and stockholders.

Compensation Tables

Summary Compensation

The following table contains information concerning compensation awarded to, earned by, or paid to the Company's named executive officers by the Company for the years 2015 through 2017. Position titles refer to each Company named executive officer's title at the Company effective December 31, 2017. Additional information regarding the items reflected in each column follows the table.

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	YEAR	SALARY ($)	BONUS ($)	STOCK AWARDS ($)	OPTION AWARDS ($)	NON-EQUITY INCENTIVE PLAN COMPENSATION ($)	CHANGE IN PENSION VALUE AND NONQUALIFIED DEFERRED COMPENSATION EARNINGS ($)	ALL OTHER COMPENSATION ($)	TOTAL ($)
Joseph F. Woody Chief Executive Officer	2017	442,500	—	3,135,706	1,416,004	884,124	—	284,761	6,163,095
Robert E. Abernathy, Retired Chairman of the Board and Chief Executive Officer	2017	664,566	—	2,259,910	1,199,999	952,032	—	127,689	5,204,197
	2016	837,375	—	2,465,829	1,199,999	1,400,091	—	55,752	5,959,046
	2015	837,375	—	1,800,021	2,699,994	161,613	—	96,755	5,595,758
Steven E. Voskuil Senior Vice President and Chief Financial Officer	2017	449,544	—	602,653	320,003	522,940	—	79,422	1,974,562
	2016	436,450	—	657,562	319,997	510,821	—	45,916	1,970,746
	2015	436,450	—	465,732	697,949	58,964	—	75,784	1,734,880
Rhonda D. Gibby Senior Vice President and Chief Human Resources Officer	2017	320,943	—	263,639	140,003	267,312	—	43,008	1,034,905
	2016	314,650	—	300,006	146,000	263,047	—	19,128	1,042,831
	2015	314,650	—	209,980	315,008	30,364	—	22,891	892,892

NAME AND PRINCIPAL POSITION	YEAR	SALARY ($)	BONUS ($)	STOCK AWARDS ($)	OPTION AWARDS ($)	NON-EQUITY INCENTIVE PLAN COMPENSATION ($)	CHANGE IN PENSION VALUE AND NONQUALIFIED DEFERRED COMPENSATION EARNINGS ($)	ALL OTHER COMPENSATION ($)	TOTAL ($)
Christopher M. Lowery Senior Vice President and Chief Operating Officer	2017	496,589	250,000	772,135	410,003	701,451	—	75,511	2,705,689
	2016	482,125	—	863,029	419,997	685,196	—	31,262	2,481,609
	2015	482,125	—	604,232	902,739	79,093	—	42,381	2,110,570
John W. Wesley Senior Vice President and General Counsel	2017	393,750	—	376,627	200,003	395,482	—	51,263	1,417,125
	2016	393,750	—	410,971	200,000	395,010	—	24,392	1,424,123
	2015	393,750	—	239,991	360,014	45,596	—	35,771	1,075,122

Salary. The amounts in this column represent base salary earned during the year.

Bonus. The amount in this column reflects the value of the cash retention incentive payment paid to Mr. Lowery for his performance under the terms of the July 31, 2017 Retention Incentive Agreement between him and the Company.

Stock Awards and Option Awards. The amounts in these columns reflect the grant date fair value, computed in accordance with ASC Topic 718, of restricted share unit awards and stock options, respectively, granted under the Halyard Health, Inc. Equity Participation Plan in 2017, 2016, and 2015. See Note [10] to our audited consolidated and combined financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017 for the assumptions used in valuing and expensing these restricted share units and stock option awards in accordance with ASC Topic 718.

For awards that are subject to performance conditions, the value is based on the probable outcome of the conditions at grant date. This value, as well as the value of the awards at the grant date assuming the highest level of performance conditions will be achieved and using the grant date stock price, is set forth below:

NAME	YEAR	STOCK AWARDS AT GRANT DATE VALUE ($)	STOCK AWARDS AT HIGHEST LEVEL OF PERFORMANCE CONDITIONS ($)
Joseph F. Woody	2017	2,123,996	4,247,992
Robert E. Abernathy	2017	1,800,001	3,600,003
	2016	1,800,009	3,600,018
	2015	1,800,021	3,600,042
Steven E. Voskuil	2017	480,008	960,017
	2016	480,008	960,016
	2015	465,732	931,464
Rhonda D. Gibby	2017	209,986	419,973
	2016	218,999	437,998
	2015	209,980	419,960
Christopher M. Lowery	2017	614,999	1,229,999
	2016	629,995	1,259,990
	2015	604,232	1,208,464
John W. Wesley	2017	299,980	599,961
	2016	300,002	600,004
	2015	239,991	479,982

Non-Equity Incentive Plan Compensation. The amounts in this column are the annual cash incentive payments described above in "Compensation Discussion and Analysis." These amounts were earned during the years indicated and were paid to the Company's named executive officers in February or March of the following year.

Change In Pension Value and Nonqualified Deferred Compensation Earnings. Each of the Company's named executive officers participated in the Halyard Health Supplemental 401(k) Plan, a non-qualified defined contribution plan. Earnings on each of these plans are not included in the Summary Compensation Table because the earnings were not above-market or preferential. See "Nonqualified Deferred Compensation" below for a discussion of this plan and each named executive officer's earnings under the plan in 2017.

All Other Compensation. All other compensation consists of the following:

NAME	YEAR	PERQUISITES ($) (1)	DEFINED CONTRIBUTION PLAN AMOUNTS ($) (2)	TAX GROSS-UP ($) (3)	TOTAL ($)
Joseph F. Woody	2017	194,156	20,206	70,400	284,761
Robert E. Abernathy	2017	—	127,689	—	127,689
	2016	—	55,752	—	55,752
	2015	—	96,755	—	96,755
Steven E. Voskuil	2017	8,446	69,788	1,189	79,422
	2016	10,000	27,543	8,374	45,916
	2015	18,585	41,637	15,562	75,784
Rhonda D. Gibby	2017	—	43,008	—	43,008
	2016	—	19,128	—	19,128
	2015	—	22,891	—	22,891
Christopher M. Lowery	2017	—	75,511	—	75,511
	2016	—	31,262	—	31,262
	2015	—	42,381	—	42,381
John W. Wesley	2017	—	51,263	—	51,263
	2016	—	24,392	—	24,392
	2015	—	35,771	—	35,771

(1) Perquisites. Perquisites for Mr. Woody included reimbursement for moving expenses in connection with his relocation to the Atlanta area to assume his new role as CEO of the Company in 2017. Perquisites for Mr. Voskuil included reimbursement for moving expenses in connection with his relocation to the Atlanta area to continue in his role as CFO.
(2) Defined Contribution Plan Amounts. Matching contributions were made under the Halyard Health 401(k) Plan and Supplemental 401(k) Plan in 2017 for Mr. Woody and in 2017, 2016, and 2015 for each of the Company's other named executive officers.
(3) Tax Gross-Ups. The amount shown for Mr. Woody reflects tax reimbursement under our executive relocation program in connection with his relocation to the Atlanta area to assume his new role as CEO of the Company in 2017.

Grants of Plan-Based Awards

The following table sets forth Company plan-based awards granted to the Company's named executive officers during 2017 on a grant-by-grant basis.

GRANTS OF PLAN-BASED AWARDS IN 2017

				ESTIMATED FUTURE PAYOUTS UNDER NON-EQUITY INCENTIVE PLAN AWARDS [1]			ESTIMATED FUTURE PAYOUTS UNDER EQUITY INCENTIVE PLAN AWARDS [2]						
NAME	GRANT TYPE	DATE COMMITTEE TOOK ACTION [3]	GRANT DATE [3]	THRESHOLD ($)	TARGET ($)	MAXIMUM ($)	THRESHOLD (#)	TARGET (#)	MAXIMUM (#)	ALL OTHER STOCK AWARDS: NUMBER OF SHARES OF STOCK OR UNITS (#)	ALL OTHER OPTION AWARDS: NUMBER OF SECURITIES UNDERLYING OPTIONS (#) [4]	EXERCISE OR BASE PRICE OF OPTION AWARDS ($/SH)	GRANT DATE FAIR VALUE OF STOCK AND OPTION AWARDS ($) [5]
Joseph F. Woody	Performance-based RSUs	06/19/2017	6/26/2017					53,193	106,386				2,135,699
	Time-vested stock option	06/19/2017	6/26/2017								149,053	39.93	1,416,004
	Annual cash incentive award				1,017,750	2,289,938							
	Sign-on Grant [6]	06/19/2017	6/26/2017							25,044			1,000,007
Robert E. Abernathy	Performance-based RSUs							46,083	92,166				2,259,910
	Time-vested stock option										134,680	36.74	1,199,999
	Annual cash incentive award				862,496	1,940,616							
Steven E. Voskuil	Performance-based RSUs	02/22/2017	2/28/2017					12,289	24,578				602,653
	Time-vested stock option	02/22/2017	5/3/2017								35,915	36.74	320,003
	Annual cash incentive award				314,681	708,032							
Rhonda D. Gibby	Performance-based RSUs	02/22/2017	2/28/2017					5,376	10,752				263,639
	Time-vested stock option	02/22/2017	5/3/2017								15,713	36.74	140,003
	Annual cash incentive award				160,472	361,061							
Christopher M. Lowery	Performance-based RSUs	02/22/2017	2/28/2017					15,745	31,490				772,135
	Time-vested stock option	02/22/2017	5/3/2017								46,016	36.74	410,003
	Annual cash incentive award				422,101	949,726							
John W. Wesley	Performance-based RSUs	02/22/2017	2/28/2017					7,680	15,360				376,627
	Time-vested stock option	02/22/2017	5/3/2017								22,447	36.74	200,003
	Annual cash incentive award				236,250	531,563							

(1) Represents the potential annual performance-based incentive cash payments each named executive officer could earn in 2017. These awards were granted under the Executive Officer Achievement Award Program, which is the annual cash incentive program for the Company's executive officers. Actual amounts earned in 2017 were based on the 2017 objectives established by the Company's Compensation Committee. See "Compensation Discussion and Analysis." At the time of the grant, the incentive payment could range from the threshold amount to the maximum amount depending on the extent to which the 2017 objectives were met. The actual amounts paid in 2018 based on the 2017 objectives are set forth in the Summary Compensation Table under the column entitled "Non-Equity Incentive Plan Compensation."

(2) Performance-based restricted share units granted to the named executive officers under the Equity Participation Plan.

(3) The grant date for each award is the effective date of each grant established by the Company's Compensation Committee when it took action to grant the awards, unless there is a date for such grant in the column entitled "Date Committee Took Action." If the date on which the Committee takes action to approve a grant falls during a blackout period during which insiders are not permitted to buy or sell shares of our common stock, then the grant is made effective as of a later date when the blackout period has expired. Our blackout periods typically expire at 11:59 p.m. Eastern time on the day after we publicly release the results of the prior quarter. In addition, as described in "Compensation Discussion and Analysis," the Committee approved the dollar value of annual time-vested stock options grants to executive officers at its meetings in February but the option award is not effective until May when annual option awards are granted to non-executive officers.

(4) Time-vested stock options granted under the Equity Participation Plan to Mr. Woody on June 26, 2017, and to the other named executive officers on May 3, 2017, with respect to annual long-term incentive grants. See "Compensation Discussion and Analysis" for a discussion of our annual long-term annual grants.
(5) Grant date fair value is determined in accordance with ASC Topic 718. See Note 12 to our audited consolidated and combined financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017 for the assumptions used in valuing and expensing these restricted share units and stock option awards in accordance with ASC Topic 718.
(6) Time-vested restricted share units granted under the Equity Participation Plan to Mr. Woody on June 26, 2017 as a signing bonuses when he agreed to assume his role as Chief Executive Officer of the Company.

OUTSTANDING EQUITY AWARDS AS OF DECEMBER 31, 2017 [1]

		OPTION AWARDS [2]				STOCK AWARDS			
NAME	GRANT DATE	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS (#) EXERCISABLE	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS (#) UNEXERCISABLE	OPTION EXERCISE PRICE ($) [3]	OPTION EXPIRATION DATE	NUMBER OF SHARES OR UNITS OF STOCK THAT HAVE NOT VESTED (#) [4]	MARKET VALUE OF SHARES OR UNITS OF STOCK THAT HAVE NOT VESTED ($) [7]	EQUITY INCENTIVE PLAN AWARDS: NUMBER OF UNEARNED SHARES, UNITS OR OTHER RIGHTS THAT HAVE NOT VESTED (#)	EQUITY INCENTIVE PLAN AWARDS: MARKET OR PAYOUT VALUE OF UNEARNED SHARES, UNITS, OR OTHER RIGHTS THAT HAVE NOT VESTED ($) [8]
Joseph F. Woody	6/26/2017		149,053	39.93	6/26/2027				
	6/26/2017					25,044	1,156,532		
	6/26/2017							53,193	2,456,453
Robert E. Abernathy	5/3/2017	134,680		36.74	9/1/2022				
	2/28/2017							46,083	2,128,113
	5/5/2016	155,844		29.48	9/1/2022				
	3/1/2016							65,598[9]	3,029,316
	5/5/2015	96,154		45.53	9/1/2022				
	3/5/2015							39,587	1,828,128
	11/7/2014	21,999		37.88	9/1/2022				
Steven E. Voskuil	5/3/2017		35,915	36.74	5/3/2027				
	2/28/2017							12,289	567,506
	5/5/2016	12,467	29,091	29.48	5/5/2026				
	3/1/2016							17,493[9]	807,827
	5/5/2015	14,904	9,936	45.43	5/5/2025				
	3/18/2015		713	47.62	3/5/2025				
	3/18/2015							330[8]	15,239
	3/5/2015		21,404	45.47	3/5/2025				
	3/5/2015							9,897[8]	457,043
	11/7/2014	14,135		26.04	5/2/2022				
	11/7/2014	20,443		34.24	5/1/2023				
	11/7/2014	31,671		37.50	6/19/2024				
	11/7/2014	6,000		37.88	11/7/2024				
Rhonda D. Gibby	5/3/2017		15,713	36.74	5/3/2027				
	2/28/2017							5,376	248,264
	5/5/2016	5,688	13,273	29.48	5/5/2026				
	3/1/2016							7,981[9]	368,563
	5/5/2015	6,730	4,488	45.53	5/5/2025				
	3/5/2015							4,618[8]	213,259
	3/5/2015		9,989	45.47	3/5/2025				
	11/7/2014	5,378		26.04	5/2/2022				
	11/7/2014	10,223		34.24	5/1/2023				
	11/7/2014	11,333		37.50	6/19/2024				
	11/7/2014	3,600		37.88	11/7/2024				

		OPTION AWARDS [2]				STOCK AWARDS			
NAME	GRANT DATE	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS (#) EXERCISABLE	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS (#) UNEXERCISABLE	OPTION EXERCISE PRICE ($) [3]	OPTION EXPIRATION DATE	NUMBER OF SHARES OR UNITS OF STOCK THAT HAVE NOT VESTED (#) [4]	MARKET VALUE OF SHARES OR UNITS OF STOCK THAT HAVE NOT VESTED ($) [7]	EQUITY INCENTIVE PLAN AWARDS: NUMBER OF UNEARNED SHARES, UNITS OR OTHER RIGHTS THAT HAVE NOT VESTED (#)	EQUITY INCENTIVE PLAN AWARDS: MARKET OR PAYOUT VALUE OF UNEARNED SHARES, UNITS, OR OTHER RIGHTS THAT HAVE NOT VESTED ($) [9]
Christopher M. Lowery	5/5/2016	16,363		29.48	5/5/2026				
	5/5/2015	19,230		45.53	5/5/2025				
	11/7/2014	5,840		26.04	5/2/2022				
	11/7/2014	9,713		34.24	5/1/2023				
	11/7/2014	19,336		37.50	6/19/2024				
	11/7/2014	14,200		37.88	11/7/2024				
John W. Wesley	5/3/2017		22,447	36.74	5/3/2027				
	2/28/2017							7,680	354,662
	5/5/016	7,792	18,182	29.48	5/5/2026				
	3/1/2016							10,933	504,886
	5/5/2015	7,692	5,129	45.53	5/5/2025				
	3/5/2015							5,278	243,738
	3/5/2015		11,416	45.57	3/5/2025				
	11/7/2014	2,200		37.88	11/7/2024				

(1) The amounts shown reflect outstanding equity awards granted under the Equity Participation Plan.
(2) Stock options granted under the Equity Participation Plan generally become exercisable in three annual installments of 30 percent, 30 percent and 40 percent, beginning on the first anniversary of the grant date. Grow to Greatness awards become exercisable in three annual installments of 33.3% each, beginning on March 5, 2017.
All options become exercisable for three years upon death or total and permanent disability and for the earlier of five years or the remaining term of the options, upon retirement of the officer. In addition, options generally become exercisable upon a termination of employment following a change of control, and options granted to the named executive officers are subject to the Executive Severance Plan. See "Potential Payments on Termination or Change of Control" below. The options may be transferred by the officers to family members or certain entities in which family members have interests.
(3) The option price per share is equal to the closing price per share of the Company's common stock at grant date, except for replacement options which have a grant price intended to preserve the intrinsic value of the forfeited Kimberly-Clark option being replaced, and options granted immediately following the spin-off which were priced using a weighted average closing price for the first five trading days following the effective date of the spin-off.
(4) Time-vested restricted share units granted under the Equity Participation Plan to Mr. Woody on June 26,2017 as a signing bonus when he agreed to assume his role as Chief of Executive Officer of the Company.
(5) The values in this column are based on the closing price of our common stock on December 29, 2017 of $46.18 per share.
(6) These performance restricted share units vest on March 5, 2018.
(7) These performance restricted share units vest on March 1, 2019.
(8) These performance restricted share units vest on February 28, 2020.
(9) The values in this column are based on the closing price of our common stock on December 29, 2017 of $46.18 per share. The value assumes the performance-based restricted share units will payout at target. As of December 31, 2017, the performance-based share units issued in March 2015 are on pace to pay out at zero percent, the performance-based share units issued in March 2016 are on pace to payout at 200 percent, and the performance-based share units issued in February 2017 and June 2017 are on pace to payout at 81 percent.

Discussion Of Summary Compensation And Plan-Based Awards Tables

The Company's executive compensation policies and practices, pursuant to which the compensation set forth in the Summary Compensation Table and the Grants of Plan-Based Awards in 2017 table was paid or awarded, are described under "Compensation Discussion and Analysis" above.

Outstanding Equity Awards

The following table sets forth information concerning outstanding Company equity awards for the named executive officers as of December 31, 2017. The 2017 and 2016 awards were part of our annual long-term incentive compensation awards. The 2015 awards were part of our annual long-term incentive compensation awards or our 2015 Grow to Greatness awards. The March 18, 2015 grants to Messrs. Lowery and Voskuil were made to correct errors in the calculation of their annual long-term incentive compensation awards and our 2015 Grow to Greatness awards.

Option Exercises and Stock Vested

The following table sets forth information concerning Company stock options exercised and stock awards vested during 2017 for the Company's named executive officers.

OPTION EXERCISES AND STOCK VESTED IN 2017

	OPTION AWARDS		STOCK AWARDS[1]	
NAME	NUMBER OF SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED ON EXERCISE ($)	NUMBER OF SHARES ACQUIRED ON VESTING (#)	VALUE REALIZED ON VESTING ($) [2]
Joseph F. Woody	—	—	—	—
Robert E. Abernathy	—	—	38,302	1,512,929
Steven E. Voskuil	—	—	15,517	649,571
Rhonda D. Gibby	—	—	6,990	298,095
Christopher M. Lowery	—	—	19,904	872,946
John W. Wesley	—	—	8,024	330,386

(1) The amounts in this table reflect Company time-based restricted share units that vested during the year.
(2) The dollar amount reflects the total pre-tax value received by the Company's named executive officers upon the vesting of the time-vested restricted share units (number of shares vested times the closing price of the Company's common stock on the vesting date), including cash paid in lieu of fractional shares. It is not the grant date fair value disclosed in other locations in this proxy statement.

Pension Benefits

The Company does not offer a pension plan in the United States, and none of the Company's executive officers participate in a Company pension plan.

Nonqualified Deferred Compensation

The following table sets forth information concerning the Company's nonqualified defined contribution plan and deferred compensation plans for the Company's named executive officers during 2017.

2017 NONQUALIFIED DEFERRED COMPENSATION

NAME	PLAN	COMPANY CONTRIBUTIONS IN 2017 ($) (1)	AGGREGATE EARNINGS IN 2017 ($) (2)	AGGREGATE BALANCE AT DECEMBER 31, 2017 ($)
Joseph F. Woody	Supplemental 401(k) Plan	4,006	73	4,079
Robert E. Abernathy	Supplemental 401(k) Plan	111,489	148,710	966,553
Steven E. Voskuil	Supplemental 401(k) Plan	53,588	38,808	280,050
Rhonda D. Gibby	Supplemental 401(k) Plan	26,808	13,455	102,236
Christopher M. Lowery	Supplemental 401(k) Plan	59,311	16,438	168,307
John W. Wesley	Supplemental 401(k) Plan	35,063	53,398	399,590

(1) Contributions consist of amounts accrued by the Company under the Halyard Supplemental 401(k) Plan. These amounts are included in the Summary Compensation Table and represent a portion of the Defined Contribution Plan Payments included in All Other Compensation.
(2) The amounts in this column show the changes in the aggregate account balance for the Company's named executive officers during 2017 that are not attributable to company contributions. Aggregate earnings are not included in the Summary Compensation Table because the earnings are not above-market or preferential.

Overview of Qualified and Non-Qualified Plans. The following is an overview of the Company's qualified and non-qualified plans offered to our executive officers as of December 31, 2017.

	HALYARD 401(K) PLAN	HALYARD SUPPLEMENTAL 401(K) PLAN
Purpose	To assist employees in saving for retirement	To provide benefits to the extent necessary to fulfill the intent of the Halyard 401(k) Plan without regard to the limitations imposed by the Code on qualified defined contribution plans
Eligible participants	Most employees	Salaried employees impacted by limitations imposed by the Code on the Halyard 401(k) Plan
Is the plan qualified under the Code?	Yes	No
Can employees make contributions?	Yes	No
Does the Company make contributions or match employee contributions?	The Company matches 100% of employee contributions, to a yearly maximum of 6% of eligible compensation.	The Company provides credit to the extent the Company's contributions to the Halyard 401(k) Plan are limited by the Code
When do account balances vest?	Immediately	Immediately
How are account balances invested?	Account balances are invested in certain designated investment options selected by the participant	Account balances are credited with earnings and losses as if such account balances were invested in certain designated investment options selected by the participant
When are account balances distributed?	Distributions of the participant's vested account balance are only available after termination of employment. Loans, hardship and certain other withdrawals are allowed prior to termination of employment for certain vested amounts under the Halyard 401(k) Plan	Distributions of the participant's vested account balance are payable after termination of employment.

The Halyard Supplemental 401(k) Plan is not funded and represents a general obligation of the Company.

Potential Payments on Termination or Change of Control

The Company's executive officers are eligible to receive certain benefits in the event of termination of employment, including following a change of control of the Company. This section describes various termination scenarios as well as the payments and benefits payable under those scenarios.

Severance Benefits

The Company maintains two severance plans that cover its executive officers, depending on the circumstances that result in their termination. Those plans include the Executive Severance Plan, which is applicable when an executive officer is terminated following a change of control, and the Severance Pay Plan, which is applicable in the event of certain other involuntary terminations. An executive officer may not receive severance payments under more than one of the plans described below.

Executive Severance Plan. The Company's Board of Directors determines the eligibility criteria for participation in the Executive Severance Plan. The Company has entered into an agreement under this plan with each of its named executive officers. The agreements provide that, in the event of a "Qualified Termination of Employment" (as described below), the executive officers will each receive a cash payment in an amount equal to the sum of:

- For the CEO, two times the sum of annual base salary and the average of the annual cash incentive award for the prior three years, or such fewer number of years for which the CEO had been employed by the Company, and for any other executive officer, one and one-half times the sum of annual base salary and the average of the annual cash incentive award for the prior three years, or such fewer number of years for which the executive officer had been employed by the Company,
- If the separation from service occurs after March 31 of a given year, the pro-rated annual cash incentive award for that year, assuming that performance was achieved at the target level of performance,
- The value of any outstanding stock option awards, based on the closing price of the Company's common stock at the date of the Qualified Termination of Employment,
- The value of the employer match each executive officer would have received if he or she had remained employed an additional two years under the Halyard Health 401(k) Plan and Halyard Health Supplemental 401(k) Plan, and
- For the CEO, two times the value of the amount of COBRA premiums for medical and dental coverage and for any other executive officer, one and one-half times the value of the amount of COBRA premiums for medical and dental coverage.

A "Qualified Termination of Employment" is a separation from service within two years following a change of control of the Company (as defined in the plan) either involuntarily without cause or by the participant with good reason (as defined in the plan). In addition, any involuntary separation from service without cause within one year before a change of control will also be determined to be a Qualified Termination of Employment if it is in connection with, or in anticipation of, a change of control.

The current agreements with each executive officer expire on October 31, 2020, unless extended by the Company's Compensation Committee.

The Executive Severance Plan provides that the executive officers are not entitled to a tax gross-up if they incur an excise tax due to the application of Section 280G of the Code. Instead, payments and benefits payable to an executive officer will be reduced to the extent doing so would result in the officer retaining a larger after-tax amount, taking into account the income, excise and other taxes imposed on the payments and benefits.

The agreements with the executive officers provide that they will retain in confidence any confidential information known to them concerning the Company and the Company's business so long as such information is not publicly disclosed.

Severance Pay Plan. The Company's Severance Pay Plan generally provides eligible employees (including the Company's named executive officers) severance payments and benefits in the event of certain involuntary terminations. Benefits under the Severance Pay Plan depend on the participants' employee classification.
Under the Severance Pay Plan, if an executive officer's employment was involuntarily terminated, he or she would receive:

- For the CEO, two times the sum of annual base salary and the average annual incentive award for the three prior fiscal years, or such fewer number of years for which the CEO had been employed by the Company, and for any other executive officer, one and one-half times the sum of annual base salary and the average annual incentive award for the three prior fiscal years, or such fewer number of years for which the executive officer had been employed by the Company,
- If the termination occurs after March 31 of a given year, a pro-rated annual incentive award for that year based on actual performance,
- Six months of COBRA premiums for medical coverage, and
- Six months of outplacement services and three months of participation in Halyard's employee assistance program.

Severance pay under the Severance Pay Plan will not be paid to any participant who is terminated for cause (as defined in the plan), is terminated during a period in which the participant is not actively at work for more than 25 weeks (except to the extent otherwise required by law), voluntarily quits or retires, dies or is offered a comparable position (as defined in the plan).
A named executive officer must execute a full and final release of claims against the Company within a specified period of time following termination to receive severance benefits under the Severance Pay Plan. If the release has been timely executed, severance benefits are payable as a lump sum cash payment no later than 60 days following the participant's termination date. Any current year annual incentive award that is payable under the Severance Pay Plan will be paid at the same time as it was payable under the Executive Officer Achievement Award Program or the Management Achievement Award Program, as applicable, but no later than 60 days following the calendar year of the separation from service.

Retirement, Death and Disability

Retirement. Retirement is defined as separation from service on or after the age of 60 with five years of service, or on or after age 55 with ten years of service. Years of service at Kimberly-Clark prior to the spin-off are considered years of service for the definition of retirement. In the event of retirement, the Company's named executive officers are entitled to receive:

- Accelerated vesting of unvested stock options (excluding the Grow-to-Greatness options granted in 2015), and the options will be exercisable until the earlier of five years or the remaining term of the options,
- For units outstanding more than six months after the date of grant, performance-based restricted share units will be payable based on attainment of the performance goal at the end of the performance period,
- Time-vested restricted share units will be vested pro rata, based on the number of full months of employment during the restricted period prior to the participant's termination of employment, payable within 70 days following the end of the performance period,
- Annual incentive award payment under the Executive Officer Achievement Award Program or the Management Achievement Award Program, as applicable, as determined by the Halyard Compensation Committee in its discretion.

Death. In the event of death while an active employee, the following benefits are payable:

- Accelerated vesting of unvested stock options, and the options will be exercisable until the earlier of three years or the remaining term of the options,
- Time-vested restricted share units will be vested pro rata, based on the number of full months of employment during the restricted period prior to the participant's termination of employment, payable within 70 days following the end of the restricted period,
- For units outstanding more than six months after the date of grant, performance-based restricted share units will be vested pro rata, based on attainment of the performance goal at the end of the restricted period, payable within 70 days following the end of the performance period,

- Annual incentive award payment under the Executive Officer Achievement Award Program or the Management Achievement Award Program, as applicable, as determined by the Halyard Compensation Committee in its discretion, and
- Payment of benefits under the Company's group life insurance plan (which is available to all salaried employees in the United States) equal to two times the participant's annual pay, up to $1 million (plus any additional coverage of three, four, five or six times the participant's annual pay, in increments of up to $1 million each, purchased by the participant at group rates). The Company-provided and employee-purchased benefits cannot exceed $6 million.

Disability. In the event of a separation from service due to a total and permanent disability, as defined in the applicable plan, the Company's named executive officers are entitled to receive:

- Accelerated vesting of unvested stock options, and the options will be exercisable until the earlier of three years or the remaining term of the options,
- Time-vested restricted share units will be vested pro rata, based on the number of full months of employment during the restricted period prior to the participant's termination of employment, payable within 70 days following the end of the performance period,
- For units outstanding more than six months after the date of grant, performance-based restricted share units will be vested pro rata, based on attainment of the performance goal at the end of the restricted period, payable within 70 days following the end of the restricted period,
- Annual incentive award payment under the Executive Officer Achievement Award Program or the Management Achievement Award Program, as applicable, as determined by the Company's Compensation Committee in its discretion,
- Continuing coverage under the Company's group life insurance plan (available to all U.S. salaried employees), with no requirement to make monthly contributions toward coverage during disability, and
- Payment of benefits under the Company's Long-Term Disability Plan (available to all U.S. salaried employees). Long-term disability under the plan would provide income protection of monthly base pay, ranging from a minimum monthly benefit of $50 to a maximum monthly benefit of $20,000. Benefits are reduced by the amount of any other Company or government-provided income benefits received (but will not be lower than the minimum monthly benefit).

Potential Payments on Termination or Change of Control Table

The following table presents the approximate value of (1) the severance benefits for the named executive officers under the Executive Severance Plan had a Qualified Termination of Employment under that plan occurred on December 31, 2017; (2) the severance benefits for the Halyard named executive officers under the Severance Pay Plan if an involuntary termination had occurred on December 31, 2017; (3) the benefits that would have been payable on the death of the Halyard named executive officers on December 31, 2017; (4) the benefits that would have been payable on the total and permanent disability of the Halyard named executive officers on December 31, 2017; and (5) the potential payments to Mr. Wesley if he had retired on December 31, 2017. If applicable, amounts in the table were calculated using the closing price of Halyard's common stock on December 31, 2017 of $46.18 per share. Because Mr. Abernathy retired during 2017, the amounts in the table for him reflect only the value of the retirement benefits he received as of the date of retirement.

Because none of the Company's named executive officers, other than Mr. Wesley, were eligible to retire as of December 31, 2017, potential payments assuming retirement on that date are not included for the other named executive officers. The value of benefits that already were vested as of December 31, 2017, such as vested but unexercised stock options and the balances of the executive officers' accounts under the Halyard Health 401(k) Plan and the Halyard Supplemental 401(k) Plan, are not included in the table.

The amounts presented in the following table are in addition to amounts each Company named executive officer earned or accrued prior to termination, such as previously vested benefits under Company's qualified and non-qualified plans, previously vested options, restricted stock and restricted share units and accrued salary and vacation. For information about these previously earned and accrued amounts, see the "Summary Compensation Table," "Outstanding Equity Awards," "Option Exercises and Stock Vested," and "Nonqualified Deferred Compensation."

NAME	CASH PAYMENT ($)	EQUITY WITH ACCELERATED VESTING ($)	ADDITIONAL RETIREMENT BENEFITS ($)	CONTINUED BENEFITS AND OTHER AMOUNTS ($)	TOTAL ($)
Joseph F. Woody					
Qualified Termination of Employment in connection with a Change in Control (1)	4,046,793	931,581 (2)	197,009 (3)	33,520 (4)	5,208,903
Involuntary termination absent a Change in Control (5)	4,046,793			13,799 (6)	4,060,592
Death (7)	1,884,124 (8)	1,533,745 (2)			3,417,869
Disability	884,124	1,533,745 (2)			2,417,869
Robert E. Abernathy					
Retirement		4,178,962 (2)			4,178,962
Steven E. Voskuil					
Qualified Termination of Employment in connection with a Change in Control (1)	1,305,760	1,917,044 (2)	85,580 (3)	34,777 (4)	3,343,160
Involuntary termination absent a Change in Control (5)	1,305,760			16,768 (6)	1,322,528
Death (7)	1,422,040 (8)	1,930,751 (2)			3,352,791
Disability	522,940	3,001,283 (2)			3,524,223
Rhonda D. Gibby					
Qualified Termination of Employment in connection with a Change in Control (1)	810,345	838,061 (2)	55,199 (3)	20,490 (4)	1,724,096
Involuntary termination absent a Change in Control (5)	810,345			12,243 (6)	822,588
Death (7)	909,212 (8)	869,682 (2)			1,778,894
Disability	267,312	1,327,744 (2)			1,595,056
Christopher M. Lowery					
Qualified Termination of Employment in connection with a Change in Control (1)	1,543,696	805,159 (2)	98,170 (3)	28,963 (4)	2,475,987
Involuntary termination absent a Change in Control (5)	1,543,696			14,825 (6)	1,558,521
Death (7)	1,694,651 (8)	2,506,055 (2)			4,200,706
Disability	701,451	2,213,627 (2)			2,915,078
John W. Wesley					
Qualified Termination of Employment in connection with a Change in Control (1)	1,075,267	680,364 (2)	71,846 (3)	34,777 (4)	1,862,254
Involuntary termination absent a Change in Control (5)	1,075,267			16,768 (6)	1,092,035
Death (7)	1,182,983 (8)	1,157,464 (2)			2,340,447
Disability	395,483	1,310,850 (2)			1,706,333
Retirement	395,483	1,157,464 (2)			1,552,947

(1) Represents amounts payable under the Halyard Health Executive Severance Plan.
(2) Assumes that performance-based restricted stock units would vest at target level.
(3) Includes the value of two additional years of employer contributions under the Halyard 401(k) Plan and the Halyard Supplemental 401(k) Plan, pursuant to the terms of the Executive Severance Plan.
(4) Includes an amount equal to 24 months of COBRA medical and dental coverage for Mr. Woody and 18 months of COBRA medical and dental coverage for the other executive officers.
(5) Benefits payable under the Halyard Health Severance Pay Plan.
(6) Equals six months of COBRA medical coverage and outplacement services.
(7) Balances in each executive's accounts under the Halyard 401(k) Plan and the Halyard Supplemental 401(k) Plan are excluded because the payout of those balances upon death is a benefit available to all U.S. salaried employees.
(8) For death, includes the payment of benefits under the Company's group life insurance plan (which is available to all U.S. salaried employees). For death and disability, assumes the Company Compensation Committee would approve payment under the Executive Officer Achievement Award Program for 2017 at the actual award level discussed in Compensation Discussion and Analysis.

The cost of continued coverage under the Company's group life insurance plans has been excluded from the table because the benefit is available to all U.S. salaried employees and does not discriminate in scope or terms or operation in favor of our named executive officers. Figures also do not include benefits payable under Halyard's Long-Term Disability Plan (which is available to all U.S. salaried employees), the value of which would be dependent on the life span of the Company's named executive officer and the value of any Company or government-provided income benefits received.

Ratio of CEO Compensation to Median Employee Compensation

The 2017 compensation disclosure ratio of the median annual total compensation of all Company employees worldwide to the annual total compensation of the Company's CEO is as follows:

CATEGORY	2017 TOTAL COMPENSATION AND RATIO ($)
Annual total compensation of Mr. Woody (A)	6,605,595
Median annual total compensation of all employees worldwide (excluding Mr. Woody) (B)	5,285
Ratio of A to B	1,250:1

The Company identified the median employee by examining the following compensation elements for all individuals, excluding Mr. Woody: current base salary, 2016 bonus paid in 2017, grant date value of 2017 long-term grants, trailing 12 months of commissions and overtime. The Company determined the median employee based on its workforce as of December 31, 2017, and included all full-time and part-time employees. After identifying the median employee, the Company calculated annual total compensation for such employee using the same methodology used for named executive officers as set forth in the Summary Compensation Table.

Other Information

Security Ownership Information

The following table shows the number of shares of our common stock beneficially owned as of March 3, 2018, by each director and nominee, by each named executive officer, and by all directors, nominees and executive officers as a group.

NAME	NUMBER OF SHARES (1)(2)(3)(4)(5)(6)	PERCENT OF CLASS
Gary D. Blackford	14,920	*
John P. Byrnes	14,948	*
Ronald W. Dollens	14,920	*
Rhonda D. Gibby	96,538	*
William A. Hawkins, III	14,296	*
Heidi Kunz	14,925	*
Patrick J. O'Leary	14,970	*
Maria Sainz	14,112	*
Dr. Julie Shimer	14,920	*
Steven E. Voskuil	220,175	*
John W. Wesley	82,337	*
Joseph F. Woody	121,673	
All directors, nominees and executive officers as a group (12 persons)	677,915	1.44

* Each director, nominee, and named executive officer owns less than one percent of the outstanding shares of our common stock.

(1) Except as otherwise noted, the directors, nominees and named executive officers, and the directors, nominees and executive officers as a group, have sole voting and investment power with respect to the shares listed.

(2) A portion of the shares owned by certain executive officers and directors may be held in margin accounts at brokerage firms. Under the terms of the margin account agreements, stocks and other assets held in these accounts may be pledged to secure margin obligations. As of the date of this proxy statement, none of the executive officers or directors has any outstanding margin obligations under any of these accounts.

(3) Share amounts include unvested restricted share units granted to the following named executive officers under the Halyard Health, Inc. Equity Participation Plan as indicated below. Amounts representing performance-based restricted share units ("PRSUs") in the table below represent target levels for the awards. The PRSUs in the table below were granted on March 1, 2016, February 28, 2017 and February 27, 2018.

NAME	TIME-VESTED RESTRICTED SHARE UNITS (#)	PERFORMANCE-BASED RESTRICTED SHARE UNITS (#)
Joseph F. Woody	25,044	96,629
Steven E. Voskuil	0	49,518
Rhonda D. Gibby	0	22,269
John W. Wesley	0	29,412

(4) For each director who is not an officer or employee of the Company, share amounts include restricted share units granted under our Outside Directors' Compensation Plan. These awards are restricted and may not be transferred, pledged or sold until the Outside Director retires from or otherwise terminates service on the Board.
(5) Includes the following shares which could be acquired within 60 days of the date of this proxy statement:

NAME	NUMBER OF SHARES
Joseph F. Woody	0
Steve E. Voskuil	50,777
Rhonda D. Gibby	22,837
John W. Wesley	28,739
All directors, nominees and executive officers as a group (12 persons)	114,225

(6) Mr. Abernathy ceased being an executive officer and director upon his retirement in 2017, and Chris Lowery ceased being an executive officer upon his severance in 2017, and therefore their ownership of Halyard shares is excluded from this table.

Our Corporate Governance Policies provide that, within five years of joining the Board, all Outside Directors should own an amount of our common stock or restricted share units at least equal in value to five times the annual Board cash compensation. For the purpose of these stock ownership guidelines, a director is deemed to own beneficially-owned shares as well as restricted share units (whether or not any applicable restrictions have lapsed).

The following table sets forth the information, as of December 31, 2017, regarding persons or groups known to us to be beneficial owners of more than five percent of our common stock.

NAME AND ADDRESS OF BENEFICIAL OWNER	NUMBER OF SHARES OF COMMON STOCK BENEFICIALLY OWNED	PERCENTAGE OF COMMON STOCK OUTSTANDING
T. Rowe Price Associates, Inc. (1) 100 E. Pratt Street Baltimore, MD 21202	5,242,359	11.17
The Vanguard Group (2) 100 Vanguard Boulevard Malvern, PA 19355	4,313,428	9.19
Dimensional Fund Advisors L.P. (3) Building One 6300 Bee Cave Road Austin, TX 78746	3,380,363	7.20

(1) The address, number and percentage of shares of our common stock beneficially owned by T. Rowe Price Associates, Inc. ("Price Associates") are based on Schedule 13G filed by Price Associates with the SEC on February 14, 2018. According to the filing, Price Associates had sole voting power with respect to 1,282,431, sole dispositive power with respect to 5,242,359 shares, and did not have shared voting or dispositive power as to any shares.
(2) The address, number and percentage of shares of our common stock beneficially owned by The Vanguard Group are based on the Schedule 13G filed by The Vanguard Group with the SEC on February 7, 2018. According to the filing, The Vanguard Group had sole voting power with respect to 51,594 shares, sole dispositive power with respect to 4,260,304 shares, shared voting power with respect to 5,687 shares, and shared dispositive power with respect to 53,124 shares.
(3) The address, number and percentage of shares of our common stock beneficially owned by Dimensional Fund Advisors L.P. are based on the Schedule 13G filed by Dimensional Fund Advisors L.P. with the SEC on February 9, 2018. According to the filing, Dimensional Fund Advisors L.P. had sole voting power with respect to 3,266,824 shares, sole dispositive power with respect to 3,380,363 shares, and did not have shared voting or dispositive power as to any shares.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our directors, executive officers, chief accounting officer, and any person beneficially owning more than 10 percent of our common stock to file reports with the SEC regarding their ownership of our stock and any changes in ownership. We maintain a compliance program to assist our directors, executive officers and chief accounting officer in making these filings. Based solely on a review of the Section 16 forms filed with the SEC during 2017, and certifications from our executive officers, directors, and chief accounting officer that no other reports were required for them, we believe that our executive officers, directors, and chief accounting officer and persons who beneficially own more than 10 percent of our common stock timely complied with their filing requirements for 2017, except that our chief accounting officer received a grant of time-based restricted share units on December 21, 2017, and the Form 4 reporting that grant was not filed until January 2, 2018.

Transactions with Related Persons

Policies and Procedures for Review, Approval or Ratification of Related Person Transactions. The Board has adopted written procedures for reviewing any transactions between the Company and certain "related persons" that involve amounts above certain thresholds. The SEC requires that our proxy statement disclose these "related person transactions." A related person is defined under the SEC's rules and includes our directors, executive officers and five percent stockholders.

The Board's procedures provide that:

- The Governance Committee is best suited to review, approve and ratify related person transactions involving any director, nominee for director, any five percent stockholder, or any of their immediate family members or related firms.
- The Audit Committee is best suited to review, approve and ratify related person transactions involving executive officers (or their immediate family members or related firms), other than any executive officer that is also a Board member.
- Either Committee may, in its sole discretion, refer its consideration of related person transactions to the full Board.

Each director, director nominee and executive officer is required to promptly provide written notification of any material interest that he or she (or an immediate family member) has or will have in a transaction with the Company. Based on a review of the transaction, a determination will be made as to whether the transaction constitutes a related person transaction under the SEC's rules. As appropriate, the Governance Committee or the Audit Committee will then review the terms and substance of the transaction to determine whether to ratify or approve the related person transaction.

In determining whether the transaction is consistent with the Company's best interest, the Governance Committee or the Audit Committee may consider any factors deemed relevant or appropriate, including:

- Whether the transaction is on terms comparable to those that could be obtained in arm's-length dealings with an unrelated third party;
- Whether the transaction constitutes a conflict of interest under our Code of Conduct, the nature, size or degree of any conflict, and whether mitigation of the conflict is feasible;
- The impact of the transaction on a director's independence; and
- Whether steps have been taken to ensure fairness to the Company.

2017 Related Person Transactions. Based on SEC rules, the Board's procedures, and the factors listed above there were no related party transactions in 2017.

Stockholders Sharing the Same Household

As permitted by SEC rules, multiple stockholders sharing the same address who hold their stock through a bank, broker, or other holder of record may receive a single copy of our annual report to stockholders and this proxy statement. Upon written or oral request, we will promptly deliver a separate copy of the annual report to stockholders and this proxy statement to any stockholder at a shared address to which a single copy of each document was delivered. Please contact Stockholder Services by mail at 5405 Windward Parkway, Suite 100 South, Alpharetta, GA 30004, by telephone at 678-425-9273, or by e-mail at stockholder.services@hyh.com. In addition, any stockholder who wants to receive separate copies of the proxy statement or the annual report to stockholders in the future, or who is currently receiving multiple copies and would like to receive only one copy for his or her household, should contact his or her bank, broker, or other nominee record holder.

2019 Stockholder Proposals

Proposals by stockholders for inclusion in our proxy statement and form of proxy pursuant to SEC Rule 14a-8 for the Annual Meeting of Stockholders to be held in 2019 should be addressed to the Corporate Secretary, Halyard

Health, Inc. 5405 Windward Parkway, Suite 100 South, Alpharetta, GA 30004, and must be received at this address no later than November 11, 2018; provided that if the date of the 2018 Annual Meeting of Stockholders is more than 30 days before or after April 26, 2019 (the anniversary date of the 2018 Annual Meeting), the deadline will be a reasonable time before we begin to print and send our proxy materials to stockholders. Upon receipt of a proposal, we will determine whether or not to include the proposal in the proxy statement and form of proxy in accordance with applicable law. It is suggested that proposals be forwarded by certified mail, return receipt requested.

Stockholder Nominations for Board of Directors

Under our By-Laws, a stockholder who wishes to nominate a candidate for election to the Board is required to give written notice to our Corporate Secretary at our principal executive offices. We must receive this notice at least 90 days, but not more than 120 days, before the anniversary of the prior year's Annual Meeting of stockholders (unless the date of the annual meeting is more than 30 days before or more than 60 days after the anniversary date, in which case the notice must be received at least 90 days, but not more than 120 days, before the annual meeting date; or if we give less than 100 days' notice of the annual meeting date, in which case the notice must be received within 10 days after the meeting date is announced). For a special meeting, we must receive the written nomination at least 90 days, but not more than 120 days, before the special meeting date (unless we give less than 100 days' notice of the special meeting date, in which case the notice must be received within 10 days after the meeting date and the nominees proposed by the Board to be elected at the meeting are announced).

Our By-Laws specify information that the notice must contain about both the nominee and the nominating stockholder, including information sufficient to allow the Governance Committee to determine if the candidate meets the director nominee criteria described in this proxy statement.

The notice must contain:

- the name and address of the nominating stockholder;
- information about certain Company stock holdings of the nominating stockholder, including shares of stock, derivative holdings, arrangements under which the nominating stockholder has a right to vote shares, short interests, dividend rights that are separated or separable from the underlying shares, shares held through general or limited partnerships, and certain performance-related fees;
- information about any interests of the nominating stockholder in contracts with the Company, its affiliates or principal competitors, as well as any significant equity interests, derivative holdings, or short interests in the Company's principal competitors;
- as to the nominee and the nominating stockholder, any information that would be required to be disclosed in connection with a proxy solicitation (and whether a proxy solicitation will be conducted);
- information about certain related-person transactions, contact and related information regarding the nominee; and
- information about any compensation and other understandings during the past three years, and other material relationships, between the nominating stockholder and the nominee.

The notice must be accompanied by each nominee's written consent to being named in the proxy statement and to serving as a director if elected, and a completed and signed questionnaire, representation and agreement as required by our By-Laws.

A nomination that does not comply with the requirements set forth in our By-Laws will not be considered for presentation at the annual meeting, but will be considered by the Governance Committee for any vacancies arising on the Board between annual meetings in accordance with the process described in "Proposal 1. Election of Directors — Process and Criteria for Nominating Directors."

Annual Meeting Advance Notice Requirements

Our By-Laws require advance notice for any business to be brought by a stockholder before a meeting of stockholders. In general, for business to be properly brought before an annual meeting by a stockholder (other than in connection with the election of directors; see "Other Information — Stockholder Nominations for Board of Directors", and other than pursuant to SEC Rule 14a-8), written notice of the stockholder proposal must be received by our Corporate Secretary at our principal executive offices not less than 90 days nor more than 120 days prior to the first anniversary of the preceding year's Annual Meeting of stockholders (unless the date of the annual meeting is more than 30 days before or more than 60 days after the anniversary date, in which case the notice must be received at least 90 days, but not more than 120 days, before the annual meeting date; or if we give less than 100 days' notice of the annual meeting date, the notice must be received within 10 days after the meeting date is announced). For the 2019 Annual Meeting, our Corporate Secretary must receive the proposal, which must conform to the notice requirements in our By-Laws, between December 27, 2018 and January 26, 2019.

Under our By-Laws, the stockholder's notice to the Corporate Secretary must contain certain information regarding the stockholder, including name and address, shares held, derivative positions, dividend rights that are separate or separable from the underlying shares and certain performance-related fees. Additional information concerning the advance notice requirements and a copy of our By-Laws may be obtained from the Corporate Secretary of the Company at the address provided below. A copy of our By-Laws is also available in the Investors section of our website at www.halyardhealth.com.

Annual Report

Copies of our Annual Report on Form 10-K may be obtained without charge by: writing to Halyard Health, Inc., Attn: Corporate Secretary, 5405 Windward Parkway, Suite 100 South, Alpharetta, Georgia 30004; accessing the Investors section of our website at www.halyardhealth.com; or accessing the SEC's EDGAR database at www.sec.gov.

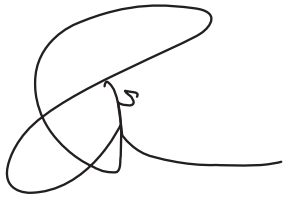
Other Matters to be Presented at the Annual Meeting

Our management does not know of any other matters to be presented at the Annual Meeting. Should any other matter requiring a vote of the stockholders arise at the meeting, the persons named in the proxy will vote the proxies in accordance with their best judgment.

Halyard Health, Inc.
5405 Windward Parkway, Suite 100 South
Alpharetta, Georgia 30004

Telephone (678) 425-9273
March 9, 2018

By Order of the Board of Directors.



Ross Mansbach
Vice President — Deputy General Counsel
Corporate Secretary

Appendix A

Adjusted net income and adjusted diluted earnings per share are financial measures that have not been calculated in accordance with accounting principles generally accepted in the U.S., or GAAP, and are therefore referred to as non-GAAP financial measures.

Adjusted net income and adjusted diluted earnings per share exclude the following items, as applicable, for the relevant time periods indicated in the following non-GAAP reconciliation to the most directly comparable GAAP financial measures:

- Expenses associated with the divestiture of the S&IP business and corporate restructuring costs.
- Transition costs relating to the separation from Kimberly-Clark, which include costs to establish Halyard Health's capabilities as a stand-alone entity. These costs are related primarily to rebranding and other supply chain transition costs. Going forward, these costs are not expected to be material; therefore, they will no longer be excluded from adjusted earnings.
- Certain acquisition and integration charges related to the acquisition of Corpak Medsystems, Inc. Going forward, these costs are not expected to be material. Therefore, they will no longer be excluded from adjusted earnings.
- Expenses associated with certain legal matters.
- Expenses associated with the amortization of intangible assets related to prior business acquisitions.
- Impact of tax reform or tax regulatory changes from prior periods.
- Charges or gains associated with policy changes.

The reconciliation of adjusted net income and adjusted diluted earnings per share to the most directly comparable GAAP measures, which are net income and diluted earnings per share, is presented in the following table (in millions, except per share amounts):

YEAR ENDED DECEMBER 31,	2017 ($)	2016 ($)
Net income, as reported	79.3	39.8
Diluted EPS, as reported	1.69	0.85
Restructuring charges	3.2	—
Divestiture-related charges	12.4	—
Acquisition-related charges	4.7	10.9
Spin-related transition charges	(0.6)	14.1
Litigation and legal	12.8	12.6
Policy changes	(5.0)	—
Intangibles amortization	13.4	13.9
Regulatory tax changes	(10.1)	1.4
Net income, as adjusted (non-GAAP)	110.1	92.7
Diluted EPS, as adjusted (non-GAAP)	2.35	1.99
Diluted weighted average shares outstanding	46.8	46.6

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HALYARD

2017 Annual Report
on Form 10-K

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

FORM 10-K

(Mark One)

☒ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2017

OR

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from to

Commission file number: 001-36440

Halyard Health, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**46-4987888**
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification No.)
5405 Windward Parkway **Suite 100 South** **Alpharetta, Georgia**	**30004**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (678) 425-9273

Securities registered pursuant to Section 12(b) of the Act:

Common Stock—$0.01 Par Value	**New York Stock Exchange**
(Title of each class)	(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒		Accelerated filer	☐
Non-accelerated filer ☐	(Do not check if a smaller reporting company)	Smaller reporting company	☐

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

The aggregate market value of common stock held by non-affiliates or registrant on June 30, 2017 was $1,833,418,550.

As of February 21, 2018, there were 46,920,076 shares of Halyard Health, Inc. common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information contained in the definitive Proxy Statement for Halyard's Annual Meeting of Stockholders to be held on April 26, 2018 is incorporated by reference into Part III.

HALYARD HEALTH, INC.

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PART I

ITEM 1. BUSINESS

Overview

Halyard Health, Inc. is a medical technology company focused on eliminating pain, speeding recovery and preventing infection for healthcare providers and patients in more than 90 countries. Headquartered in Alpharetta, Georgia, Halyard is committed to addressing some of today's most important healthcare needs, such as reducing the use of opioids while helping patients move from surgery to recovery. Our Medical Devices business segment develops, manufactures and markets clinically superior solutions around the globe.

We provide a portfolio of innovative product offerings focused on respiratory and digestive health, along with surgical and interventional pain management to improve patient outcomes and reduce the cost of care. These products include post-operative pain management solutions, minimally invasive interventional (or chronic) pain therapies, closed airway suction systems and enteral feeding tubes. Products are sold under the ON-Q, COOLIEF, MICROCUFF, MIC-KEY, HOMEPUMP, CORTRAK and other brand names.

Unless the context indicates otherwise, the terms "Halyard," "Company," "we," "our" and "us" refer to Halyard Health, Inc. and its consolidated subsidiaries.

On October 31, 2017, we entered into a Purchase Agreement ("Purchase Agreement") by and among us and certain of our affiliates and Owens & Minor, Inc. ("Buyer"). The Purchase Agreement provides for the sale to the Buyer, subject to the terms and conditions of the Purchase Agreement, substantially all of our Surgical and Infection Prevention ("S&IP") business, as well as our name "Halyard Health" (and all variations of our name and related intellectual property rights) and our information technology ("IT") system (the "Divestiture"). The Divestiture is intended to accelerate our transformation into a pure-play medical devices business. See "Discontinued Operations" in Note 2 to the consolidated financial statements in Item 8 of this report.

As a focused Medical Devices business, Halyard will be operating in attractive end-markets. We will deploy a dual-track growth strategy focused on product development and M&A while right-sizing the cost structure of our operations to create a scalable and cost efficient infrastructure.

As a result of this planned Divestiture, the results of operations from our S&IP business are reported as "Income (Loss) from discontinued operations, net of tax" and the related assets and liabilities are classified as "held for sale" in the consolidated financial statements in Item 8 of this report. All discussion herein, unless otherwise noted, refers to our remaining operating segment after the Divestiture, the Medical Devices business.

On May 2, 2016, Halyard acquired all of the issued and outstanding capital stock of Medsystems Holdings, Inc. ("Medsystems") a Delaware corporation. Medsystems owns and conducts its primary business through CORPAK Medsystems ("Corpak"). Corpak's innovative enteral access feeding solutions and portfolio of nasogastric feeding tubes complement our existing enteral feeding products and create a complete offering of enteral feeding solutions within our Medical Devices segment. See "Business Acquisition" in Note 6 to the consolidated financial statements in Item 8 of this report.

On October 31, 2014, Kimberly-Clark Corporation ("Kimberly-Clark") distributed all of our capital stock to its shareholders and completed a previously announced spin-off of its healthcare division (the "Spin-off"). Halyard was incorporated as a Delaware corporation in February 2014 in anticipation of that Spin-off and Kimberly-Clark transferred its Health Care business to us prior to the Spin-off.

The address of our principal executive offices is 5405 Windward Parkway, Suite 100 South, Alpharetta, Georgia 30004, and our telephone number is (678) 425-9273.

Sales and Marketing

We direct our primary sales and marketing efforts toward hospitals and other healthcare providers to highlight the unique benefits and competitive differentiation of our branded products. We work directly with physicians, nurses, professional societies, hospital administrators and healthcare group purchasing organizations ("GPOs") to collaborate and educate on emerging practices and clinical techniques that eliminate pain, speed recovery and prevent infection. These marketing programs are delivered directly to healthcare providers. Additionally, we provide marketing programs to our strategic distribution partners throughout the world.

Distribution

While our products are generally marketed directly to hospitals and other healthcare providers, they are generally sold through third-party distribution channels.

Our products are sold principally through independent wholesale distributors, with some sales directly to healthcare facilities and other end-user customers. In 2017, approximately 49% of our net sales in North America were made through distributors. Globally, sales to Buyer, who is also one of our distributors, accounted for approximately 10% of our 2017 net sales. No other customer or distributor accounted for more than 10% of our net sales in 2017. Buyer purchases our products under standard terms and conditions of sale.

Approximately 40% of our 2017 global net sales, including sales to wholesale distributors, were contracted through four major national GPOs. Of these 2017 GPO-contracted sales, 29% were represented by contracts that will expire by the end of 2018, 54% were represented by contracts that will expire between 2019 and 2020 and 17% were represented by contracts that will expire between 2021 and 2022.

Outside North America, sales are made either directly to end-user customers or through distributors, depending on the market served. In 2017, approximately 83% of our net sales outside North America were made through wholesalers or distributors.

We have operated six major distribution centers located in North America, Europe, Australia and Japan that will transfer to Buyer upon closing of the Divestiture. We will continue to use such distribution centers following the closing of the Divestiture through the end of 2019 under a transition services agreement with Buyer as we develop a distribution network appropriate for our business.

No material portion of our business is subject to renegotiation of profits or termination of contracts at the election of the government.

Competition

While no single company competes with us across the breadth of our offerings, we face significant competition in U.S. and international markets.

There are a variety of treatment means and alternative clinical practices to address the management of surgical and interventional pain management and respiratory and digestive health. We face competition from these alternative treatments, as well as improvements and innovations in products and technologies by our competitors.

Competitors for our products are fragmented by particular product category, and the individual markets for these products are highly competitive. Major competitors include, among others:

- *Surgical Pain Management:* B. Braun Medical Inc., Pacira Pharmaceuticals, Inc., Teleflex Incorporated, Ambu A/S and Baxter International, Inc.
- *Interventional Pain Management:* Boston Scientific Corporation, Abbott Laboratories and Stryker Corporation
- *Respiratory:* Becton, Dickinson and Company, Stryker Corporation and Smiths Medical
- *Digestive Health:* Boston Scientific Corporation, Cook Medical, and Applied Medical Technology, Inc.

In developing and emerging markets, alternative clinical practices and different standards of care are our primary competition.

While we believe that the number of procedures using our products will grow due, in part, to increasing global access to healthcare, we expect that our ability to compete with other providers of similar products will be impacted by rapid technological advances, pricing pressures and third-party reimbursement practices. We continue to defend our market positions and have launched nine new products in 2017. We believe that our key product characteristics, such as proven efficacy, reliability and safety, coupled with our core competencies such as our innovative ability to launch new products, efficient manufacturing processes, established distribution network, field sales organization and customer service, are important factors that distinguish us from our competitors.

Research and Development

We continuously engage in research and development to commercialize new products and enhance the effectiveness, reliability and safety of our existing products. We incurred $38 million in 2017, $38 million in 2016 and $28 million in 2015 on research and development for new products and processes, and to improve existing products and processes. These amounts included

research and development costs that were historically presented as a component of the S&IP business and consisted primarily of salaries and related expenses for personnel, product trial costs, outside laboratory and license fees, the costs of laboratory equipment and facilities and asset write-offs for equipment that does not lead to success in product manufacturing certifications. We intend to increase our research and development efforts as a key strategy for growth.

We collaborate with physicians to develop solutions that seek to accelerate the global adoption of our therapies and procedures. We are investing to expand the indications for use of our pain products with clinical research and studies and associated new product developments. We are expanding our portfolio with customer-preferred product enhancements, such as next generation cooled radiofrequency generators and a full line of needles, kits and accessories for continuous peripheral nerve block procedures.

We are also investing in new categories and solutions that complement our technical expertise and existing intellectual property. We are particularly focused on those new categories that we believe will leverage our existing scalable technology platforms as well as our sales and marketing expertise.

Intellectual Property

Patents, trademarks and other proprietary rights are very important to our business. We also rely upon trade secrets, manufacturing know-how, continuing technological innovations and licensing opportunities to maintain and improve our competitive position. We review third-party proprietary rights, including patents and patent applications, as available, in an effort to develop an effective intellectual property strategy, avoid infringement of third-party proprietary rights, identify licensing opportunities and monitor the intellectual property owned by others.

We hold numerous patents and have numerous patent applications pending in the United States and other countries that relate to the technology used in many of our products. We utilize patents in our surgical pain management, interventional pain management, respiratory health and digestive health products. These patents generally expire between 2019 and 2035. None of the patents we license from third parties are material to our business.

Following the Divestiture, under an agreement that we have with Buyer, we may continue to distribute products bearing the “Halyard Health” or “Halyard” brands through the end of 2020 as we begin rebranding efforts to ensure our customers’ transition from the Halyard brand.

We consider the patents and trademarks which we own and the trademarks under which we sell certain of our products, as a whole, to be material to our business. However, we do not consider our business to be materially dependent upon any individual patent or trademark.

Raw Materials

We use a wide variety of raw materials and other inputs in our production processes. We base our purchasing decisions on quality assurance, cost effectiveness and regulatory requirements, and we work closely with our suppliers to assure continuity of supply while maintaining high quality and reliability. We primarily purchase these materials from external suppliers, some of which are single-source suppliers.

Regulatory Matters

The development, manufacture, marketing, sale, promotion and distribution of our products are subject to comprehensive government regulation. Government regulation by various national, regional, federal, state and local agencies, both in the United States and other countries, addresses (among other matters) inspection of, and controls over, research and laboratory procedures, clinical investigations, product approvals and manufacturing, labeling, packaging, marketing and promotion, pricing and reimbursement, sampling, distribution, quality control, post-market surveillance, record keeping, storage and disposal practices. Our operations are also affected by trade regulations in many countries that limit the import of raw materials and finished products and by laws and regulations that seek to prevent corruption and bribery in the marketplace (including the U.S. Foreign Corrupt Practices Act and the United Kingdom Bribery Act, which provide guidance on corporate interactions with government officials) and require safeguards for the protection of personal data. In addition, we are subject to laws and regulations pertaining to healthcare fraud and abuse, including state and federal anti-kickback and false claims laws in the United States.

Compliance with these laws and regulations is costly and materially affects our business. Among other effects, healthcare regulations substantially increase the time, difficulty and costs incurred in obtaining and maintaining approval to market newly developed and existing products. For example, in the United States, before we can market a new medical product, or market a

new use for, claim for or significant modification to an existing product, we generally must first receive clearance under Section 510(k) of the Food, Drug and Cosmetic Act ("510(k) clearance") from the United States Food and Drug Administration ("FDA"). In order for us to obtain 510(k) clearance, the FDA must determine that our proposed product is substantially equivalent to a device legally on the market, known as a predicate device, with respect to intended use, technology, safety and effectiveness. Similarly, most major markets for medical devices outside the United States also require clearance, approval or compliance with certain standards before a product can be commercially marketed. For instance, the European Commission, or EC, has harmonized national regulations for the control of medical devices through European Medical Device Directives with which manufacturers must comply. Under these regulations, manufacturing plants must have received certification of conformity from a notified body in order to be able to sell products within the member states of the European Union. Certification allows manufacturers to stamp the products of certified plants with a "CE" mark. Products covered by the EC regulations that do not bear the CE mark may not be sold or distributed in the European Union.

We expect compliance with these regulations to continue to require significant technical expertise and capital investment to ensure compliance. Failure to comply can delay the release of a new product or result in regulatory and enforcement actions, the seizure or recall of a product, the suspension or revocation of the authority necessary for a product's production and sale, and other civil or criminal sanctions, including fines and penalties.

In addition to regulatory initiatives, our business can be affected by ongoing studies of the utilization, safety, efficacy, and outcomes of healthcare products and their components that are regularly conducted by industry participants, government agencies, and others. These studies can call into question the utilization, safety, and efficacy of previously marketed products. In some cases, these studies have resulted, and may in the future result, in the discontinuance of, or limitations on, marketing of such products domestically or worldwide, and may give rise to claims for damages from persons who believe they have been injured as a result of their use.

Access to healthcare products continues to be a subject of investigation and action by governmental agencies, legislative bodies, and private organizations in the United States and other countries. A major focus is cost containment. Efforts to reduce healthcare costs are also being made in the private sector, notably by healthcare payors and providers, which have instituted various cost reduction and containment measures. We expect insurers and providers to continue attempts to reduce the cost of healthcare products. Outside the United States, many countries control the price of healthcare products directly or indirectly, through reimbursement, payment, pricing, coverage limitations, or compulsory licensing. Budgetary pressures in the United States and in other countries may also heighten the scope and severity of pricing pressures on our products for the foreseeable future.

We expect debate to continue during the next several years at all government levels worldwide over the marketing, availability, method of delivery, and payment for healthcare products and services. We believe that future legislation and regulation in the markets we serve could affect access to healthcare products and services, increase rebates, reduce prices or the rate of price increases for healthcare products and services, change healthcare delivery systems, create new fees and obligations, or require additional reporting and disclosure. It is not possible to predict the extent to which we or the healthcare industry in general might be affected by the matters discussed above.

Since we market our products worldwide, certain products of a local nature and variations of product lines must also meet other local regulatory requirements. Certain additional risks are inherent in conducting business outside the United States, including price and currency exchange controls, changes in currency exchange rates, limitations on participation in local enterprises, expropriation, nationalization, and other governmental action.

Demand for many of our existing and new medical devices is, and will continue to be, affected by the extent to which government healthcare programs and private health insurers reimburse our customers for patients' medical expenses in the countries where we do business. Statutory and regulatory requirements for Medicaid, Medicare, and other government healthcare programs govern provider reimbursement levels. From time to time, legislative changes are made to government healthcare programs that impact our business, and the federal and/or state governments may continue to enact measures in the future aimed at containing or reducing reimbursement levels for medical expenses paid for in whole or in part with government funds. We cannot predict the nature of such measures or their impact on our business, results of operations, financial condition and cash flows. Any reduction in the amount of reimbursements received by our customers could harm our business by reducing their selection of our products and the prices they are willing to pay.

Employee and Labor Relations

In our worldwide operations, we had approximately 13,000 employees as of December 31, 2017, including employees in our S&IP business that will be transferred to the Buyer upon closing of the Divestiture. We believe that we have good relations with our employees.

Environmental, Health and Safety Matters

Our operations are subject to federal, state, provincial and local laws, regulations and ordinances relating to various environmental, health and safety matters. Our operations are in compliance with, or we are taking actions designed to ensure compliance with, these laws, regulations and ordinances. However, the nature of our operations exposes us to the risk of claims concerning non-compliance with environmental, health and safety laws or standards, and there can be no assurance that material costs or liabilities will not be incurred in connection with those claims. We are not currently named as a party in any judicial or administrative proceeding relating to environmental, health and safety matters.

While we have incurred in the past several years, and will continue to incur, capital and operating expenditures in order to comply with environmental, health and safety laws, regulations and ordinances, we believe that our future cost of compliance with environmental, health and safety laws, regulations and ordinances, and our exposure to liability for environmental, health and safety claims will not have a material adverse effect on our business, results of operations, financial condition or cash flows. However, future events, such as changes in existing laws and regulations, or contamination of sites owned, operated or used for waste disposal by us (including currently unknown contamination and contamination caused by prior owners and operators of such sites or other waste generators) may give rise to additional costs which could have a material adverse effect on our financial condition, results of operations or liquidity.

Available Information

We make financial information, news releases and other information available on our corporate website at *www.halyardhealth.com*. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge on our corporate website as soon as reasonably practicable after we file these reports and amendments with, or furnish them to, the SEC. The information contained on or connected to our website is not incorporated by reference into this Annual Report on Form 10-K and should not be considered part of this or any other report filed with the SEC. Stockholders may also contact Stockholder Services, 5405 Windward Parkway, Suite 100 South, Alpharetta, Georgia 30004 or call (678) 425-9273 to obtain a hard copy of these reports without charge.

ITEM 1A. RISK FACTORS

Our business faces many risks and uncertainties. Any of the risks discussed below, as well as factors described in other places in this Annual Report on Form 10-K, or in our other filings with the SEC, could adversely affect our business, consolidated financial position, results of operations or cash flows. In addition, these items could cause our future results to differ from those in any of our forward-looking statements. These risks are not the only ones we face. Other risks that we do not presently know about or that we presently believe are not material could also adversely affect us.

Risks Related to our Business and Industry

We face strong competition. Our failure to compete effectively could have a material adverse effect on our business.

Our industry is highly competitive. We compete with many domestic and foreign companies ranging from small start-up enterprises that might sell only a single or limited number of competitive products or compete only in a specific market segment, to companies that are larger and more established than us, have a broad range of competitive products, participate in numerous markets and have access to significantly greater financial and marketing resources than we do. Competitive factors include price, alternative clinical practices, innovation, quality and reputation. Our failure to compete effectively could have a material adverse effect on our business, results of operations, financial condition and cash flows.

We may not be successful in developing, acquiring or marketing competitive products and technologies.

Our industry is characterized by extensive research and development and rapid technological advances. The future success of our business will depend, in part, on our ability to design, acquire and manufacture new competitive products and enhance existing products. Accordingly, we commit substantial time, funds and other resources to new product development, including research and development, acquisitions, licenses, clinical trials and physician education. We make these substantial

expenditures without any assurance that our products will obtain regulatory clearance or reimbursement approval, acquire adequate intellectual property protection or receive market acceptance. Development by our competitors of improved products, technologies or enhancements may make our products, or those we develop, license or acquire in the future, obsolete or less competitive which could negatively impact our net sales. Our failure to successfully develop, acquire or market competitive new products or enhance existing products could have a material adverse effect on our business, results of operations, financial condition and cash flows.

We cannot guarantee that any of our strategic acquisitions, investments or alliances will be successful.

We intend to supplement our growth through strategic acquisitions of, investments in and alliances with new medical technologies. The success of any acquisition, investment or alliance may be affected by a number of factors, including our ability to identify and then properly assess and value the potential business opportunity or to successfully integrate any business we may acquire into our existing business. These types of transactions may require more resources and investments than originally anticipated, may divert management's attention from our existing business, may result in exposure to unexpected liabilities of the acquired business, and may not result in the expected benefits, savings or synergies. There can be no assurance that we will be able to identify and successfully make strategic acquisitions of, investments in and alliances with new medical technologies or that any past or future acquisition, investment or alliance will be cost-effective, profitable or successful.

We face significant uncertainty in the healthcare industry due to government healthcare reform in the United States and elsewhere.

In March 2010, comprehensive healthcare reform legislation was signed into law in the United States through the passage of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (the "PPACA"). Among other initiatives, the legislation implemented a 2.3% excise tax on the sales of certain medical devices in the United States, effective January 2013. In 2015, the excise tax had an impact on us of approximately $6 million, but was suspended for 2016. As a result of the passage of the Consolidated Appropriations Act in 2016, the medical device excise tax has been suspended for the 2017 and 2018 calendar years. In addition, the legislation implemented payment system reforms and significantly altered Medicare and Medicaid reimbursements for medical services and medical devices, which could result in downward pricing pressure and decreased demand for our products.

As additional provisions of healthcare reform are implemented, we anticipate that the U.S. Congress, regulatory agencies and certain state legislatures, as well as international legislators and regulators, will continue to review and assess alternative healthcare delivery systems and payment methods with an objective of ultimately reducing healthcare costs and expanding access. We cannot predict with certainty what healthcare initiatives, if any, will be implemented by states or foreign governments or what ultimate effect federal healthcare reform or any future legislation or regulation may have on our customers' purchasing decisions regarding our products. However, the implementation of new legislation and regulation may lower reimbursements for our products, reduce medical procedure volumes and adversely affect our business, results of operations, financial condition and cash flows.

In addition, the United States Government is currently evaluating the potential repeal and potential replacement of all or parts of the PPACA. Any such repeal or replacement may have a material adverse effect on our business, results of operations, financial condition and cash flows.

Our customers depend on third-party coverage and reimbursements. The failure of healthcare programs to provide coverage and reimbursement, or reductions in levels of reimbursement, could have a material adverse effect on our business.

The ability of our customers to obtain coverage and reimbursements for products they purchase from us is important to our business. Demand for many of our existing and new medical products is, and will continue to be, affected by the extent to which government healthcare programs and private health insurers reimburse our customers for patients' medical expenses in the countries where we do business. Any reduction in the amount of reimbursements received by our customers could harm our business by reducing their selection of our products and the prices they are willing to pay.

In addition, as a result of their purchasing power, third-party payors are implementing cost-cutting measures such as seeking discounts, price reductions or other incentives from medical products suppliers and imposing limitations on coverage and reimbursements for medical technologies and procedures. These trends could compel us to reduce prices for our existing products and potential new products and could cause a decrease in the size of the market or a potential increase in competition that could have a material adverse effect on our business, results of operations, financial condition and cash flows.

An inability to obtain key components, raw materials or manufactured products from third parties may have a material adverse effect on our business.

We depend on the availability of various components, raw materials and manufactured products supplied by others for our operations. If the capabilities of our suppliers and third-party manufacturers are limited or stopped, due to quality, regulatory or other reasons, it could negatively impact our ability to manufacture or deliver our products and could expose us to regulatory actions. Further, for quality assurance or cost effectiveness, we purchase from sole suppliers certain components and raw materials. Although there are other sources in the market place for these items, we may not be able to quickly establish additional or replacement sources for certain components or materials due to regulations and requirements of the FDA and other regulatory authorities regarding the manufacture of our products. The loss of any sole supplier or any sustained supply interruption that affects our ability to manufacture or deliver our products in a timely or cost effective manner could have a material adverse effect on our business, results of operations, financial condition and cash flows.

An interruption in our ability to manufacture products may have a material adverse effect on our business.

Many of our key products are manufactured at single locations, with limited alternate facilities, including in certain cases by third-party manufacturers. If one or more of these facilities experience damage, or if these manufacturing capabilities are otherwise limited or stopped due to quality, regulatory or other reasons, including natural disasters, prolonged power or equipment failures or labor dispute, it may not be possible to timely manufacture the relevant products at previous levels or at all. A reduction or interruption in any of these manufacturing processes could have a material adverse effect on our business, results of operations, financial condition and cash flows.

An interruption in distribution or transportation may have a material adverse effect on our business.

We rely on various transportation channels for global distribution of our products through shipping ports located throughout the world. Labor unrest, political instability, the outbreak of pandemics, trade restrictions, transport capacity and costs, port security, weather conditions, natural disasters or other events could slow port activities and could adversely affect our business by interrupting product shipments and may increase our transportation costs if we are forced to use more expensive shipping alternatives.

We are subject to extensive government regulation, which may require us to incur significant expenses to ensure compliance.

Many of our products are subject to extensive regulation in the United States by the FDA and other regulatory authorities and by comparable government agencies in other countries concerning the development, design, approval, manufacture, labeling, importing and exporting and sale and marketing of many of our products. Furthermore, our facilities are subject to periodic inspection by the FDA and other federal, state and foreign government authorities, which require manufacturers of medical devices to adhere to certain regulations, including the FDA's Quality System Regulation, which requires periodic audits, design controls, quality control testing and documentation procedures, as well as complaint evaluations and investigation. Regulations regarding the development, manufacture and sale of medical products are evolving and subject to future change. We cannot predict what impact those regulatory changes may have on our business. Failure to comply with applicable regulations could lead to manufacturing shutdowns, product shortages, delays in product manufacturing, product seizures, recalls, operating restrictions, withdrawal or suspension of required licenses, and prohibitions against exporting of products to, or importing products from, countries outside the United States and may require significant resources to resolve. Any one or more of these events could have a material adverse effect on our business, results of operations, financial condition and cash flows.

We are subject to healthcare fraud and abuse laws and regulations that could result in significant liability, require us to change our business practices or restrict our operations in the future.

We are subject to various U.S. federal, state and local laws targeting fraud and abuse in the healthcare industry, including anti-kickback and false claims laws. Violations of these laws are punishable by criminal or civil sanctions, including substantial fines, imprisonment and exclusion from participation in healthcare programs such as Medicare and Medicaid. These laws and regulations are wide ranging and subject to changing interpretation and application, which could restrict our sales or marketing practices. Furthermore, since many of our customers rely on reimbursement from Medicare, Medicaid and other governmental programs to cover a substantial portion of their expenditures, our exclusion from such programs as a result of a violation of these laws could have a material adverse effect on our business, results of operations, financial condition and cash flows.

We must obtain clearance or approval from the appropriate regulatory authorities prior to introducing a new product or a modification to an existing product. The regulatory clearance process may result in substantial costs, delays and limitations on the types and uses of products we can bring to market, any of which could have a material adverse effect on our business.

In the United States, before we can market a new product, or a new use of, or claim for, or significant modification to, an existing product, we generally must first receive clearance or approval from the FDA and certain other regulatory authorities. Most major markets for medical devices outside the United States also require clearance, approval or compliance with certain standards before a product can be commercially marketed. The process of obtaining regulatory clearances and approvals to market a medical device can be costly and time consuming, involve rigorous pre-clinical and clinical testing, require changes in products or result in limitations on the indicated uses of products. There can be no assurance that these clearances and approvals will be granted on a timely basis, or at all. In addition, once a medical device has been cleared or approved, a new clearance or approval may be required before the medical device may be modified, its labeling changed or marketed for a different use. Medical devices are cleared or approved for one or more specific intended uses and promoting a device for an off-label use could result in government enforcement action. Furthermore, a product approval or clearance can be withdrawn or limited due to unforeseen problems with the medical device or issues relating to its application. The regulatory clearance and approval process may result in, among other things, delayed, if at all, realization of product net sales, substantial additional costs and limitations on the types of products we may bring to market or their indicated uses, any one of which could have a material adverse effect on our business, results of operations, financial condition and cash flows.

We may incur product liability losses, litigation liability, product recalls, safety alerts or regulatory action associated with our products which can be costly and disruptive to our business.

The risk of product liability claims is inherent in the design, manufacture and marketing of the medical products of the type we produce and sell. A number of factors could result in an unsafe condition or injury to, or death of, a patient with respect to the products that we manufacture or sell, including physician technique and experience in performing the relevant surgical procedure, component failures, manufacturing flaws, design defects or inadequate disclosure of product-related risks or information.

In addition to product liability claims and litigation, an unsafe condition or injury to, or death of, a patient associated with our products could lead to a recall of, or issuance of a safety alert relating to, our products, or suspension or delay of regulatory product approvals or clearances, product seizures or detentions, governmental investigations, civil or criminal sanctions or injunctions to halt manufacturing and distribution of our products. Any one of these could result in significant costs and negative publicity resulting in reduced market acceptance and demand for our products and harm our reputation. In addition, a recall or injunction affecting our products could temporarily shut down production lines or place products on a shipping hold.

All of the foregoing types of legal proceedings and regulatory actions are inherently unpredictable and, regardless of the outcome, could disrupt our business, result in substantial costs or the diversion of management attention and could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Economic conditions have affected and may continue to adversely affect our business, results of operations, financial condition and cash flows.

Disruptions in the financial markets and other macro-economic challenges affecting the economy and the economic outlook of the United States, Europe, Japan, China and other parts of the world may have an adverse impact on our results of operations, financial condition and cash flows. Economic conditions and depressed levels of consumer and commercial spending have caused and may continue to cause our customers to reduce, modify, delay or cancel plans to purchase our products, and we have observed certain hospitals delaying and prioritizing purchasing decisions, which has had and may continue to have a material adverse effect on our business, results of operations, financial condition and cash flows.

In addition, as a result of economic conditions, our customers inside and outside the United States, including foreign governmental entities or other entities that rely on government healthcare systems or government funding, may be unable to pay their obligations on a timely basis or to make payment in full. If our customers' cash flow or operating and financial performance deteriorate or fail to improve, or if our customers are unable to make scheduled payments or obtain credit, they may not be able to pay, or may delay payment of accounts receivable owed to us. These conditions also may have an adverse effect on certain of our suppliers who may reduce output or change terms of sales, which could cause a disruption in our ability to produce our products. Any inability of current and/or potential customers to pay us for our products or any demands by our suppliers for different payment terms may have a material adverse effect on our business, results of operations, financial condition and cash flows.

Currency exchange rate fluctuations could have a material adverse effect on our business and results of operations.

Due to our international operations, we transact business in many foreign currencies and are subject to the effects of changes in foreign currency exchange rates, including the Mexican peso, Japanese yen, Australian dollar and the Euro. Our financial statements are reported in U.S. dollars with international transactions being translated into U.S. dollars. If the U.S. dollar strengthens in relation to the currencies of other countries where we sell our products, our U.S. dollar reported net sales and income will decrease. Additionally, we incur significant costs in foreign currencies and a fluctuation in those currencies' value can negatively impact manufacturing and selling costs. While we have in the past engaged, and may in the future engage, in various hedging transactions in attempts to minimize the effects of foreign currency exchange rate fluctuations, there can be no assurance that these hedging transactions will be effective. Changes in the relative values of currencies occur regularly and could have an adverse effect on our business, results of operations, financial condition and cash flows.

We are exposed to price fluctuations of key commodities, which may negatively impact our results of operations.

We rely on product inputs, such as polypropylene and other commodities in the manufacture of our products. Prices of oil and gas affect our distribution and transportation costs. Prices of these commodities are volatile and have fluctuated significantly in recent years, which has contributed to, and in the future may continue to contribute to, fluctuations in our results of operations. Our ability to hedge commodity price volatility is limited. Furthermore, due to competitive dynamics, the cost containment efforts of our customers and third-party payors, and contractual limitations, particularly with respect to products we sell under group purchasing agreements, which generally set pricing for a three-year term, we may be unable to pass along commodity-driven cost increases through higher prices. If we cannot fully offset cost increases through other cost reductions, or recover these costs through price increases or surcharges, we could experience lower margins and profitability which could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Cost-containment efforts of our customers, healthcare purchasing groups, third-party payors and governmental organizations could adversely affect our sales and profitability.

Many of our customers are members of GPOs, or integrated delivery networks ("IDNs"). GPOs and IDNs negotiate pricing arrangements with healthcare product manufacturers and distributors and offer the negotiated prices to affiliated hospitals and other members. Although we are the sole contracted supplier to certain GPOs for certain product categories, members of the GPO are generally free to purchase from other suppliers, and such contract positions can offer no assurance that sales volumes of those products will be maintained. In addition, initiatives sponsored by government agencies and other third-party payors to limit healthcare costs, including price regulation and competitive bidding for the sale of our products, are ongoing in markets where we sell our products. Pricing pressure has also increased in our markets due to consolidation among healthcare providers, trends toward managed care, governments becoming payors of healthcare expenses and regulation relating to reimbursements. The increasing leverage of organized buying groups and consolidated customers and pricing pressure from third-party payors may reduce market prices for our products, thereby reducing our profitability and have a material adverse effect on our business, results of operations, financial condition and cash flows.

We are subject to political, economic and regulatory risks associated with doing business outside of the United States.

Most of our manufacturing facilities are outside the United States in Mexico, France, Germany and Tunisia. We also use contract manufacturers to manufacture products on our behalf in China, Indonesia and Malaysia and source many of our raw materials and components from foreign suppliers. We distribute and sell our products in over 90 countries. In 2017, approximately 23% of our net sales were generated outside of North America and we expect this percentage will grow over time. Our operations outside of the United States are subject to risks that are inherent in conducting business internationally, including compliance with both United States and foreign laws and regulations that apply to our international operations. These laws and regulations include robust data privacy requirements, labor relations laws that may impede employer flexibility, tax laws, anti-competition regulations, import, customs and trade restrictions, export requirements, economic sanction laws, environmental, health and safety laws, anti-bribery laws such as the U.S. Foreign Corrupt Practices Act and similar anti-bribery laws in other jurisdictions. Given the high level of complexity of these laws, there is a risk that some provisions may be violated inadvertently or through fraudulent or negligent behavior of individual employees, our failure to comply with certain formal documentation requirements or otherwise. In addition, these laws are subject to changes, which may require additional resources or make it more difficult for us to comply with these laws. Violations of the laws and regulations governing our international operations could result in fines or criminal sanctions against us, our officers or our employees, and prohibitions on the conduct of our business. Any such violations could include prohibitions on our ability to manufacture or distribute our products in one or more countries and could have a material adverse effect on our reputation, our brand, our international

expansion efforts, our ability to attract and retain employees, our business, results of operations, financial condition and cash flows. Our success depends, in part, on our ability to anticipate and prevent or mitigate these risks and manage difficulties as they arise.

We may be subject to trade protection measures that are being contemplated by the United States Government that may result in new or higher tariffs, import-export restrictions and taxes. Changes in, or revised interpretations of import-export laws or international trade agreements, along with new or increased tariffs, trade restrictions or taxation on income earned or goods manufactured outside the United States may have a material adverse effect on our business, financial condition, results of operations and cash flows.

In addition to the foregoing, engaging in international business inherently involves a number of other difficulties and risks, including:

- different local medical practices, product preferences and product requirements,
- price and currency controls and exchange rate fluctuations,
- cost and availability of international shipping channels,
- longer payment cycles in certain countries other than the United States,
- minimal or diminished protection of intellectual property in certain countries,
- uncertainties regarding judicial systems, including difficulties in enforcing agreements through certain non-U.S. legal systems,
- political instability and actual or anticipated military or political conflicts, expropriation of assets, economic instability and the impact on interest rates, inflation and the credit worthiness of our customers,
- difficulties and costs of staffing and managing non-U.S. operations.

These risks and difficulties, individually or in the aggregate, could have a material adverse effect on our business, results of operations, financial condition and cash flows.

We have a significant amount of debt that could adversely affect our business.

Our indebtedness includes $250 million of 6.25% senior unsecured notes and $339 million owed on a term loan. This debt could have important consequences to us and our investors, including:

- requiring a substantial portion of our cash flow from operations to make interest payments on this debt,
- reducing the cash flow available to fund capital expenditures and other corporate purposes and to grow our business,
- increasing our vulnerability to general adverse economic and industry conditions,
- increasing the risk of a future downgrade of our credit rating, which could increase future debt costs and limit the future availability of debt financing,
- limiting our ability to borrow additional funds as needed or take advantage of business opportunities as they arise, and
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry and placing us at a competitive disadvantage to our competitors that may not be as highly leveraged.

To the extent that we incur additional indebtedness, the risks described above could increase. In addition, our actual cash requirements in the future may be greater than expected. Our cash flow from operations may not be sufficient to repay all of the outstanding debt as it becomes due, and we may not be able to borrow money, sell assets or otherwise raise funds on acceptable terms, or at all, to refinance our debt.

We may need additional financing in the future to meet our capital needs or to make acquisitions and such financing may not be available on favorable terms, if at all.

We intend to increase our investment in research and development activities and make acquisitions. Accordingly, we may need to seek additional debt or equity financing. We may be unable to obtain any desired additional financing on terms favorable to us, if at all. If we lose a previously assigned credit rating or adequate funds are not available on acceptable terms, we may be

unable to fund our expansion, successfully develop or enhance products or respond to competitive pressures, any of which could negatively affect our business.

We may be unable to protect our intellectual property rights or may infringe the intellectual property rights of others.

We rely on patents, trademarks, trade secrets and other intellectual property assets in the operation of our business. Our efforts to protect our intellectual property and proprietary rights may not be sufficient. We cannot be sure that pending patent applications will result in the issuance of patents or that patents issued or licensed to us will remain valid or prevent competitors from introducing similar competing technologies. Our ability to enforce and protect our intellectual property rights may be limited in certain countries outside of the United States in which we operate, which could make it easier for our competitors to develop or distribute similar competing technologies in those jurisdictions. In addition, our competitive position may be adversely affected by expirations of our significant patents, which would allow competitors to freely use our technology to compete with us.

We operate in an industry characterized by extensive patent litigation and competitors may claim that our products infringe their intellectual property rights. Resolution of patent litigation or other intellectual property claims is inherently unpredictable, typically time consuming and costly and can result in significant damage awards and injunctions that could prevent the manufacture and sale of the affected products or require us to make significant royalty payments in order to continue selling the affected products. Any one of these could have a material adverse effect on our business, results of operations, financial condition and cash flows. At any given time we are involved as either a plaintiff or a defendant in a number of patent infringement actions, the outcomes of which may not be known for prolonged periods of time. We can expect to face additional claims of patent infringement in the future.

We may be unable to attract and retain key employees necessary to be competitive.

Our ability to compete effectively depends upon our ability to attract and retain executives and other key employees, including people in technical, marketing, sales, and research and development positions. Competition for experienced employees, particularly for persons with specialized skills, can be intense. Our ability to recruit such talent will depend on a number of factors, including compensation and benefits, work location and work environment. If we cannot effectively recruit and retain qualified executives and employees, our business could be materially adversely affected.

Breaches of our information technology systems could have a material adverse effect on our business.

We rely on information technology systems to process, transmit and store electronic information in our day-to-day operations. Our information technology systems may be subjected to computer viruses or other malicious codes, unauthorized access attempts and cyber- or phishing-attacks. We also store certain information with third parties that could be subject to these types of attacks. These attacks could result in our intellectual property and other confidential information, including personal health information, being lost or stolen, disruption of our operations, loss of reputation and other negative consequences, such as increased costs for security measures or remediation costs and diversion of management attention. While we will continue to implement additional protective measures to reduce the risk of and detect future cyber incidents, cyber-attacks are becoming more sophisticated and frequent, and the techniques used in such attacks change rapidly. There can be no assurances that our protective measures will prevent future attacks that could have a material adverse effect on our business.

Risks Related to the Divestiture of our S&IP Business

We may not realize potential benefits from the Divestiture of the S&IP Business or the restructuring activities associated with the Divestiture.

There is no assurance that we will realize the potential benefits that we expect from the Divestiture or from the multi-phase restructuring plan (the "Plan") that is associated with the Divestiture. The Divestiture is expected to provide the following benefits, among others: (i) giving Halyard the ability to focus on strategic and operational plans as a pure-play medical devices-only company; (ii) accelerating Halyard's growth as a medical device company through the resources provided by the Divestiture; and (iii) allowing investors to evaluate the merits, performance and future prospects of Halyard as a growing medical device company. The Plan is intended to (i) align our organizational and management structure; (ii) enhance and restructure our information technology systems; and (iii) enhance and restructure our supply chain and go-to-market models.

Following the Divestiture and implementation of the Plan, we may not achieve these and other anticipated benefits for a variety of reasons, including, among others:

- the separation of the S&IP business may require significant amounts of management's time and effort, which may divert management's attention away from Halyard's Device business,
- the replacement of our information technology infrastructure may result in substantial additional costs and business interruptions,
- the replacement of our corporate brand name may result in substantial additional costs and may not be well received by our customers in the market place,
- our business will be significantly less diversified than prior to the Divestiture.

If we fail to achieve some or all the benefits expected to result from the Divestiture and the Plan, or if such benefits are delayed, our business, financial condition, results of operations and cash flows could be adversely affected and the value of Halyard common stock could be adversely impacted.

As we build our information technology infrastructure and transition our data to our own systems, we could incur substantial additional costs and experience temporary business interruption.

Pursuant to the Purchase Agreement, we are transferring ownership of our existing information technology infrastructure to the Buyer and replacing such information technology infrastructure to support our critical business functions, including systems relating to accounting and reporting, manufacturing process control, customer service, inventory control and distribution. The replacement process involves technical risks and business uncertainties, including whether we have the technological capacity to replace the system in full and the financial and operational capacity to continue our business during the replacement process. Although we have conducted discreet tests of our ability to conduct the process, such risks remain and there can be no assurance that the replacement process will occur within the anticipated timing, or at all. We may incur temporary interruptions in business operations if we cannot effectively replace our existing transactional and operational systems and data centers. We may not be successful in effectively and efficiently implementing our replacement systems and transitioning our data, and we may incur substantially higher costs for replacement than currently anticipated. In addition, the replacement process may result in (i) disruption to unrelated parts of our business, (ii) loss of employees or customers, (iii) exposure to unanticipated liabilities or (iv) assumption of ongoing obligations and liabilities following the completion of the process. Our failure to avoid operational interruptions, losses of employees or customers, or unanticipated liabilities as we replace our information technology infrastructure could disrupt or have a material adverse effect on our business, financial condition, results of operations and cash flows.

Following the Divestiture, we will be required to rebrand the Company and many of our products which will likely involve substantial costs and may not be favorably received by our customers.

Following the Divestiture, we will no longer own the "Halyard Health" brand name, or any variation of the name, logos and related intellectual property rights. We will likely incur substantial costs to rebrand the Company and many of our products worldwide, which also requires regulatory product registration costs. Rebranding efforts may not be complete before the agreement with the Buyer allowing us to use the "Halyard" brand expires, potentially causing substantial inventory write-offs. In addition, we cannot assure you that our customers will be receptive to our proposed rebranding. A failure in our rebranding efforts may affect our ability to attract and retain customers following the Divestiture, resulting in reduced revenues.

The transition services to be provided to us by the Buyer for a limited time may be difficult for us to replace without operational problems or additional cost.

The Purchase Agreement provides for provision of transition services to us by the Buyer throughout a transition period. After the expiration of the transition services agreement, we may experience operational difficulties and increased costs if we are unable to perform those services or obtain them from a third party on reasonable terms and conditions.

The transition services to be provided by us to the Buyer for a limited time may draw attention and resources away from our ongoing business.

The Purchase Agreement requires our provision of transition services to the Buyer throughout a transition period, which will require significant time, attention and resources of our senior management and other employees within Halyard, potentially diverting their attention from other aspects of our business. We will be bound to comply with the terms of the transition services agreement, and at times compliance with this agreement will consume Halyard's focus and resources that would otherwise be invested into maintaining and growing our business.

Some of the shared employees who are important to the remaining business will be transferred to the Buyer, which may require us to replace employees and incur consequent additional costs or experience operational difficulties.

We are dependent on the experience and industry knowledge of our officers and employees to execute our business plans. The Divestiture will require that we share certain employees with the Buyer during the term of the transition services agreement and the replacement of our information technology infrastructure and that we transfer certain employees to the Buyer both at the closing of the Divestiture and at the conclusion of the information technology process. There may be uncertainty around the duties of our shared employees, which may cause operational difficulties or may cause some of such shared employees to leave Halyard. Transfer of employees to the Buyer may cause loss of institutional knowledge and we may have difficulties finding employees to replace such transferred employees. Current and prospective employees of Halyard may experience uncertainty about their future roles as shared employees or transferred employees, which may adversely affect our ability to attract and retain talent going forward. Our success during and after the Divestiture will depend in part on our ability to effectively share certain employees, retain key management personnel and integrate future employees. The operational difficulties surrounding our use of shared employees and the loss of knowledge and employees and difficulties in hiring new employees could disrupt our business and could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Following the Divestiture, we may experience increased costs resulting from decreased purchasing power, which could decrease our overall profitability and cash flow.

Prior to the Divestiture, we are able to take advantage of our size and purchasing power in procuring goods, services and technology, such as management information services, health insurance, employee benefits, payroll administration, risk management, tax and other services. Following the Divestiture, we may have to pay higher costs for certain materials used in our products or services necessary to operate our business due to a decline in purchasing scale if we are unable to obtain other similar goods, services and technology at prices or on terms as favorable as those obtained prior to the Divestiture.

Risks Related to Ownership of Halyard Common Stock

We cannot guarantee that our stock price will not decline or fluctuate significantly.

The price at which Halyard common stock trades has and may continue to fluctuate significantly. The market price, or fluctuations in price, for Halyard common stock may be negatively influenced by many factors, including:

- actual or unanticipated fluctuations in our quarterly and annual operating results,
- our failure to achieve the quarterly financial results forecast provided from time to time by the securities analysts who cover our stock,
- the outcome of litigation and enforcement actions,
- developments generally affecting the healthcare industry,
- changes in market valuations of comparable companies,
- the amount of our indebtedness,
- general economic, industry and market conditions,
- the depth and liquidity of the market for Halyard common stock,
- price fluctuations in key commodities,
- fluctuations in interest and currency exchange rates,
- our dividend policy, and
- perceptions of or speculations by the press or investment community.

These and other factors may lower the market price of Halyard common stock, regardless of our actual financial condition or operating performance.

We have no present intention to pay dividends on Halyard common stock.

We have no present intention to pay dividends on Halyard common stock. Any determination to pay dividends to holders of Halyard common stock will be at the discretion of our Board of Directors and will depend on many factors, including our

financial condition, results of operations, projections, liquidity, earnings, legal requirements, restrictions in our debt agreements and other factors that our Board of Directors deems relevant.

Your percentage of ownership in Halyard may be diluted in the future.

In the future, your percentage ownership in Halyard may be diluted because of equity issuances for acquisitions, capital market transactions or otherwise, including equity awards that we may grant to our directors, officers and employees. We also anticipate that our compensation committee will grant stock options or other equity based awards to our employees in the future. These awards will have a dilutive effect on existing stockholders and on our earnings per share, which could adversely affect the market price of shares of Halyard common stock.

In addition, our certificate of incorporation authorizes us to issue, without the approval of Halyard stockholders, one or more classes or series of preferred stock having such designation, powers, preferences and relative, participating, optional and other special rights, including preferences over Halyard common stock with respect to dividends and distributions, as our Board of Directors generally may determine. If our Board of Directors were to approve the issuance of preferred stock in the future, the terms of one or more classes or series of such preferred stock could dilute the voting power or reduce the value of Halyard common stock. Similarly, the repurchase or redemption rights or liquidation preferences we could assign to Halyard preferred stock could affect the residual value of Halyard common stock.

Certain provisions of our certificate of incorporation and by-laws and of Delaware law may make it difficult for stockholders to change the composition of our Board of Directors and may discourage hostile takeover attempts which some of our stockholders may consider to be beneficial.

Certain provisions contained in our certificate of incorporation and by-laws and those contained in Delaware law may have the effect of delaying or preventing changes in control if our Board of Directors determines that such changes in control are not in the best interests of us and our stockholders. These provisions include, among other things, the following:

- the division of our Board of Directors into three classes, each with three-year staggered terms,
- the ability of our Board of Directors to issue shares of preferred stock and to determine the price and other terms, including preferences and voting rights, of those shares without stockholder approval,
- the inability of our stockholders to call a special meeting of stockholders,
- stockholder action may be taken only at a special or regular meeting of stockholders,
- advance notice procedures for nominating candidates to our Board of Directors or presenting matters at stockholder meetings,
- stockholder removal of directors only for cause and only by a supermajority vote,
- the ability of our Board of Directors, and not our stockholders, to fill vacancies on our Board of Directors, and
- supermajority voting requirements to amend our by-laws and certain provisions of our certificate of incorporation and to engage in certain types of business combinations.

While these provisions have the effect of encouraging persons seeking to acquire control of our company to negotiate with our Board of Directors, they could enable the Board of Directors to hinder or frustrate a transaction that some, or a majority, of the stockholders might believe to be in their best interests and, in that case, may prevent or discourage attempts to remove and replace incumbent directors. We are also subject to Delaware laws that could have similar effects. One of these laws prohibits us from engaging in a business combination with a significant stockholder unless specific conditions are met.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We own or lease operating facilities located throughout the world that handle manufacturing production, assembly, research, quality assurance testing, distribution and packaging of our products. We believe our facilities are suitable and adequate for our present operations. We lease our principal executive offices that are located in Alpharetta, Georgia. The locations of our principal medical device production facilities owned or leased by us around the world are as follows:

Location	Country	Owned/Leased
Nogales	Mexico	Owned
Nogales	Mexico	Leased
Tucson, Arizona	USA	Leased
Magdalena	Mexico	Leased
Tijuana	Mexico	Leased
Weinheim	Germany	Leased
Marseille	France	Leased
Sousse	Tunisia	Leased

ITEM 3. LEGAL PROCEEDINGS

We are subject to various legal proceedings, claims and governmental inspections, audits or investigations pertaining to issues such as contract disputes, product liability, tax matters, patents and trademarks, advertising, governmental regulations, employment and other matters, including the matters described below. Under the terms of the distribution agreement we entered into with Kimberly-Clark prior to the Spin-off, legal proceedings, claims and other liabilities that are primarily related to our business are our responsibility and we are obligated to indemnify and hold Kimberly-Clark harmless for such matters ("Indemnification Obligation"). For the years ended December 31, 2017, 2016 and 2015, we have incurred $21 million, $20 million and $17 million, respectively, related to these matters.

Chondrolysis Litigation

An exception to our Indemnification Obligation relates to the pain pump litigation referenced in this paragraph. We are one of several manufacturers of continuous infusion medical devices, such as our ON-Q PAINBUSTER pain pumps, that are involved in several different pending or threatened litigation matters from multiple plaintiffs alleging that use of the continuous infusion device to deliver anesthetics directly into a synovial joint after surgery resulted in postarthroscopic glenohumeral chondrolysis, or a disintegration of the cartilage covering the bones in the joint (typically, in the shoulder). Plaintiffs generally seek monetary damages and attorneys' fees. Although Kimberly-Clark generally retained the liabilities related to these matters, the distribution agreement between us and Kimberly-Clark provides that we will indemnify Kimberly-Clark for any such claims or causes of action arising after the Spin-off.

Surgical Gown Litigation and Related Matters

Bahamas Surgery Center

We have an Indemnification Obligation for, and have assumed the defense of, the matter styled *Bahamas Surgery Center, LLC v. Kimberly-Clark Corporation and Halyard Health, Inc.,* No. 2:14-cv-08390-DMG-SH (C.D. Cal.) (*"Bahamas"*), filed on October 29, 2014. In that case, the plaintiff brought a putative class action asserting claims for common law fraud (affirmative misrepresentation and fraudulent concealment) and violation of California's Unfair Competition Law ("UCL") in connection with our marketing and sale of MicroCool surgical gowns.

On April 7, 2017, after a two-week trial, a jury returned a verdict for the plaintiff, finding that Kimberly-Clark was liable for $4 million in compensatory damages (not including prejudgment interest) and $350 million in punitive damages, and that Halyard was liable for $0.3 million in compensatory damages (not including prejudgment interest) and $100 million in punitive damages. Subsequently, the court also ruled on the plaintiff's UCL claim and request for injunctive relief. The court found in favor of the plaintiff on the UCL claim but denied the plaintiff's request for restitution. The court also denied the plaintiff's request for injunctive relief.

On May 25, 2017, we filed three post-trial motions: a renewed motion for judgment as a matter of law; a motion to decertify the class; and a motion for new trial, remittitur, or amendment of the judgment. The renewed motion for judgment as a matter of law seeks to have the court reverse the jury's verdict in whole or in part because it was based on insufficient facts and/or did not correctly apply the law. The motion to decertify the class seeks to have the court decertify the class on the basis that the evidence at trial did not support the Court's initial class certification order and therefore the case should not have proceeded as a class action. The motion for new trial, remittitur or amendment of the judgment seeks, among other relief, to have the court reduce the jury's punitive damages award because it was not supported by the facts and was excessive in violation of due process under the U.S. Constitution. The U.S. Supreme Court has stated that the Constitutional outer limit for the ratio between

punitive damages and compensatory damages in cases such as ours is approximately 9 to 1 or lower, and we believe that in a case such as ours that, if there is any award of punitive damages (a premise we dispute), the ratio should be 1 to 1. We intend to continue our vigorous defense of the Bahamas matter.

Kimberly-Clark Corporation

We have notified Kimberly-Clark that we have reserved our rights to challenge any purported obligation to indemnify Kimberly-Clark for the punitive damages awarded against them. In connection with our reservation of rights, on May 1, 2017, we filed a complaint in the matter styled *Halyard Health, Inc. v. Kimberly-Clark Corporation*, Case No. BC659662 (County of Los Angeles, Superior Court of California). In that case, we seek a declaratory judgment that we have no obligation, under the Distribution Agreement or otherwise, to indemnify, pay, reimburse, assume, or otherwise cover punitive damages assessed against Kimberly-Clark in *Bahamas Surgery Center, LLC, et al. v. Kimberly-Clark Corporation and Halyard Health, Inc.*, No. 14-CV-08390 (C.D. Cal., originally filed on October 29, 2014), or any Expenses or Losses (as defined in the distribution agreement) associated with an award of punitive damages. On May 2, 2017, Kimberly-Clark filed a complaint in the matter styled *Kimberly-Clark Corporation v. Halyard Health, Inc.,* Case No. 2017-0332-AGB (Court of Chancery of the State of Delaware). In that case, Kimberly-Clark seeks a declaratory judgment that (1) we must indemnify them for all damages, including punitive damages, assessed against them in the *Bahamas* matter, (2) we have anticipatorily and materially breached the Distribution Agreement by our failure to indemnify them, and (3) we are estopped from asserting, or have otherwise waived, any claim that we are not required to indemnify them for all damages, including punitive damages, that may be awarded in the *Bahamas* matter. On May 26, 2017, we moved to dismiss or stay Kimberly-Clark's Delaware complaint, and on June 16, 2017, Kimberly-Clark moved for summary judgment. On September 12, 2017, the Delaware court granted our motion to stay Kimberly-Clark's complaint and therefore did not take any action on Kimberly-Clark's motion for summary judgment. We intend to vigorously pursue our case against Kimberly-Clark in California and to vigorously defend against their case against us.

Government Investigation

In June 2015, we were served with a subpoena from the Department of Veterans Affairs Office of the Inspector General ("VA OIG") seeking information related to the design, manufacture, testing, sale and promotion of MicroCool and other Company surgical gowns, and, in July 2015, we also became aware that the subpoena and an earlier VA OIG subpoena served on Kimberly-Clark requesting information about gown sales to the federal government are related to a United States Department of Justice ("DOJ") investigation. In May 2016 and April 2017, we received additional subpoenas from the DOJ seeking further information related to Company gowns. The Company is cooperating with the DOJ investigation.

Shahinian and Edgett

On October 12, 2016, after the DOJ and various States declined to intervene in two qui tam matters, both matters were unsealed and the complaints were subsequently served on Kimberly-Clark and Halyard, as applicable. One of those matters is *U.S. ex rel. Shahinian, et al. v. Kimberly-Clark Corporation,* No. 2:14-cv-08313-JAK-JPR (C. D. Cal.) ("*Shahinian"*), filed on October 27, 2014. The other matter is *U.S. ex rel. Edgett, et al. v. Kimberly-Clark Corporation, Halyard Health, Inc., et al,* No. 3:15-cv-00434-B (N.D. Tex.) (*"Edgett"*), filed on February 9, 2015. Both cases allege, among other things, violations of the federal and various state False Claims Acts in connection with the marketing and sale of certain surgical gowns.

Shahinian: On March 8, 2017, Kimberly-Clark moved to dismiss the Shahinian complaint, and on July 14, 2017, the California court granted Kimberly-Clark's motion while also granting the plaintiff leave to amend his complaint. The plaintiff then filed a second amended complaint. On August 11, 2017, Kimberly-Clark moved to dismiss the complaint, and on November 30, 2017, the California court again granted Kimberly-Clark's motion while also granting the plaintiff leave to amend his complaint. The plaintiff then filed a third amended complaint. On January 18, 2018, Kimberly-Clark moved to dismiss it.

Edgett: On May 17, 2017, Kimberly-Clark and Halyard moved to dismiss the Edgett complaint. On September 22, 2017, the court granted Kimberly-Clark's and Halyard's motions to dismiss, and on November 6, 2017, the court entered final judgment dismissing the Edgett complaint. The plaintiff did not appeal the entry of judgment.

We may have an Indemnification Obligation for the *Shahinian* and *Edgett* matters under the distribution agreement with Kimberly-Clark and have notified Kimberly-Clark that we reserve our rights to challenge the obligation to indemnify Kimberly-Clark for any damages or penalties which are not indemnifiable under applicable law or public policy. We intend to vigorously defend the remaining claims.

Kromenaker

On March 17, 2017, the DOJ submitted a filing declining to intervene in another qui tam matter, and the complaint was unsealed and subsequently served on Kimberly-Clark and Halyard. That matter is styled *U.S. ex rel. Kromenaker v. Kimberly-Clark Corporation and Halyard Health, Inc.,* No. 1:15-cv-04413-SCJ (N. D. Ga.) ("Kromenaker"), filed on December 21, 2015. In that case, the plaintiff alleges, among other things, violations of the federal False Claims Act in connection with the marketing and sale of certain products, including feminine hygiene products, surgical gowns and endotracheal tubes. On June 12, 2017 Kimberly-Clark and Halyard moved to dismiss the complaint. On August 21, 2017, Kromenaker filed an amended complaint, and Kimberly-Clark and Halyard filed motions to dismiss the amended complaint on September 20, 2017. We may have an Indemnification Obligation for certain parts of this matter under the distribution agreement with Kimberly-Clark and have notified Kimberly-Clark that we reserve our rights to challenge the obligation to indemnify Kimberly-Clark for any damages or penalties which are not indemnifiable under applicable law or public policy. We intend to vigorously defend this matter.

Jackson

We were served with a complaint in a matter styled *Jackson v. Halyard Health, Inc., Robert E. Abernathy, Steven E. Voskuil, et al.,* No. 1:16-cv-05093-LTS (S.D.N.Y.), filed on June 28, 2016. In that case, the plaintiff brings a putative class action against the Company, our Chief Executive Officer, our Chief Financial Officer and other defendants, asserting claims for violations of the Securities Exchange Act, Sections 10(b) and 20(a). The plaintiff alleges that the defendants made misrepresentations and failed to disclose certain information about the safety and effectiveness of our MicroCool gowns and thereby artificially inflated the Company's stock prices during the respective class periods. The alleged class period for purchasers of Kimberly-Clark securities who subsequently received Halyard Health securities is February 25, 2013 to October 21, 2014, and the alleged class period for purchasers of Halyard Health securities is October 21, 2014 to April 29, 2016. On February 16, 2017, we moved to dismiss the case. We intend to continue our vigorous defense of this matter.

Richardson, Chiu and Pick

We were also served with a complaint in a matter styled *Margaret C. Richardson Trustee of the Survivors Trust Dated 6/12/84 for the Benefit of the H&M Richardson Revocable Trust v. Robert E. Abernathy, Steven E. Voskuil, et al.,* No. 1:16-cv-06296 (S. D. N. Y.) (*"Richardson"*), filed on August 9, 2016. In that case, the plaintiff sues derivatively on behalf of Halyard Health, Inc., and alleges that the defendants breached their fiduciary duty, were unjustly enriched, and violated Section 14(A) of the Securities and Exchange Act in connection with Halyard Health, Inc.'s marketing and sale of MicroCool gowns. We were also served with a complaint in a matter styled *Kai Chiu v. Robert E. Abernathy, Steven E. Voskuil, et al*, No. 2:16-cv-08768 (C.D. Cal.), filed on November 23, 2016. In that case, the plaintiff sues derivatively on behalf of Halyard Health, Inc., and makes allegations and brings causes of action similar to those in *Richardson*, but the plaintiff also adds causes of action for abuse of control, gross mismanagement, and waste of corporate assets. We were also served with a complaint in a matter styled *Lukas Pick v. Robert E. Abernathy, Steven E. Voskuil, et al.* No. e:18-cv-00295 (D. Del.), filed of February 21, 2018. In that case, the plaintiff sues derivatively on behalf of Halyard Health, Inc., and makes allegations and brings causes of action similar to those in *Richardson* and *Chiu.* We intend to vigorously defend these matters.

Medline Industries

We were also served with a complaint in the matter styled *Medline Industries, Inc. v. Kimberly-Clark Corporation, Halyard Health, Inc., et al.*, No. 2:16-cv-08571 (C. D. Cal.), filed on November 17, 2016. In that case, the plaintiff makes allegations similar to those in *Bahamas*, *Shahinian*, and *Edgett*, and brings causes of action under federal and state false advertising laws and state unfair competition laws. On March 31, 2017, we moved to dismiss certain of Medline's claims and to transfer any surviving claims from California to Georgia. On June 2, 2017, the court granted our motion to transfer the case to Georgia and denied without prejudice our motion to dismiss. On June 30, 2017, now before the court in Georgia and with the case re-styled as *Medline Industries, Inc. v. Kimberly-Clark Corporation, Halyard Health, Inc., et al.*, No. 1:17-cv-02032 (N. D. Ga.), Kimberly-Clark and Halyard filed renewed motions to dismiss certain of Medline's claims. We may have an Indemnification Obligation for this matter under the distribution agreement with Kimberly-Clark and have notified Kimberly-Clark that we reserve our rights to challenge the obligation to indemnify Kimberly-Clark for any damages or penalties which are not indemnifiable under applicable law or public policy. We intend to vigorously defend this matter.

Naeyaert

On April 13, 2017, Kimberly-Clark was served with a complaint in the matter styled *Christopher Naeyaert v. Kimberly-Clark Corporation, et al.,* No. PSC 1603503 (County of Riverside, Superior Court of California), filed on July 21, 2016. In that case, the plaintiff makes allegations similar to those in *Bahamas* and brings causes of action similar to those in *Bahamas,* except the allegations and causes of action relate to the Ultra surgical gown. On June 5, 2017, Kimberly-Clark moved to dismiss the complaint. On August 21, 2017, Naeyaert filed an amended complaint and on September 18, 2017, Kimberly-Clark filed a motion to dismiss the amended complaint. We may have an Indemnification Obligation for this matter under the distribution agreement with Kimberly-Clark and have notified Kimberly-Clark that we reserve our rights to challenge the obligation to indemnify Kimberly-Clark for any damages or penalties which are not indemnifiable under applicable law or public policy. We intend to vigorously defend this matter.

Patent Litigation

We operate in an industry characterized by extensive patent litigation and competitors may claim that our products infringe upon their intellectual property. Resolution of patent litigation or other intellectual property claims is typically time consuming and costly and can result in significant damage awards and injunctions that could prevent the manufacture and sale of the affected products or require us to make significant royalty payments in order to continue selling the affected products. At any given time we may be involved as either a plaintiff or a defendant in a number of patent infringement actions, the outcomes of which may not be known for prolonged periods of time.

General

While we maintain general and professional liability, product liability and other insurance, our insurance policies may not cover all of these matters and may not fully cover liabilities arising out of these matters. In addition, we may be obligated to indemnify our directors and officers against these matters.

Although the results of litigation and claims cannot be predicted with certainty, we believe that the ultimate resolution of these matters will not materially impact our liquidity, access to capital markets or ability to conduct our daily operations.

As of December 31, 2017, we have an accrued liability for the matters described herein. The accrued liability is included in "Accrued Expenses" in the consolidated balance sheet. Our estimate of these liabilities is based on facts and circumstances existing at this time, along with other variables. Factors that may affect our estimate include, but are not limited to: (i) changes in the number of lawsuits filed against us, including the potential for similar, duplicate or "copycat" lawsuits filed in multiple jurisdictions, including lawsuits that bring causes or action or allege violations of law with regard to additional products; (ii) changes in the legal costs of defending such claims; (iii) changes in the nature of the lawsuits filed against us, (iv) changes in the applicable law governing any legal claims against us; (v) a determination that our assumptions used in estimating the liability are no longer reasonable; and (vi) the uncertainties associated with the judicial process, including adverse judgments rendered by courts or juries. Thus, the actual amount of these liabilities for existing and future claims could be different than the accrued amount. Additionally, the above matters, regardless of the outcome, could disrupt our business and result in substantial costs and diversion of management attention.

Environmental Compliance

We are subject to federal, state and local environmental protection laws and regulations with respect to our business operations and are operating in compliance with, or taking action aimed at ensuring compliance with, these laws and regulations. None of our compliance obligations with environmental protection laws and regulations, individually or in the aggregate, is expected to have a material adverse effect on our business, financial condition, results of operations or liquidity.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

The names and ages of our executive officers as of February 27, 2018, together with certain biographical information, are as follows:

Name	Position
Joseph F. Woody	Chief Executive Officer
Rhonda D. Gibby	Senior Vice President and Chief Human Resources Officer
Warren J. Machan	Senior Vice President - Business Strategy
Steven E. Voskuil	Senior Vice President and Chief Financial Officer
John W. Wesley	Senior Vice President and General Counsel

Joseph F. Woody, age 52, was appointed as Chief Executive Officer on June 26, 2017. Mr. Woody has more than 20 years of experience in the healthcare sector. Prior to joining the Company, Mr. Woody served as Director, President and Chief Executive Officer of Acelity Holdings, Inc. ("Acelity"), a global advanced wound care and regenerative medicine company, from August 2015 until April 2017. Prior to that, Mr. Woody served as President and Chief Executive Officer for the combined organization of Kinetic Concepts, Inc. ("KCI"), LifeCell Corporation ("LifeCell"), and Systagenix Wound Management B.V., which became Acelity, from September 2013 until August 2015. Prior to that, Mr. Woody served in leadership roles at KCI and LifeCell from November 2011 until September 2013, having been promoted to President and Chief Executive Officer of KCI in January 2012 and interim Chief Executive Officer of LifeCell in April 2013. Previously, Mr. Woody served as global president of Vascular Therapies for Covidien plc, and global president for Smith & Nephew Advanced Wound Management, and he held other leadership positions at Alliance Imaging, Inc., Acuson and GE Medical Systems.

Rhonda D. Gibby, age 50, is our Senior Vice President and Chief Human Resources Officer. Prior to the Spin-off, she had been serving as Kimberly-Clark's Vice President - Human Resources for its global business-to-business units (K-C Professional and Kimberly-Clark's Health Care business) as well as the leader of Kimberly-Clark's global labor relations since 2010. Prior to that, Ms. Gibby served as Kimberly-Clark's Global Vice President of Talent Management from 2008 to 2010. Prior to joining Kimberly-Clark in 2005, Ms. Gibby held leadership roles in operations, sales and human resources in a variety of industries and employers, including most recently at Covidien, a global healthcare products company.

Warren J. Machan, age 52, is our Senior Vice President - Business Strategy. Prior to the Spin-off, he had been serving as Kimberly-Clark's Senior Director of Strategy - Global Health Care since January 2012 and before that served as Senior Director of Finance for Kimberly-Clark's Health Care business from 2008 to 2012. Mr. Machan served as Director of Finance and Strategic Planning for the Kimberly-Clark International business from 2004 to 2008. He joined Kimberly-Clark in 1987 and, while spending the majority of time in Kimberly-Clark's Health Care business, he has also held roles in sales, marketing and finance for the K-C Professional, Personal Care and Family Care businesses.

Steven E. Voskuil, age 49, is our Senior Vice President and Chief Financial Officer. Prior to the Spin-off, he had been serving as Vice President - Finance for Kimberly-Clark International since September 2011 and previously served as Kimberly-Clark's Vice President and Treasurer from January 2008 to September 2011. He joined Kimberly-Clark in 1991 in Finance and has held a variety of roles in business analysis, strategic analysis and treasury for Kimberly-Clark's businesses worldwide.

John W. Wesley, age 59, is our Senior Vice President of Legal and Government Relations. Prior to the Spin-off, he had been serving as Kimberly-Clark's Vice President, Deputy General Counsel and Corporate Secretary since 2009. He joined Kimberly-Clark in May 2000 as Senior Counsel, Corporate Affairs and has held a variety of positions, overseeing corporate transactions and corporate governance matters. Prior to joining Kimberly-Clark, he was a partner at the Dallas law firm of Carrington, Coleman, Sloman & Blumenthal, L.L.P., where he specialized in corporate, securities, corporate finance, mergers and acquisitions and general, commercial and business law.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Halyard common stock is listed on the New York Stock Exchange ("NYSE") under the ticker symbol "HYH". The following table sets forth the quarterly high and low sales prices per share of our common stock on the NYSE:

	2017		2016	
Three Months Ended:	**High**	**Low**	**High**	**Low**
March 31	$ 41.84	$ 36.00	$ 33.73	$ 22.76
June 30	40.97	35.24	34.10	26.05
September 30	46.63	38.22	37.31	32.50
December 31	50.99	41.51	39.54	31.59

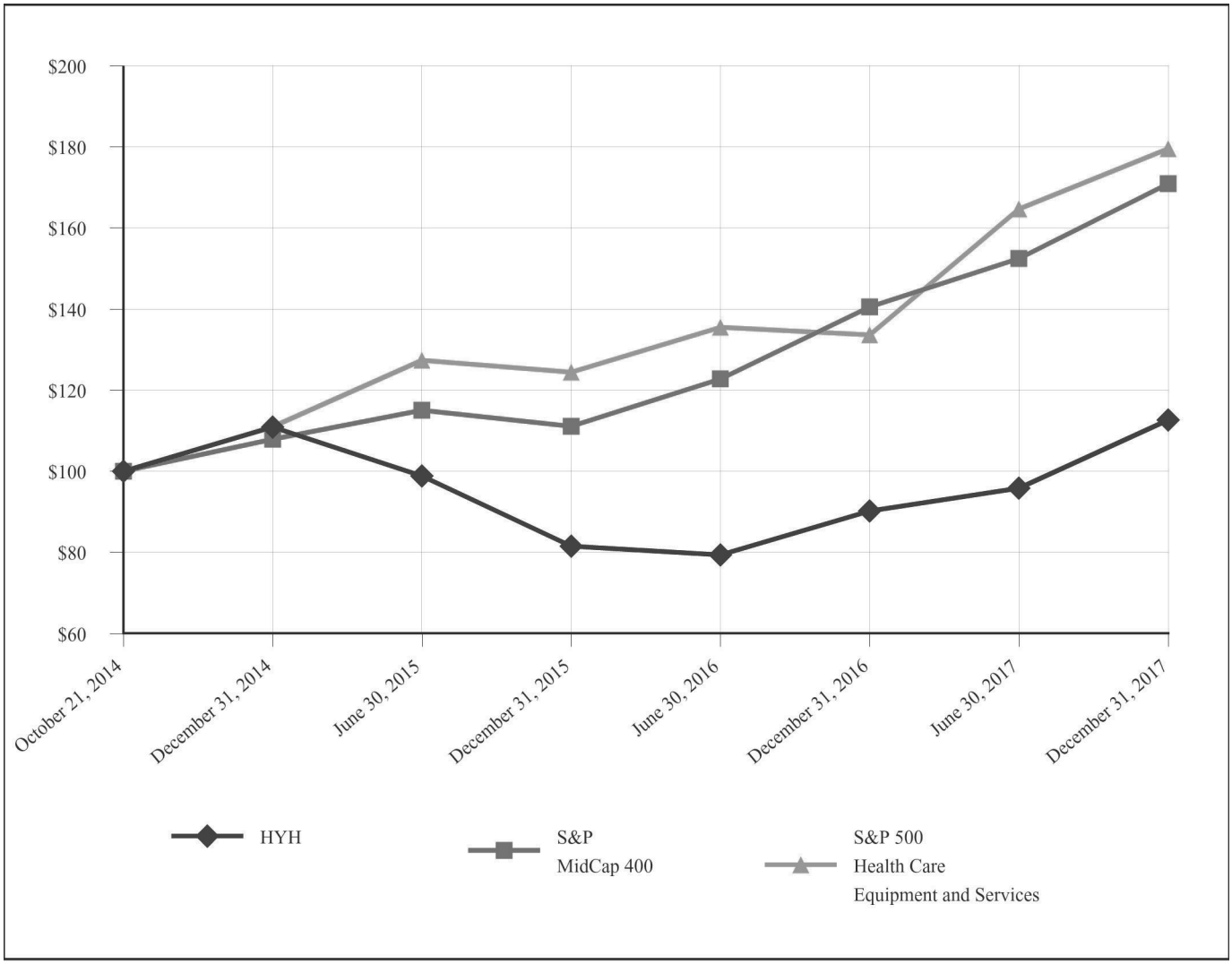
We did not pay any dividends on our common stock in the years ended December 31, 2017 and 2016 and we do not expect to pay any cash dividends on our common stock in the foreseeable future.

As of February 16, 2018, we had 14,470 holders of record of our common stock.

For information relating to securities authorized for issuance under equity compensation plans, see Part III, Item 12 of this Form 10-K.

Performance

The following graph compares the cumulative total return of our common stock from October 21, 2014, the first day of trading for our common stock on a when-issued basis, through December 31, 2017 with the cumulative return of companies comprising the Standard and Poor's S&P MidCap 400 Index and the S&P 500 Health Care Equipment and Services Index. The graph plots the change in value of an initial investment of $100 in each of our common stock, the S&P MidCap 400 Index and the S&P 500 Health Care Equipment and Services Index over the indicated time periods and assumes reinvestment of all dividends, if any, paid on the securities. We have not paid any cash dividends, and therefore, the cumulative total return calculation for us is based solely upon stock price appreciation and not upon reinvestment of cash dividends. The stock price performance shown on the graph is not necessarily indicative of future price performance.



	HYH	S&P MidCap 400	S&P 500 Health Care Equipment and Services
October 21, 2014	100.00	100.00	100.00
December 31, 2014	110.90	107.89	110.93
June 30, 2015	98.78	115.04	127.35
December 31, 2015	81.49	111.07	124.40
June 30, 2016	79.32	122.77	135.49
December 31, 2016	90.20	140.54	133.59
June 30, 2017	95.80	152.45	164.68
December 31, 2017	112.63	170.88	179.53

ITEM 6. SELECTED FINANCIAL DATA

The following Selected Financial Data has been revised to reflect discontinued operations (see "Discontinued Operations" in Note 2 to the consolidated financial statements in Item 8 of this report). The Selected Financial Data as of December 31, 2017 and 2016 and for each of the years ended December 31, 2017, 2016 and 2015 have been derived from our audited consolidated financial statements which are included in Item 8 of this report. Selected Financial Data as of December 31, 2015, 2014 and 2013 and for each of the years ended December 31, 2014 and 2013 has been derived from our consolidated financial

information but is not included in Item 8 of this report. The Selected Financial Data as of and for the years ended December 31, 2014 and 2013 is unaudited. The following Selected Financial Data is not necessarily indicative of future performance and should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 8, "Financial Statements and Supplementary Data" in this annual report on Form 10-K (in millions, except per-share amounts):

	Year Ended December 31,				
	2017	2016	2015	2014 (Unaudited)	2013 (Unaudited)
Income Statement Data:					
Net Sales	**$ 611.6**	$ 566.2	$ 509.0	$ 501.6	$ 499.0
Operating Profit (Loss)	**(43.1)**	(107.1)	(135.7)	(12.3)	74.1
Income (Loss) from Continuing Operations	**(32.1)**	(83.3)	(101.2)	(40.5)	43.7
Income (Loss) from Discontinued Operations, net of tax	**111.4**	123.1	(325.1)	67.6	110.9
Net Income[(a)(b)(c)(d)]	**79.3**	39.8	(426.3)	27.1	154.6
Basic Earnings (Loss) Per Share:					
Continuing Operations	**$ (0.69)**	$ (1.79)	$ (2.17)	$ (0.87)	$ 0.94
Discontinued Operations	**2.38**	2.64	(6.98)	1.45	2.38
Basic Earnings (Loss) Per Share	**1.69**	0.85	(9.15)	0.58	3.32
Diluted Earnings (Loss) Per Share:					
Continuing Operations	**$ (0.69)**	$ (1.79)	$ (2.17)	$ (0.87)	$ 0.94
Discontinued Operations	**2.38**	2.64	(6.98)	1.45	2.38
Diluted Earnings (Loss) Per Share	**1.69**	0.85	(9.15)	0.58	3.32

(a) Net income in 2017 includes $13 million, net of tax, of costs related to legal expenses and litigation (see "Commitments and Contingencies" in Note 13 to the consolidated financial statements in Item 8 of this report), $13 million, net of tax, of Divestiture-related charges, $5 million, net of tax, related to the integration of Corpak (see "Business Acquisition" in Note 6 to the consolidated financial statements in Item 8 of this report), $3 million, net of tax, of restructuring charges (see "Restructuring Activities" in Note 3 to the consolidated financial statements in Item 8 of this report) and a $10 million tax benefit as a result of recent passage of tax reform legislation (see "Income Taxes" in Note 9 to the consolidated financial statements in Item 8 of this report).

(b) Net income in 2016 includes $14 million, net of tax, of spin-related transition expenses, $13 million, net of tax, of costs related to legal expenses and litigation and $11 million, net of tax, of costs related to our acquisition of Corpak.

(c) Net loss in 2015 includes a $474 million goodwill impairment charge, $33 million, net of tax, of spin-related transition expenses and $11 million, net of tax, of costs related to legal expenses and litigation partially offset by a $8 million net gain on the disposal of one of our exam glove manufacturing facilities in Thailand.

(d) Net income in 2014 includes charges of $88 million, net of tax, related to the spin-off, $47 million, net of tax, related to strategic changes to our manufacturing footprint and $8 million, net of tax, of post spin-off transition charges.

	As of December 31,				
	2017	2016	2015	2014 (Unaudited)	2013 (Unaudited)
Balance Sheet Data:					
Cash	**$ 219.7**	$ 113.7	$ 129.5	$ 149.0	$ 44.1
Property, Plant and Equipment, Net	**109.9**	109.3	115.9	114.9	100.9
Total Assets	2,195.9	2,071.8	2,000.2	2,517.9	2,484.0
Debt	$ 580.9	579.0	578.1	626.5	11.9
Stockholders' Equity	**1,215.4**	1,102.5	1,055.3	1,491.2	—
Kimberly-Clark's Net Investment	**—**	—	—	—	2,098.7

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

Halyard is a medical technology company focused on eliminating pain, speeding recovery and preventing infection for healthcare providers and patients. We are committed to addressing some of today's most important healthcare needs, such as reducing the use of opioids while helping patients move from surgery to recovery. Our Medical Devices business segment develops, manufactures and markets clinically superior solutions around the globe.

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to provide investors with an understanding of our recent performance, financial condition and prospects and should be read in conjunction with the consolidated financial statements contained in Item 8, "Financial Statements and Supplementary Data" in this annual report on Form 10-K. The following will be discussed and analyzed:

- Divestiture of the Surgical and Infection Prevention ("S&IP") Business
- Discontinued Operations
- Restructuring Activities
- Results of Operations and Related Information
- Unaudited Quarterly Data
- Liquidity and Capital Resources
- Critical Accounting Policies and Use of Estimates
- Legal Matters
- Information Concerning Forward Looking Statements

Divestiture of the S&IP Business

On October 31, 2017, we entered into a Purchase Agreement ("Purchase Agreement") by and among us and certain of our affiliates and Owens & Minor, Inc. (the "Buyer"). The Purchase Agreement provides for the sale to Buyer, subject to the terms and conditions of the Purchase Agreement, of substantially all of our S&IP business, as well as our name "Halyard Health" (and all variations of our name and related intellectual property rights) and our IT system (the "Divestiture"). The total price payable by the Buyer for the Divestiture is $710 million in cash, subject to certain adjustments as provided in the Purchase Agreement based on the cash, indebtedness and net working capital transferred to the Buyer and its affiliates at the closing. We expect the transaction to close early in the second quarter of 2018.

As a focused Medical Devices business, Halyard will be operating in attractive end-markets. We will deploy a dual-track growth strategy focused on product development and M&A while right-sizing the cost structure of our operations to create a scalable and cost efficient infrastructure. We have initiated a multi-year phased restructuring to reduce dis-synergies and corporate costs. See "Restructuring Activities" below for further discussion.

On or about the closing date, we will enter into certain commercial agreements, including a transition services agreement with the Buyer pursuant to which we and the Buyer, and each company's respective affiliates, will provide to each other various transitional services. The services will generally commence on the closing date of the Divestiture and terminate no later than two years thereafter.

For the year ended December 31, 2017, we have incurred $20 million of costs related to the Divestiture, consisting primarily of professional fees for legal, due diligence, consulting, tax and accounting services and is included in "Selling and general expenses" in the consolidated income statement in Item 8 of this report.

Discontinued Operations

As a result of the pending Divestiture, the results of operations from our S&IP business are reported as "Income (Loss) from discontinued operations, net of tax" and the related assets and liabilities are classified as "held for sale" in the consolidated financial statements in Item 8 of this report. See "Discontinued Operations" in Note 2 to the consolidated financial statements in Item 8 of this report.

Net sales from discontinued operations were $1,013 million for the year ended December 31, 2017, compared to $1,026 million in 2016 and $1,065 million in 2015. Favorable volume and currency effects were offset by pricing pressure, resulting in a decrease in net sales in 2017. Price loss along with lower sales of rolled non-woven material were the primary drivers of the decline in net sales between 2015 and 2016.

Restructuring Activities

In December 2017, in conjunction with the Divestiture, we initiated the initial phase of a multi-year restructuring plan (the "Plan"). The initial phase of the Plan is intended to align our organizational and management structure with the our remaining Medical Devices business.

We expect to incur between $8 million and $10 million of pre-tax costs, of which $6 million to $7 million will be for employee severance and benefits and the remainder for third-party services and other related costs. These are mainly cash costs that will be incurred as we execute the Plan, which we expect to substantially complete by the end of 2019. We expect savings between $11 million and $13 million on an annualized basis once the initial phase of the Plan is completed.

We have incurred $5 million of costs, primarily for employee severance and benefits. These costs are included in "Cost of products sold" and "Selling and general" expenses in the consolidated income statement for the year ended December 31, 2017. For the year ended December 31, 2017, no severance and benefits payments have been made and the remaining liability in "Accrued expenses" for employee severance and benefits was $5 million in the accompanying consolidated balance sheet as of December 31, 2017.

Results of Operations and Related Information

Costs Included in Continuing Operations

The results of operations described below excludes the S&IP business, which is reported in "Income (Loss) from Discontinued Operations, net of tax" in the consolidated income statement for all periods presented. In accordance with accounting principles generally accepted in the United States ("GAAP"), only costs specifically identifiable and attributable to a business to be disposed may be allocated to discontinued operations. Accordingly, certain costs that were historically presented as a component of the S&IP business were included in continuing operations. These costs, on a pre-tax basis, were $116 million in the year ended December 31, 2017, $114 million in 2016 and $133 million in 2015.

Other items impacting operating results include:

Restructuring costs: As previously described under "Restructuring Activities," we have incurred $5 million of costs related to the Plan for the year ended December 31, 2017.

Acquisition-related costs: Acquisition, integration and restructuring expenses related to our acquisition of Medsystems Holdings, Inc. ("Corpak") were $8 million in the year ended December 31, 2017 and $18 million in 2016. See "Business Acquisition" in Note 6 to the consolidated financial statements in Item 8 of this report.

Spin-related costs: Spin-related activities were not material in 2017, but resulted in $14 million of costs primarily for rebranding activities in the year ended December 31, 2016 and $46 million in 2015.

Litigation and legal: We incurred $21 million, $20 million and $17 million of expenses for certain litigation matters in the years ended December 31, 2017, 2016 and 2015, respectively. See "Commitments and Contingencies" in Note 13 to the consolidated financial statements in Item 8 of this report.

Our net sales and operating profit (loss) is summarized in the following tables for the years ended December 31, 2017, 2016 and 2015 (in millions):

Net Sales

	Year Ended December 31,				
	2017	2016	Change	2015	Change
Net sales	$ 611.6	$ 566.2	8.0%	$ 509.0	11.2%

	Total	Volume[(c)]	Pricing/Mix	Currency
Net Sales - percentage change 2017 vs. 2016	8%	8%	—%	—%
Net Sales - percentage change 2016 vs. 2015	11%	11%	—%	—%

(a) Volume includes incremental sales of Corpak products.

Operating Profit (Loss)

	Year Ended December 31,				
	2017	2016	Change	2015	Change
Medical Devices operating profit[(a)]	**$ 155.2**	$ 123.8	25.4%	$ 107.8	14.8%
Corporate and other costs[(b)(c)(d)]	**(178.2)**	(211.2)	N.M.	(227.3)	N.M.
Other income and (expense), net[(e)]	**(20.1)**	(19.7)	N.M.	(16.2)	N.M.
Operating loss	**$ (43.1)**	$ (107.1)	N.M.	$ (135.7)	N.M.

(a) In the years ended December 31, 2017 and 2016, and 2015, we recorded $21 million, $21 million and $25 million, respectively, of intangibles amortization expense.
(b) For the year ended December 31, 2017, Corporate and other costs included $116 million, respectively, of costs historically presented as a component of the S&IP business, $55 million of general expenses, $5 million of restructuring costs and $8 million of acquisition-related charges partially offset by a $6 million benefit related to realignment of internal policies for our post-divestiture business.
(c) For the year ended December 31, 2016, Corporate and other costs included $114 million of costs historically presented as a component of the S&IP business, $66 million of general expenses, $14 million of post spin-related costs $18 million, respectively, of acquisition-related charges.
(d) For the year ended December 31, 2015, Corporate and other costs included $133 million of costs historically presented as a component of the S&IP business, $49 million of general expenses and $46 million of post spin-related expenses.
(e) Other expense, net is primarily costs related to litigation and legal matters.
N.M. - not meaningful

Results of Operations - 2017 Compared to 2016

Net sales increased by 8% to $612 million, driven by a 5% growth in volume across all product categories, with Corpak adding an additional 3% of volume. There is growing demand for our non-opioid pain products, On-Q for surgical pain and our Coolief interventional pain therapy. Other factors in improved volume include growth in our Corpak products and the conversion of a GPO contract for oral care products. Volume growth was also the primary driver in Medical Devices operating profit, along with lower selling and general expenses driven by synergies from our Corpak integration, resulting in a 25% increase compared to Medical Devices operating profit in 2016.

Results of Operations - 2016 Compared to 2015

Net sales increased 11% to $566 million for the year ended December 31, 2016 compared to 2015. The acquisition of Corpak provided $36 million, or 7% of the increase, and the remaining 4% is the result of improved sales volume across all product categories. Improved profitability in our Medical Devices business in 2016 compared to 2015 was likewise driven by incremental net sales provided by the Corpak acquisition and volume gains, but was partially offset by higher research and development spending and higher selling expenses.

Net Sales by Geographic Region

The factors causing volume growth were consistent throughout our geographic regions. Net sales by region is presented in the table below (in millions):

	Year Ended December 31,				
(in millions)	2017	2016	Change	2015	Change
North America	**$ 473.4**	$ 436.1	8.6%	$ 395.0	10.4%
EMEA	**84.0**	78.4	7.1	69.4	13.0
Asia Pacific and Latin America	**54.2**	51.7	4.8	44.6	15.9
Total Net Sales	**$ 611.6**	$ 566.2	8.0%	$ 509.0	11.2%

Interest Expense

Interest expense was $32 million in the year ended December 31, 2017 and $33 million in each of the years ended December 31, 2016 and 2015, respectively. Interest expense consists of interest accrued and amortization of debt discount and issuance costs on our senior secured term loan and our senior unsecured notes. See “Debt” in Note 8 to the consolidated financial statements in Item 8 of this report for further discussion of our indebtedness.

Provision for Income Taxes

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the “Act”) was signed into law making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, the transition of U.S international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017. We have calculated our best estimate of the impact of the Act in our year end income tax provision in accordance with our understanding of the Act and guidance available as of the date of this filing and as a result have recorded $10 million as additional income tax benefit in the fourth quarter of 2017, the period in which the legislation was enacted. The provisional amount related to the re-measurement of certain deferred tax assets and liabilities, based on the rates at which they are expected to reverse in the future, was $16 million of benefit. The provisional amount related to the one-time transition tax on the mandatory deemed repatriation of foreign earnings was $7 million based on cumulative foreign earnings of $101 million. We also recorded a $1 million benefit related to the treatment of current year cash dividends in relation to the repatriation tax.

Our overall effective tax rate was a 56% benefit for the year ended December 31, 2017 compared to a benefit of 40% in each of the years ended December 31, 2016 and 2015, respectively. The primary driver in the change in our effective tax rate is the benefit from the Act, as discussed above. See “Income Taxes” in Note 9 to the consolidated financial statements in Item 8 of this report for further details regarding our income taxes.

Unaudited Quarterly Data

(in millions, except per-share amounts)	2017 Fourth	2017 Third	2017 Second	2017 First	2016 Fourth	2016 Third	2016 Second	2016 First
Net Sales	**$ 166.3**	**$ 150.5**	**$ 149.1**	**$ 145.7**	$ 153.5	$ 145.1	$ 141.2	$ 126.4
Gross Profit	**89.9**	**81.0**	**84.5**	**81.5**	78.0	75.3	73.7	70.2
Operating (Loss) Profit [(a)(b)]	**(3.0)**	**(10.4)**	**(12.1)**	**(17.6)**	(30.4)	(24.4)	(33.0)	(19.3)
Net Income (Loss) from continuing operations	**4.4**	**(10.2)**	**(11.4)**	**(14.9)**	(21.9)	(19.6)	(25.5)	(16.3)
Income from Discontinued Operations, net of tax	**28.4**	**26.8**	**28.5**	**27.7**	31.9	28.7	32.0	30.5
Net income	**$ 32.8**	**$ 16.6**	**$ 17.1**	**$ 12.8**	**$ 10.0**	**$ 9.1**	**$ 6.5**	**$ 14.2**
Basic Earnings (Loss) Per Share:								
Continuing operations	**$ 0.09**	**$ (0.22)**	**$ (0.24)**	**$ (0.32)**	$ (0.47)	$ (0.42)	$ (0.55)	$ (0.35)
Discontinued operations	**0.61**	**0.57**	**0.61**	**0.59**	0.68	0.61	0.69	0.65
Net income	**0.70**	**0.35**	**0.37**	**0.27**	0.21	0.19	0.14	0.30
Diluted Earnings (Loss) Per Share:								
Continuing operations	**$ 0.09**	**$ (0.22)**	**$ (0.24)**	**$ (0.32)**	$ (0.47)	$ (0.42)	$ (0.55)	$ (0.35)
Discontinued operations	**0.60**	**0.57**	**0.61**	**0.59**	0.68	0.61	0.69	0.65
Net income	**0.69**	**0.35**	**0.37**	**0.27**	0.21	0.19	0.14	0.30

(a) Operating profit in 2017 includes $116 million of costs historically presented as a component of the S&IP business (see "Discontinued Operations" in Note 2 to the consolidated financial statements in Item 8 of this report), $21 million of expenses related to legal matters (see "Commitments and Contingencies" in Note 13 to the consolidated financial statements in Item 8 of this report), $8 million of acquisition-related expenses (see "Business Acquisition" in Note 6 to the consolidated financial statements in Item 8 of this report) and $5 million of restructuring charges (see "Restructuring" in Note 3 to the consolidated financial statements in Item 8 of this report),

(b) Operating profit in 2016 includes $114 million of costs historically presented as a component of the S&IP business, $20 million of expenses related to legal matters, $18 million of acquisition-related expenses and $14 million of post spin-related expenses.

Liquidity and Capital Resources

General

Our primary sources of liquidity are cash on hand provided by operating activities and amounts available under our revolving credit facility. Cash provided by operations has been and is expected to remain a primary source of funds. Cash provided by operations has historically generated sufficient cash to fund our investments in working capital and capital expenditures. As of December 31, 2017, $106 million of our $220 million of cash and cash equivalents was held by foreign subsidiaries. We consider the undistributed earnings of our foreign subsidiaries to be indefinitely reinvested and currently do not have plans to repatriate such earnings. See further discussion below in "Critical Accounting Policies and Use of Estimates" under "Income Taxes." We do not expect restrictions on repatriation of cash held outside of the United States to have a material effect on our overall liquidity, financial condition or results of operations for the foreseeable future. We believe that our ability to generate cash from domestic and international operations and the borrowing capacity under our available credit facilities are adequate to fund our requirements for working capital, capital expenditures and other investments necessary to grow our business for the foreseeable future for both our domestic and international operations.

As described earlier under "Divestiture of the S&IP Business", we expect to close the Divestiture in the second quarter of 2018 and receive approximately $600 million of net proceeds from the sale which will be used to preserve our debt capacity and reinvest into the business through acquisition and organic growth.

Cash and equivalents increased by $106 million to $220 million as of December 31, 2017 compared to $114 million last year. The increase was driven by $144 million of cash flow from operations, $3 million from favorable currency exchange rates and $2 million from financing activities partially offset by $43 million of capital expenditures.

Cash and equivalents decreased by $16 million to $114 million as of December 31, 2016 compared to $130 million as of December 31, 2015. The decrease was driven by $175 million used in our acquisition of Corpak and $29 million of capital expenditures partially offset by $189 million of cash provided by operating activities.

Cash and equivalents decreased by $19 million to $130 million as of December 31, 2015 compared to $149 million as of December 31, 2014. The decrease was driven primarily by $51 million of debt repayments and $70 million of capital expenditures partially offset by $98 million of cash provided by operating activities.

Operating Activities

Operating activities provided $144 million in the year ended December 31, 2017 compared to $189 million last year. Changes in operating assets and liabilities used $4 million in 2017, driven by a build-up of inventories in anticipation of integrating the production from our Buffalo Grove facility into our other existing facilities and an increase in accounts receivable due to higher net sales. Changes in operating assets and liabilities improved in 2016, particularly inventories and accrued expenses, resulting in a $92 million benefit to operating cash flow.

Operating activities provided $189 million in the year ended December 31, 2016 compared to $98 million in 2015 primarily due to improvements in operating assets and liabilities.

Investing Activities

Investing activities consisted of $43 million of capital expenditures in the year ended December 31, 2017, compared to $201 million used in investing activities last year, which consisted of $175 million used to acquire Corpak and $29 million of capital expenditures partially offset by $3 million of proceeds from property disposals.

Investing activities used $63 million in the year ended December 31, 2015, driven by $70 million of capital expenditures partially offset by $8 million of proceeds from property disposals.

Financing Activities

Financing activities provided $2 million in the year ended December 31, 2017, consisting of $5 million cash received from the exercise of stock options partially offset by $3 million used to acquire treasury stock.

During 2016, we borrowed and repaid $72 million from our revolving credit facility and paid $1 million of debt issuance costs in conjunction with an amendment to our senior secured term loan facility (see discussion under "Long Term Debt" below).

In 2015, financing activities used $51 million, consisting primarily of debt repayments.

Long-Term Debt

As of December 31, 2017, total debt was $581 million, consisting of (i) $334 million, net of unamortized discount, on our senior secured term loan and (ii) $247 million, net of unamortized discount, on our senior unsecured notes.

Our senior secured term loan matures on October 31, 2021 (the "Term Loan Facility") and is under a credit agreement that also includes a senior secured revolving credit facility that matures on October 31, 2019 which allows for borrowings up to $250 million, with a letter of credit sub-facility in an amount of $75 million and a swingline sub-facility in an amount of $25 million (the "Revolving Credit Facility" and along with the Term Loan Facility, the "Senior Credit Facilities"). The Senior Credit Facilities allow for floating rate LIBOR or base rate loans.

The credit agreement contains an excess cash flow provision that requires a mandatory principal prepayment of our Term Loan Facility if we generate cash in excess of a defined measure of cash flow. Accordingly, we are required to prepay $40 million under this prepayment requirement as we generated Excess Cash in the year ended December 31, 2017. This prepayment is classified as "Current portion of long-term debt" in the consolidated balance sheet in Item 8 of this report and will be paid in the first quarter of 2018.

Funds under our Revolving Credit Facility are available for acquisitions, working capital or other requirements. To the extent we remain in compliance with certain financial covenants in our credit agreement, funds under the revolving credit facility are available for our working capital and other liquidity requirements. As of December 31, 2017, we had no borrowings and letters of credit of $3 million outstanding under the Revolving Credit Facility.

We also have $250 million of senior unsecured notes that mature on October 15, 2022, bearing interest at a fixed interest rate of 6.25% per annum with interest payable semi-annually in arrears on April 15 and October 15 of each year.

For further information regarding our debt arrangements, see "Debt" in Note 8 to the consolidated financial statements in Item 8 of this report.

Obligations

The following table presents our total contractual obligations, including obligations related to discontinued operations (see "Discontinued Operations" in Note 2 to the consolidated financial statements in Item 8 of this report) for which cash flows are fixed or determinable as of December 31, 2017 (in millions):

		Payments Due by Period			
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Debt	$ 589.0	$ 39.8	$ —	$ 549.2	$ —
Interest payments on long-term debt	132.2	29.7	59.5	43.0	—
Operating leases	103.2	18.0	26.8	19.2	39.2
Open purchase orders[(a)]	294.8	265.8	28.6	0.4	—
Pension obligations	7.0	0.3	1.1	1.0	4.6
Other commitments[(b)]	70.1	16.2	25.7	14.2	14.0
Total contractual obligations	$ 1,196.3	$ 369.8	$ 141.7	$ 627.0	$ 57.8

(a) The open purchase orders displayed in the table represent amounts that we anticipate will become payable within the next year for goods and services that we have negotiated for delivery. The table does not include payments that are discretionary or for which timing is uncertain.

(b) Other commitments consists primarily of lease executory costs for insurance, maintenance and taxes on leased properties of $20 million, take or pay contracts of $47 million and uncertain tax positions of $3 million. See "Income Taxes" in Note 9 to the consolidated financial statements in Item 8 of this report.

Critical Accounting Policies and Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of net sales and expenses during the reporting period. The critical accounting policies we used in the preparation of the consolidated and combined financial statements are those that are important both to the presentation of our financial condition and results of operations and require significant judgments by management with regard to estimates used. The critical judgments by management relate to distributor rebate accruals, future

cash flows associated with impairment testing for goodwill and long-lived assets, loss contingencies and deferred income taxes and potential tax assessments.

Recently Adopted and Issued Pronouncements

See "Accounting Policies" in Note 1 to the consolidated financial statements in Item 8 of this report for recently adopted and recently issued accounting pronouncements.

Use of Estimates

We prepare our consolidated financial statements in accordance with GAAP, which requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of net sales and expenses during the reporting periods. Estimates are used in accounting for, among other things, certain amounts included in discontinued operations, certain amounts included in assets and liabilities held for sale, distributor rebate accruals, future cash flows associated with impairment testing for goodwill and long-lived assets, loss contingencies, and deferred tax assets and potential income tax assessments. Actual results could differ from these estimates, and the effect of the change could be material to our financial statements. Changes in these estimates are recorded when known.

Revenue Recognition and Accounts Receivable

Sales revenue is recognized at the time of product shipment or delivery, depending on when title passes, to unaffiliated customers, and when all of the following have occurred: evidence of a sales arrangement is in place, pricing is fixed or determinable, and collection is reasonably assured. Sales are reported net of returns, rebates and freight allowed. Distributor rebates are estimated based on the historical cost difference between list prices and average end-user contract prices and the quantity of products expected to be sold to specific end users. We maintain liabilities at the end of each period for the estimated rebate costs incurred but unpaid for these programs. Differences between estimated and actual rebate costs are normally not material and are recognized in earnings in the period such differences are determined. Rebate accruals were $64 million and $56 million as of December 31, 2017 and 2016, respectively. Taxes imposed by governmental authorities on our revenue-producing activities with customers, such as sales taxes and value-added taxes, are excluded from net sales.

Goodwill and Other Intangible Assets

Goodwill is tested for impairment annually and whenever events and circumstances indicate that impairment may have occurred. We completed the required annual goodwill impairment test as of July 1, 2017, and the fair value was substantially in excess of net asset carrying value. See "Goodwill" in Note 4 to the consolidated financial statements in Item 8 of this report for further discussion.

The evaluation of goodwill involves comparing the current fair value of a reporting unit to its carrying value, including goodwill. We used a combination of income and market approaches to estimate the current fair value. The fair value determination utilized key assumptions regarding the growth of the business, each of which required management judgment, including estimated future sales volumes, selling prices and costs, changes in working capital and investments in property and equipment. These assumptions and estimates were based upon our historical experience and projections of future activity. In addition, the selection of the discount rate used to determine fair value was based upon a market participant's view considering current market rates and our current cost of financing. There can be no assurance that the assumptions and estimates made for purposes of the annual goodwill impairment test will prove to be accurate. Volatility in the equity and debt markets, or increases in interest rates, could result in a higher discount rate. Changes in sales volumes, selling prices and costs of goods sold and increases in interest rates could cause changes in our forecasted cash flows. Unfavorable changes in any of the factors described above could result in a goodwill impairment charge in the future.

As of December 31, 2017, we had intangible assets with finite useful lives with a gross carrying amount of $422 million and a net carrying amount of $143 million. These intangibles are being amortized over their estimated useful lives and are tested for impairment whenever events or circumstances indicate that impairment may have occurred. If the carrying amount of an intangible asset is not recoverable based on estimated future undiscounted cash flows, an impairment loss would be indicated. The amount of the impairment loss to be recorded would be based on the excess of the carrying amount of the intangible asset over its fair value (based on discounted future cash flows). Judgment is used in assessing whether the carrying amount of intangible assets is not expected to be recoverable over their estimated remaining useful lives. The factors considered are similar to those outlined in the goodwill impairment discussion above.

Loss Contingencies

The outcome of loss contingencies and legal proceedings and claims brought against us is subject to uncertainty. An estimated loss contingency is accrued by a charge to earnings if it is probable that an asset has been impaired or a liability has been incurred and the amount can be reasonably estimated. Determination of whether to accrue a loss requires evaluation of the probability of an unfavorable outcome and the ability to make a reasonable estimate. Changes in these estimates could affect the timing and amount of accrual of loss contingencies.

Income Taxes

We recognize tax benefits in our financial statements when our uncertain tax positions are more likely than not to be sustained upon audit. The amount we recognize is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement.

We recognize deferred tax assets for deductible temporary differences, operating loss carry-forwards and tax credit carry-forwards. We record valuation allowances to reduce deferred tax assets to amounts that are more likely than not to be realized. In assessing the need for a valuation allowance, we consider both positive and negative evidence related to the likelihood of realization of the deferred tax assets. The weight given to the positive and negative evidence is commensurate with the extent to which the evidence may be objectively verified. As such, it is generally difficult for positive evidence regarding projected future taxable income exclusive of reversing taxable temporary differences to outweigh objective negative evidence of recent financial reporting losses. This assessment, which is completed on a taxing jurisdiction basis, takes into account a number of types of evidence, including the nature, frequency, and severity of current and cumulative financial reporting losses, sources of future taxable income, taxable income in prior carryback year(s) and tax planning strategies.

If it is determined that we would be able to realize deferred tax assets in the future in excess of our net recorded amount, an adjustment to the net deferred tax asset would increase income in the period that such determination was made. Likewise, should we determine that we would not be able to realize all or part of the net deferred tax assets in the future, an adjustment to the net deferred tax asset would decrease income in the period such determination was made. We regularly evaluate the need for valuation allowances against its deferred tax assets.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the “Act”) was signed into law making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a federal corporate tax rate decrease from 35% to 21% for tax years beginning after December 31, 2017, the transition of U.S international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of foreign earnings. We have estimated our provision for income taxes in accordance with the Act and guidance available as of the date of this filing and as a result have recorded $10 million as additional income tax benefit in the fourth quarter of 2017, the period in which the legislation was enacted. The provisional amount related to the re-measurement of certain deferred tax assets and liabilities, based on the rates at which they are expected to reverse in the future, was $16 million of benefit. The provisional amount related to the one-time transition tax on the mandatory deemed repatriation of foreign earnings was $7 million based on cumulative foreign earnings of $101 million. We also recorded a $1 million benefit related to the treatment of current year cash dividends in relation to the repatriation tax.

On December 22, 2017, Staff Accounting Bulletin No. 118 (“SAB 118”) was issued to address the application of US GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Act. In accordance with SAB 118, we have determined that the $16 million of the deferred tax benefit recorded in connection with the re-measurement of certain deferred tax assets and liabilities, the $7 million of current tax expense recorded in connection with the transition tax on the mandatory deemed repatriation of foreign earnings and the $1 million benefit related to the treatment of current year cash dividends in relation to the repatriation tax are provisional amounts and reasonable estimates at December 31, 2017. The impact of the Act may differ from this estimate, possibly materially, due to, among other things, changes in interpretations we have made, guidance that may be issued and actions we may take as a result of the Act. Additional work is necessary for a more detailed analysis of our deferred tax assets and liabilities and our historical foreign earnings as well as potential correlative adjustments. We have not accounted for the tax impacts related to the Global Intangible Low Tax Income, Base Erosion Anti Abuse Tax or Foreign Derived Intangible Income regimes or any of the other provisions of the tax legislation that are not effective until fiscal year 2018. Any subsequent adjustment to these amounts will be recorded to current tax expense in the quarter of 2018 when the analysis is complete.

At December 31, 2017, prior to the calculation of the transition tax on the mandatory deemed repatriation, U.S. income taxes and foreign withholding taxes had not been provided on $151 million of current and prior year undistributed earnings of subsidiaries operating outside the U.S. These earnings, which are considered to be invested indefinitely, would become subject to income tax if they were remitted as dividends, were lent to one of our U.S. entities or if we were to sell our stock in the subsidiaries.

While the provisional transition tax of approximately $7 million resulted in the reduction of the excess amount of financial reporting over the tax basis in our foreign subsidiaries, we have not completed our analysis of the Act's impact as an actual repatriation from our non-U.S. subsidiaries could still be subject to additional foreign withholding taxes and U.S. state taxes. We have not completed our analysis of our global working capital and cash requirements and the potential tax liabilities attributable to a repatriation. Therefore, we have not made a provisional estimate of the deferred taxes attributable to repatriation. We will record the tax effects of any change in our prior assertion with respect to these investments, and disclose any unrecognized deferred tax liability for temporary differences related to our foreign investments, if practicable, in the period that we are first able to make a reasonable estimate, no later than December 2018. While we otherwise intend to maintain the indefinite reinvestment exception, we have provided for a deferred tax asset of $5 million representing our tax basis over book basis in certain investments in connection with the proposed divestiture of our S&IP business.

Legal Matters

A description of legal matters can be seen in Item 3. Legal Proceedings.

Information Concerning Forward-Looking Statements

This annual report on Form 10-K and other materials we have filed or furnished or will file or furnish with the SEC (as well as information included in our oral or other written statements) contain, or will contain, certain "forward-looking statements," within the meaning of the Private Securities Litigation Reform Act of 1995, regarding business strategies, market potential, future financial performance and other matters. Forward-looking statements include all statements that do not relate solely to historical or current facts, and can generally be identified by the use of words such as "may," "believe," "will," "expect," "project," "estimate," "anticipate," "plan" or "continue" and similar expressions, among others. The matters discussed in these forward-looking statements are based on the current plans and expectations of our management and are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected, anticipated or implied in the forward-looking statements. These factors include, but are not limited to:

- general economic conditions particularly in the United States,
- fluctuations in global equity and fixed-income markets,
- the competitive environment,
- the loss of current customers or the inability to obtain new customers,
- litigation and enforcement actions,
- price fluctuations in key commodities,
- fluctuations in currency exchange rates,
- disruption in supply of raw materials or the distribution of finished goods,
- changes in governmental regulations that are applicable to our business,
- changes in asset valuations including write-downs of assets such as inventory, accounts receivable or other assets for impairment or other reasons, and
- the other matters described under "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Where, in any forward-looking statement, an expectation or belief as to future results or events is expressed, such expectation or belief is based on the current plans and expectations of our management and expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to risks such as changes in foreign currency exchange rates and commodity prices. A variety of practices are employed to manage these risks, including derivative instruments where deemed appropriate. Derivative instruments are used only for risk management purposes and not for speculation. All foreign currency derivative instruments are entered into with major financial institutions. Our credit exposure under these arrangements is limited to agreements with a positive fair value at the reporting date. Credit risk with respect to the counterparties is actively monitored but is not considered significant.

Presented below is a description of our risk together with a sensitivity analysis, performed annually, based on selected changes in market rates and prices. These analyses reflect management's view of changes which are reasonably possible to occur over a one-year period. Also included is a description of our commodity price risk.

Interest Rate Risk

Our Senior Secured Term Loan with a remaining face value of $339 million is subject to a variable interest rate based on LIBOR, subject to a floor of 0.75%. As of December 31, 2017, a one percentage point increase in LIBOR would result in $3 million of incremental interest expense.

Foreign Currency Risk

Foreign currency risk is managed by the systematic use of foreign currency forward and swap contracts for a limited portion of our exposure. The use of these instruments allows the management of transactional exposures to exchange rate fluctuations because the gains or losses incurred on the derivative instruments will offset, in whole or in part, losses or gains on the underlying foreign currency exposure.

Foreign currency contracts and transactional exposures are sensitive to changes in foreign currency exchange rates. An annual test is performed to quantify the effects that possible changes in foreign currency exchange rates would have on annual operating profit based on our foreign currency contracts and transactional exposures at the current year-end. The balance sheet effect is calculated by multiplying each affiliate's net monetary asset or liability position by a 10% change in the foreign currency exchange rate versus the U.S. dollar. The results of these sensitivity tests are presented in the following paragraph.

As of December 31, 2017, a 10% unfavorable change in the exchange rate of the U.S. dollar against the prevailing market rates of foreign currencies involving balance sheet transactional exposures would have an effect of $3 million to our consolidated financial position, results of operations or cash flows. These hypothetical losses on transactional exposures are based on the difference between the December 31, 2017 rates and the assumed rates.

The translation of the balance sheets of non-U.S. operations from local currencies into U.S. dollars is also sensitive to changes in foreign currency exchange rates. Consequently, an annual test is performed to determine if changes in currency exchange rates would have a significant effect on the translation of the balance sheets of non-U.S. operations into U.S. dollars. These translation gains or losses are recorded as unrealized translation adjustments ("UTA") within stockholders' equity. The hypothetical change in UTA is calculated by multiplying the net assets of these non-U.S. operations by a 10% change in the currency exchange rates.

As of December 31, 2017, a 10% unfavorable change in the exchange rate of the U.S. dollar against the prevailing market rates of our foreign currency translation exposures would have reduced stockholders' equity by approximately $28 million. These hypothetical adjustments in UTA are based on the difference between the December 31, 2017 exchange rates and the assumed rates. In the view of management, the above UTA adjustments resulting from these assumed changes in foreign currency exchange rates are not material to our consolidated financial position because they would not affect our cash flow.

Commodity Price Risk

We are subject to commodity price risk for certain raw materials used in the manufacture of our products. As previously discussed under "Risk Factors," increases in commodities prices could adversely affect our earnings if selling prices are not adjusted or if such adjustments significantly trail the increases in commodities prices.

Our energy, manufacturing and transportation costs are affected by various market factors including the availability of supplies of particular forms of energy, energy prices and local and national regulatory decisions. As previously discussed in "Risk Factors," there can be no assurance we will be fully protected against substantial changes in the price or availability of energy sources. In addition, we are subject to price risk for utilities and manufacturing inputs, which are used in our manufacturing operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

HALYARD HEALTH, INC. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS
(in millions, except per share amounts)

	Year Ended December 31,		
	2017	**2016**	**2015**
Net Sales	**$ 611.6**	$ 566.2	$ 509.0
Cost of products sold	**274.7**	269.0	251.2
Gross Profit	**336.9**	297.2	257.8
Research and development	**38.2**	38.4	27.6
Selling and general expenses	**321.7**	346.2	349.7
Other expense, net	**20.1**	19.7	16.2
Operating Loss	**(43.1)**	(107.1)	(135.7)
Interest income	**2.5**	0.6	0.3
Interest expense	**(31.6)**	(32.7)	(33.1)
Loss Before Income Taxes	**(72.2)**	(139.2)	(168.5)
Income tax benefit	**40.1**	55.9	67.3
Loss from Continuing Operations	**(32.1)**	(83.3)	(101.2)
Income (loss) from discontinued operations, net of tax	**111.4**	123.1	(325.1)
Net Income (Loss)	**$ 79.3**	$ 39.8	$ (426.3)
Earnings (Loss) Per Share			
Basic:			
Continuing operations	**$ (0.69)**	$ (1.79)	$ (2.17)
Discontinued operations	**2.38**	2.64	(6.98)
Basic Earnings (Loss) Per Share	**$ 1.69**	$ 0.85	$ (9.15)
Diluted:			
Continuing operations	**$ (0.69)**	$ (1.79)	$ (2.17)
Discontinued operations	**2.38**	2.64	(6.98)
Diluted Earnings (Loss) Per Share	**$ 1.69**	$ 0.85	$ (9.15)

See Notes to the Consolidated Financial Statements.

HALYARD HEALTH, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in millions)

	Year Ended December 31,		
	2017	**2016**	**2015**
Net Income (Loss)	**$ 79.3**	$ 39.8	$ (426.3)
Other Comprehensive Income (Loss), Net of Tax			
Defined benefit plans	**0.5**	0.6	(1.3)
Unrealized currency translation adjustments	**17.1**	(8.3)	(22.1)
Cash flow hedges	**1.2**	0.8	(.7)
Total Other Comprehensive Income (Loss), Net of Tax	**18.8**	(6.9)	(24.1)
Comprehensive Income (Loss)	**$ 98.1**	$ 32.9	$ (450.4)

See Notes to the Consolidated Financial Statements.

HALYARD HEALTH, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in millions, except share data)

	Year Ended December 31,	
	2017	**2016**
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 219.7**	$ 113.7
Accounts receivable, net of allowances	**203.0**	188.5
Inventories	**91.1**	80.7
Prepaid and other current assets	**14.4**	16.6
Assets held for sale	**632.5**	194.0
Total Current Assets	**1,160.7**	593.5
Property, Plant and Equipment, net	**109.9**	109.3
Goodwill	**764.7**	762.3
Other Intangible Assets, net	**148.9**	168.2
Deferred Tax Assets	**7.6**	8.6
Other Assets	**4.1**	3.0
Assets held for sale	**—**	426.9
TOTAL ASSETS	**$ 2,195.9**	$ 2,071.8
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current portion of long-term debt	**$ 39.8**	$ —
Trade accounts payable	**171.2**	160.6
Accrued expenses	**144.9**	138.4
Liabilities held for sale	**33.9**	25.4
Total Current Liabilities	**389.8**	324.4
Long-Term Debt	**541.1**	579.0
Deferred Tax Liabilities	**17.8**	35.4
Other Long-Term Liabilities	**31.8**	23.8
Liabilities held for sale	**—**	6.7
Total Liabilities	**980.5**	969.3
Commitments and Contingencies		
Stockholders' Equity		
Preferred stock - $0.01 par value - authorized 20,000,000 shares, none issued	**—**	—
Common stock - $0.01 par value - authorized 300,000,000 shares, 46,920,076 outstanding at December 31, 2017 and 46,681,798 outstanding at December 31, 2016	**0.5**	0.5
Additional paid-in capital	**1,550.5**	1,533.2
Accumulated deficit	**(299.9)**	(379.2)
Treasury stock	**(4.4)**	(1.9)
Accumulated other comprehensive loss	**(31.3)**	(50.1)
Total Stockholders' Equity	**1,215.4**	1,102.5
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 2,195.9**	$ 2,071.8

See Notes to the Consolidated Financial Statements.

HALYARD HEALTH, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(in millions, shares in thousands)

	Common Stock Issued		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Treasury Stock		Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount			Shares	Amount		
Balance at December 31, 2014	46,536	$ 0.5	$ 1,502.5	$ 7.3	—	$ —	$ (19.1)	$ 1,491.2
Net loss	—	—	—	(426.3)	—	—	—	(426.3)
Issuance of common stock upon the exercise or redemption of share-based awards	79	—	1.4	—	—	—	—	1.4
Stock-based compensation expense	—	—	14.1	—	—	—	—	14.1
Purchases of treasury stock	—	—	—	—	21	(1.0)	—	(1.0)
Other comprehensive loss, net of tax	—	—	—	—	—	—	(24.1)	(24.1)
Balance at December 31, 2015	46,615	0.5	1,518.0	(419.0)	21	(1.0)	(43.2)	1,055.3
Net income	—	—	—	39.8	—	—	—	39.8
Issuance of common stock upon the exercise or redemption of share-based awards	67	—	0.4	—	—	—	—	0.4
Stock-based compensation expense	—	—	14.8	—	—	—	—	14.8
Purchases of treasury stock	—	—	—	—	32	(0.9)	—	(0.9)
Other comprehensive loss, net of tax	—	—	—	—	—	—	(6.9)	(6.9)
Balance at December 31, 2016	46,682	0.5	1,533.2	(379.2)	53	(1.9)	(50.1)	1,102.5
Net income	**—**	**—**	**—**	**79.3**	**—**	**—**	**—**	**79.3**
Issuance of common stock upon the exercise or redemption of share-based awards	**238**	**—**	**4.7**	**—**	**—**	**—**	**—**	**4.7**
Stock-based compensation expense	**—**	**—**	**12.6**	**—**	**—**	**—**	**—**	**12.6**
Purchases of treasury stock	**—**	**—**	**—**	**—**	**63**	**(2.5)**	**—**	**(2.5)**
Other comprehensive income, net of tax	**—**	**—**	**—**	**—**	**—**	**—**	**18.8**	**18.8**
Balance at December 31, 2017	**46,920**	**$ 0.5**	**$ 1,550.5**	**$ (299.9)**	**116**	**$ (4.4)**	**$ (31.3)**	**$ 1,215.4**

See Notes to the Consolidated Financial Statements.

HALYARD HEALTH, INC. AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENTS
(in millions)

	Year Ended December 31,		
	2017	**2016**	**2015**
Operating Activities			
Net income (loss)	**$ 79.3**	$ 39.8	$ (426.3)
Depreciation and amortization	**59.5**	65.2	65.4
Stock-based compensation	**12.6**	14.8	14.1
Goodwill impairment	**—**	—	474.0
Net losses (gains) on asset dispositions	**3.3**	3.7	(6.7)
Changes in operating assets and liabilities, net of acquisition			
Accounts receivable	**(15.3)**	8.4	9.0
Inventories, net of allowance	**(16.8)**	41.0	(20.2)
Prepaid expenses and other assets	**(2.3)**	1.7	(6.0)
Accounts payable	**18.8**	6.5	14.7
Accrued expenses	**11.3**	34.0	(14.5)
Deferred income taxes and other	**(6.2)**	(26.3)	(5.9)
Cash Provided by Operating Activities	**144.2**	188.8	97.6
Investing Activities			
Capital expenditures	**(43.2)**	(29.1)	(70.4)
Acquisition of business, net of cash acquired	**—**	(175.0)	—
Proceeds from dispositions of property	**0.1**	3.2	7.8
Cash Used in Investing Activities	**(43.1)**	(200.9)	(62.6)
Financing Activities			
Line of credit facility proceeds	**—**	72.0	—
Line of credit facility repayments	**—**	(72.0)	—
Debt issuance costs	**—**	(0.9)	—
Debt repayments	**—**	—	(51.0)
Purchase of treasury stock	**(2.5)**	(0.9)	(1.0)
Proceeds from the exercise of stock options and other	**4.7**	0.4	1.4
Cash Provided by (Used in) Financing Activities	**2.2**	(1.4)	(50.6)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**2.7**	(2.3)	(3.9)
Increase (Decrease) in Cash and Cash Equivalents	**106.0**	(15.8)	(19.5)
Cash and Cash Equivalents - Beginning of Year	**113.7**	129.5	149.0
Cash and Cash Equivalents - End of Year	**$ 219.7**	$ 113.7	$ 129.5
Supplemental Cash Flow Disclosure:			
Cash paid for income taxes	**$ 21.4**	$ 29.1	$ 43.3
Cash paid for interest	**$ 28.7**	$ 29.9	$ 32.6
Supplemental Noncash Disclosure			
Capital expenditures included in accounts payable or accrued expenses	**$ 4.5**	$ 5.8	$ 5.6

See Notes to the Consolidated Financial Statements.

Note 1. Accounting Policies

Background and Basis of Presentation

Halyard Health, Inc. is a medical technology company focused on eliminating pain, speeding recovery and preventing infection for healthcare providers and patients. We are committed to addressing some of today's most important healthcare needs, such as reducing the use of opioids while helping patients move from surgery to recovery. We operate through our Medical Devices business segment. References to "Halyard," "Company," "we," "our" and "us" refer to Halyard Health, Inc. and its consolidated subsidiaries.

Principles of Consolidation

The consolidated financial statements include our net assets, results of our operations and cash flows. All intercompany transactions and accounts within our consolidated businesses have been eliminated. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP").

Use of Estimates

Preparation of consolidated financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of net sales and expenses during the reporting periods. Estimates are used in accounting for, among other things, distributor rebate accruals, future cash flows associated with impairment testing for goodwill and long-lived assets, loss contingencies, and deferred tax assets and potential income tax assessments. Actual results could differ from these estimates, and the effect of the change could be material to our financial statements. Changes in these estimates are recorded when known.

Cash Equivalents

Cash equivalents are short-term investments with an original maturity date of three months or less. We maintain cash balances and short-term investments in excess of insurable limits in a diversified group of major banks that are selected and monitored based on ratings by the major rating agencies in accordance with our treasury policy.

Inventories and Distribution Costs

Most U.S. inventories are valued at the lower of cost, using the Last-In, First-Out ("LIFO") method, or market. The balance of the U.S. and non-U.S. inventories are valued at the lower of cost (determined on the First-In, First-Out ("FIFO") or weighted-average cost methods) or market. Distribution costs are classified as cost of products sold.

Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost and depreciated on the straight-line method. Buildings are depreciated over their estimated useful lives, primarily 40 years. Machinery and equipment are depreciated over their estimated useful lives, primarily ranging from 16 to 20 years. Leasehold improvements are depreciated over the assets' estimated useful lives, or the remaining lease term, whichever is shorter. Purchases of computer software, including external costs and certain internal costs (including payroll and payroll-related costs of employees) directly associated with developing significant computer software applications for internal use, are capitalized. Computer software costs are amortized on the straight-line method over the estimated useful life of the software, which is generally three to five years. Depreciation expense is recorded in cost of products sold, research and development and selling and general expenses.

Estimated useful lives are periodically reviewed, and when warranted, changes are made to them. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss would be indicated when estimated undiscounted future cash flows from the use and eventual disposition of an asset group, which are identifiable and largely independent of the cash flows of other asset groups, are less than the carrying amount of the asset group. Measurement of an impairment loss would be based on the excess of the carrying amount of the asset group over its fair value. Fair value is measured using discounted cash flows or independent appraisals, as appropriate. When property is sold or retired, the cost of the property and the related accumulated depreciation are removed from the consolidated balance sheet and any gain or loss on the transaction is included in income.

Goodwill and Other Intangible Assets

Goodwill is tested for impairment annually and whenever events and circumstances indicate that impairment may have occurred. The evaluation of goodwill involves comparing the current fair value of a reporting unit to its carrying value, including goodwill. We used a combination of income and market approaches to estimate current fair value. The fair value determination utilized key assumptions regarding the growth of the business, each of which required management judgment, including estimated future sales volumes, selling prices and costs, changes in working capital and investments in property and equipment. These assumptions and estimates were based upon our historical experience and projections of future activity. In addition, the selection of the discount rate used to determine fair value was based upon a market participant's view considering current market rates and our current cost of financing. There can be no assurance that the assumptions and estimates made for purposes of the annual goodwill impairment test will prove to be accurate. Volatility in the equity and debt markets, or increases in interest rates, could result in a higher discount rate. Changes in sales volumes, selling prices and costs of goods sold and increases in interest rates could cause changes in our forecasted cash flows. Unfavorable changes in any of the factors described above could result in a goodwill impairment charge in the future. We completed the required annual goodwill impairment test as of July 1, 2017, and the fair value was substantially in excess of net asset carrying value.

Intangible assets with finite lives are amortized over their estimated useful lives and reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Estimated useful lives range from 7 to 30 years for trademarks, 7 to 17 years for patents and acquired technologies, and 2 to 16 years for other intangible assets. An impairment loss would be indicated when estimated undiscounted future cash flows from the use of the asset are less than its carrying amount. An impairment loss would be measured as the difference between the fair value (based on discounted future cash flows) and the carrying amount of the asset.

Revenue Recognition and Accounts Receivable

Sales revenue is recognized at the time of product shipment or delivery, depending on when title passes, to unaffiliated customers, and when all of the following have occurred: evidence of a sales arrangement is in place, pricing is fixed or determinable, and collection is reasonably assured. Sales are reported net of returns, rebates and freight allowed. Distributor rebates are estimated based on the historical cost difference between list prices and average end user contract prices and the quantity of products expected to be sold to specific end users. We maintain liabilities at the end of each period for the estimated rebate costs incurred but unpaid for these programs. Differences between estimated and actual rebate costs are normally not material and are recognized in earnings in the period such differences are determined. Taxes imposed by governmental authorities on our revenue-producing activities with customers, such as sales taxes and value-added taxes, are excluded from net sales.

Net sales to one customer accounted for 10%, 9% and 9%, respectively, of net sales in 2017, 2016 and 2015. No other customer accounted for more than 10% of net sales in any of the periods presented herein. As of each year ended December 31, 2017 and 2016, we had one customer who individually accounted for more than 10% of our consolidated accounts receivable balance. The allowances for doubtful accounts, sales discounts and returns were $2 million as of each year ended December 31, 2017 and 2016, respectively. The provision for doubtful accounts was not material for the years ended December 31, 2017, 2016 and 2015.

Foreign Currency Translation

The income statements of foreign operations are translated into U.S. dollars at rates of exchange in effect each month. The balance sheets of these operations are translated at period-end exchange rates, and the differences from historical exchange rates are reflected as unrealized translation adjustments in other comprehensive income.

Research and Development

Research and development expenses are expensed as incurred. Research and development expenses consist primarily of salaries and related expenses for personnel, product trial costs, outside laboratory and license fees, the costs of laboratory equipment and facilities and asset write-offs for equipment that does not reach success in product manufacturing certifications.

Stock-Based Compensation

We have a stock-based Equity Participation Plan and an Outside Directors' Compensation Plan that provide for awards of stock options, stock appreciation rights, restricted stock (and in certain limited cases, unrestricted stock), restricted stock units, performance units and cash awards to eligible employees (including officers who are employees), directors, advisors and

consultants. Stock-based compensation is initially measured at the fair value of the awards on the grant date and is recognized in the financial statements over the period the employees are required to provide services in exchange for the awards. The fair value of option awards is measured on the grant date using a Black-Scholes option-pricing model. The fair value of time-based and some performance-based restricted share awards is based on the Halyard stock price at the grant date and the assessed probability of meeting future performance targets. For performance-based restricted share units for which vesting is conditioned upon achieving a measure of total shareholder return, fair value is measured using a Monte Carlo simulation. Generally, new shares are issued to satisfy vested restricted stock units and exercises of stock options. See Note 12, "Stock-Based Compensation."

Income Taxes

We account for income taxes under the asset and liability method of accounting, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Under this method, changes in tax rates and laws are recognized in income in the period such changes are enacted. The provision for federal, state, and foreign income taxes is calculated on income before income taxes based on current tax law and includes the cumulative effect of any changes in tax rates from those used previously in determining deferred tax assets and liabilities. Such provision differs from the amounts currently payable because certain items of income and expense are recognized in different reporting periods for financial reporting purposes than for income tax purposes. Recording the provision for income taxes requires management to make significant judgments and estimates for matters whose ultimate resolution may not become known until the final resolution of an examination by the Internal Revenue Service (IRS) or state and foreign agencies. If it is more likely than not that some portion, or all, of a deferred tax asset will not be realized, a valuation allowance is recognized.

Recording liabilities for uncertain tax positions involves judgment in evaluating our tax positions and developing the best estimate of the taxes ultimately expected to be paid. We include any related tax penalties and interest in income tax expense.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Act") was signed into law making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a federal corporate tax rate decrease from 35% to 21% for tax years beginning after December 31, 2017, the transition of U.S international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of foreign earnings. We have estimated our provision for income taxes in accordance with the Act and guidance available as of the date of this filing and as a result have recorded $10 million as additional income tax benefit in the fourth quarter of 2017, the period in which the legislation was enacted. The provisional amount related to the re-measurement of certain deferred tax assets and liabilities, based on the rates at which they are expected to reverse in the future, was $16 million of benefit. The provisional amount related to the one-time transition tax on the mandatory deemed repatriation of foreign earnings was $7 million based on cumulative foreign earnings of $101 million. We also recorded a $1 million benefit related to the treatment of current year cash dividends in relation to the repatriation tax.

On December 22, 2017, Staff Accounting Bulletin No. 118 ("SAB 118") was issued to address the application of US GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Act. In accordance with SAB 118, we have determined that the $16 million of the deferred tax benefit recorded in connection with the re-measurement of certain deferred tax assets and liabilities, the $7 million of current tax expense recorded in connection with the transition tax on the mandatory deemed repatriation of foreign earnings and the $1 million benefit related to the treatment of current year cash dividends in relation to the repatriation tax are provisional amounts and reasonable estimates at December 31, 2017. The impact of the Act may differ from this estimate, possibly materially, due to, among other things, changes in interpretations we have made, guidance that may be issued and actions we may take as a result of the Act. Additional work is necessary for a more detailed analysis of our deferred tax assets and liabilities and our historical foreign earnings as well as potential correlative adjustments. We have not accounted for the tax impacts related to the Global Intangible Low Tax Income, Base Erosion Anti Abuse Tax or Foreign Derived Intangible Income regimes or any of the other provisions of the tax legislation that are not effective until fiscal year 2018. Any subsequent adjustment to these amounts will be recorded to current tax expense in the quarter of 2018 when the analysis is complete.

At December 31, 2017, prior to the calculation of the transition tax on the mandatory deemed repatriation, U.S. income taxes and foreign withholding taxes had not been provided on $151 million of current and prior year undistributed earnings of subsidiaries operating outside the U.S. These earnings, which are considered to be invested indefinitely, would become subject

to income tax if they were remitted as dividends, were lent to one of our U.S. entities or if we were to sell our stock in the subsidiaries.

While the provisional transition tax of approximately $7 million resulted in the reduction of the excess amount of financial reporting over the tax basis in our foreign subsidiaries, we have not completed our analysis of the Act's impact as an actual repatriation from our non-U.S. subsidiaries could still be subject to additional foreign withholding taxes and U.S. state taxes. We have not completed our analysis of our global working capital and cash requirements and the potential tax liabilities attributable to a repatriation. Therefore, we have not made a provisional estimate of the deferred taxes attributable to repatriation. We will record the tax effects of any change in our prior assertion with respect to these investments, and disclose any unrecognized deferred tax liability for temporary differences related to our foreign investments, if practicable, in the period that we are first able to make a reasonable estimate, no later than December 2018. While we otherwise intend to maintain the indefinite reinvestment exception, we have provided for a deferred tax asset of $5 million representing our tax basis over book basis in our investment in certain investments in connection with the proposed divestiture of our S&IP business.

Employee Defined Benefit Plans

We recognize the funded status of our defined benefit as an asset or a liability on our balance sheet. Actuarial gains or losses are a component of our other comprehensive income, which is then included in our accumulated other comprehensive income. Pension expenses are recognized over the period in which the employee renders service and becomes eligible to receive benefits. We make assumptions (including the discount rate and expected rate of return on plan assets) in computing the pension expense and obligations.

Recently Adopted Pronouncements

Effective January 1, 2017, we adopted Accounting Standards Update ("ASU") No. 2016-09, *Improvements to Employee Share-Based Payment Accounting,* and elected to account for forfeitures as they occur rather than applying an estimated forfeiture rate. The adoption of this ASU did not have a material effect on our financial position, results of operations or cash flows.

Effective July 1, 2017, we adopted ASU No. 2017-04, *Simplifying the Test for Goodwill Impairment,* that replaced the two-step goodwill impairment test with a simplified one-step process. This ASU provides that goodwill impairment will be measured as the excess of the reporting unit's carrying value over its fair value and abandons the second step that requires the measurement of goodwill impairment by comparing the implied value of a reporting unit's goodwill to the goodwill's carrying amount. Adoption of this ASU did not have a material effect on our financial position, results of operations or cash flows.

Recently Issued Pronouncements

In August 2017, the Financial Accounting Standards Board ("FASB") issued ASU No. 2017-12, *Derivatives and Hedging - Targeted Improvements to Accounting for Hedging Activities.* This ASU is intended to improve the financial reporting and presentation of hedging relationships and the economic results of risk management activities in financial statements. The amendments in ASU 2017-12 better align risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. In addition, the amendments permit hedge accounting for risk components involving non-financial and interest rate risks and contains other targeted improvements to simplify the application of hedge accounting. This ASU is effective for annual periods, and interim periods within those annual periods beginning after December 15, 2018, with early adoption permitted in any interim period following the issuance of this ASU. The provisions of this ASU should be applied to existing hedging relationships as of the beginning of the fiscal year of adoption. All other presentation and disclosure requirements are to be applied prospectively. We do not expect adoption of this ASU to have a material effect on our financial position, results of operations or cash flows.

In May 2017, the FASB issued ASU No. 2017-09, *Stock Compensation - Scope of Modification Accounting.* This ASU is intended to provide clarity and reduce both (i) diversity in practice and (ii) cost and complexity when applying the modification accounting guidance in Topic 718, *Compensation - Stock Compensation.* Specifically, modification accounting is applied to any changes in stock-based awards unless (i) the fair value of the modified award is the same as the fair value of the original award immediately before modification, (ii) the vesting conditions of the modified award are the same as the original award before modification and (iii) the equity or liability classification of the modified award is the same as the original award. This ASU is to be prospectively applied for annual periods, and interim periods within those annual periods beginning after December 15, 2017, with early adoption permitted for any interim period for which financial statements have not yet been issued. As this ASU

is intended to bring consistency in practice but does not change any fair value measurement methodologies, it is not expected to have a material effect on our financial position, results of operations or cash flows.

In March 2017, the FASB issued ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post Retirement Benefit Cost.* This ASU requires that current service cost be reported in the same line item as other compensation costs arising from services rendered by employees during the period. The other components of net benefit cost are to be presented separately in the income statement and below operating income, if operating income is presented. This ASU is effective for annual periods, and interim periods within those annual periods beginning after December 15, 2017, with retrospective application required. Earlier adoption is permitted in any interim or annual period for which financial statements have not yet been issued. The adoption of this ASU is not expected to have a material effect on our financial position, results of operations or cash flows.

In January 2017, the FASB issued ASU 2017-01, *Clarifying the Definition of a Business,* which provides guidance in evaluating whether transactions involve the acquisition (or disposal) of assets or a business. A business has been defined as having three elements: inputs, processes and outputs. While an integrated set of assets and activities (a "set") that is a business *usually* has outputs, outputs are not required to be present. Additionally, the inputs and processes that a seller uses in operating a set are not required if market participants can acquire the set and continue to produce outputs. This ASU provides a screen to determine when a set is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed) is concentrated in a single identifiable asset or group of similar identifiable assets, the set is not a business. It is expected that this ASU will reduce the number of transactions that are treated as business combinations. This ASU is to be adopted prospectively for annual periods, and interim periods within those annual periods beginning after December 15, 2017. Adoption of the ASU is not expected to have a material effect on our financial position, results of operations or cash flows.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments.* This ASU provides guidance on the presentation and classification of certain specific cash receipts and payments in the statement of cash flows and is intended to reduce diversity in practice. This ASU is effective for annual periods, and interim periods within those annual periods beginning after December 15, 2017, but earlier adoption is permitted. This ASU is to be adopted using a retrospective transition method to each period presented. Adoption of this ASU is not expected to have a material effect on our financial position, results of operations or cash flows.

In February 2016, the FASB issued ASU No. 2016-02, *Leases.* This ASU requires the recognition of assets and liabilities for leases with lease terms of more than twelve months. The recognition, measurement and presentation of expenses and cash flows arising from a lease will depend primarily on its classification as a finance or an operating lease, with the classification criteria for distinguishing between the two being similar to the classification criteria for distinguishing between capital and operating leases under current GAAP. However, unlike current GAAP, recognition of finance and operating leases on the balance sheet is required, and additional disclosures are required to help financial statement users to better understand the amount, timing and uncertainty of cash flows arising from leases. This ASU requires modified retrospective application for existing leases. This ASU will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, however, earlier application is permitted. The adoption of this ASU will require us to recognize assets and liabilities for operating leases we have entered into for our principal executive offices as well as certain warehouse, manufacturing and distribution facilities globally. We have not yet determined the impact recognition of such assets and liabilities will have on our financial position, results of operations or cash flows.

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Liabilities.* This ASU requires equity investments, except those accounted for under the equity method or those that result in consolidation of the equity investee, to be measured at fair value with changes in fair value recognized in net income. However, equity investments without readily determinable fair values may be measured at cost less impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments in the same issuer. In addition, this ASU provides for a qualitative impairment assessment for equity investments that do not have readily determinable fair values. This ASU also clarifies that entities should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. This ASU should be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The provisions related to equity investments that do not have readily determinable fair values should be applied prospectively to such equity investments that exist as of the date of adoption. This ASU will be effective for fiscal years, and interim periods within those fiscal years beginning after December 15, 2017. Early adoption of this ASU is permitted. The adoption of this ASU is not expected to have a material effect on our financial position, results of operations or cash flows.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which, along with subsequent amendments, provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and will supersede most existing revenue recognition guidance. ASU 2014-09 provides for a principles-based, five-step approach to measure and recognize revenue from contracts with customers. ASU 2014-09 is effective for public entities for annual and interim periods beginning after December 15, 2017. Early adoption for periods beginning after December 15, 2016 is permitted. The guidance permits two implementation approaches, one requiring retrospective application of the new ASU with restatement of prior years and one requiring prospective application of the new ASU with disclosure of results under old standards. Based on the results of our review, we do not expect adoption of this ASU will have a material effect on our financial position, results of operations or cash flows. We will apply this ASU using the modified retrospective method.

Note 2. Discontinued Operations

On October 31, 2017, we entered into a Purchase Agreement ("Purchase Agreement") by and among us and certain of our affiliates and Owens & Minor, Inc., ("Buyer"). The Purchase Agreement provides for the sale to Buyer, subject to the terms and conditions of the Purchase Agreement, of substantially all of our S&IP business, as well as our name "Halyard Health" (and all variations of our name and related intellectual property rights) and our IT system (the "Divestiture"). The total purchase price payable by the Buyer for the Divestiture is $710 million in cash, subject to certain adjustments as provided in the Purchase Agreement based on cash, indebtedness and net working capital transferred to the Buyer and its affiliates at the closing. We expect the transaction to close in the second quarter of 2018. The Divestiture is intended to accelerate our transformation into a pure-play medical devices business.

On or about the closing date, we will enter into certain commercial agreements, including a transition services agreement with the Buyer, pursuant to which we and the Buyer, and each company's respective affiliates will provide to each other various transitional services, including an arrangement whereby we will remain a limited risk distributor for S&IP products on the Buyer's behalf for sales outside of the United States and Canada. The services will generally commence on the closing date of the Divestiture and terminate no later than two years thereafter.

As a result of the Divestiture, the results of operations from our S&IP business are reported in the accompanying consolidated income statements as "Income (Loss) from discontinued operations" for the years ended December 31, 2017, 2016 and 2015, and the related assets and liabilities are classified as held-for-sale as of December 31, 2017 and 2016 in the accompanying balance sheet. The remaining business is managed with one operating segment, the Medical Devices business.

The following table summarizes the financial results of our discontinued operations for all periods presented herein (in millions):

	Year Ended December 31,		
	2017	**2016**	**2015**
Net Sales	**$ 1,012.7**	$ 1,026.1	$ 1,065.4
Cost of products sold	**762.5**	765.4	791.6
Research and development	**2.9**	2.7	4.7
Selling, general and other expenses	**82.8**	64.9	48.8
Goodwill impairment	**—**	—	474.0
Other (income) expense, net	**(1.6)**	(1.4)	(11.7)
Income (Loss) from discontinued operations before income taxes	**166.1**	194.5	(242.0)
Tax (provision) benefit from discontinued operations	**(54.7)**	(71.4)	(83.1)
Income (Loss) from Discontinued Operations, net	**$ 111.4**	$ 123.1	$ (325.1)

In accordance with accounting principles generally accepted in the United States ("GAAP"), only expenses specifically identifiable and related to a business to be disposed may be allocated to discontinued operations. Accordingly, certain expenses that were historically presented as a component of the S&IP were kept in continuing operations. These expenses, on a pre-tax basis, were $116 million in the year ended December 31, 2017, $114 million in 2016 and $133 million in 2015.

Details on assets and liabilities classified as held for sale in the accompanying consolidated balance sheets are presented in the following table (in millions):

	As of December 31,	
	2017	2016
Assets held for sale - discontinued operations		
Accounts receivable, net of allowances	**$ 1.5**	$ 1.6
Inventories	**198.3**	191.8
Prepaid and other current assets	**2.3**	0.6
Current assets held for sale - discontinued operations	**202.1**	194.0
Property, plant and equipment, net	**150.8**	151.5
Goodwill	**267.3**	266.7
Other intangible assets, net	**0.9**	1.6
Non-current deferred tax assets	**7.1**	6.5
Other assets	**0.4**	0.6
Total assets held for sale - discontinued operations	**628.6**	620.9
Other assets classified as held for sale	**3.9**	—
Total assets classified as held for sale	**632.5**	620.9
Liabilities held for sale - discontinued operations		
Accounts payable	**$ 15.5**	$ 12.5
Accrued expenses	**11.2**	12.9
Current liabilities held for sale - discontinued operations	**26.7**	25.4
Deferred tax liabilities	**0.3**	0.4
Other long-term liabilities	**6.9**	6.3
Total liabilities held for sale - discontinued operations	**$ 33.9**	$ 32.1

Assets and liabilities held for sale as of December 31, 2017 are classified as current since we expect the Divestiture to be completed within one year. In the prior year, the assets and liabilities held for sale are classified separately as current or noncurrent because the noncurrent assets and liabilities do not meet the criteria for current classification as of December 31, 2016. Other assets and liabilities held for sale that are not related to discontinued operations relates primarily to our IT system.

The following table provides operating and investing cash flow information for our discontinued operations (in millions):

	Year Ended December 31,		
	2017	2016	2015
Operating Activities:			
Depreciation and amortization	**$ 20.0**	$ 23.9	$ 23.2
Stock-based compensation expense	**0.5**	0.6	0.5
Investing Activities:			
Capital expenditures	**1.6**	1.3	1.6

Note 3. Restructuring

In December 2017, in conjunction with the Divestiture (see Note 2, “Discontinued Operations”), we initiated the initial phase of a multi-year restructuring plan (the “Plan”). The initial phase of the Plan is intended to align our organizational and management structure with our remaining Medical Devices business.

We expect to incur between $8 million and $10 million of pre-tax costs, of which $6 million to $7 million is for employee severance and benefits and the remainder for third-party services and other related costs. These are cash costs that will be incurred as we execute the Plan, which we expect to substantially complete by the end of 2019.

We have incurred $5 million of costs, primarily for employee severance and benefits. These costs are included in "Cost of products sold" and "Selling and general" expenses in the accompanying consolidated income statement for the year ended December 31, 2017. For the year ended December 31, 2017, no severance and benefits payments have been made and the remaining liability in "Accrued expenses" and "Other long-term liabilities" for employee severance and benefits was $5 million in the accompanying consolidated balance sheet as of December 31, 2017.

Note 4. Goodwill

We test goodwill for impairment annually (as of July 1) or more frequently whenever events or circumstances more likely than not indicate that the fair value of the reporting unit may be below its carrying amount. The fair value of our reporting unit was estimated using a combination of income (discounted cash flow analysis) and market approaches. Both approaches are dependent upon several assumptions regarding future periods, including assumptions with respect to future sales growth, commodity costs and a terminal growth rate. A weighted average cost of capital ("WACC") was used to discount future estimated cash flows to their present values. The WACC was based on externally observable data considering market participants' cost of equity and debt, optimal capital structure and risk factors specific to our company. The market approach estimated the fair value of our business based on comparable publicly-traded companies in our industry. We completed the required annual goodwill impairment test as of July 1, 2017, and the fair value was substantially in excess of net asset carrying value.

The changes in the carrying amount of goodwill are as follows (in millions):

Balance at December 31, 2015	$ 678.4
Goodwill acquired[(a)]	84.1
Currency translation adjustment	(0.2)
Balance at December 31, 2016	762.3
Currency translation adjustment	2.4
Balance at December 31, 2017	**$ 764.7**

(a) We acquired $84 million of goodwill in conjunction with our acquisition of Corpak (see Note 6, "Business Acquisition").

Note 5. Supplemental Balance Sheet Information

Accounts Receivable

Accounts receivable consist of the following (in millions):

	As of December 31,	
	2017	2016
Accounts Receivable	**$ 204.9**	$ 190.0
Allowances and doubtful accounts	**(1.9)**	(1.5)
Accounts receivable, net	**$ 203.0**	$ 188.5

Inventories

Inventories at the lower of cost (determined on the LIFO/FIFO or weighted-average cost methods) or market consists of the following (in millions):

	As of December 31,					
	2017			2016		
	LIFO	Non-LIFO	Total	LIFO	Non-LIFO	Total
Raw Materials	**$ 26.6**	**$ 1.5**	**$ 28.1**	$ 24.5	$ 0.8	$ 25.3
Work in process	**20.4**	**0.3**	**20.7**	16.2	0.1	16.3
Finished goods	**40.0**	**9.6**	**49.6**	37.1	8.2	45.3
Supplies and other	**—**	**5.7**	**5.7**	—	5.8	5.8
	87.0	**17.1**	**104.1**	77.8	14.9	92.7
Excess of FIFO or weighted-average cost over LIFO cost	**(13.0)**	**—**	**(13.0)**	(12.0)	—	(12.0)
Total	**$ 74.0**	**$ 17.1**	**$ 91.1**	$ 65.8	$ 14.9	$ 80.7

Property, Plant and Equipment

Property, plant and equipment consists of the following (in millions):

	As of December 31,	
	2017	2016
Land	**$ 1.0**	$ —
Buildings and leasehold improvements	**41.0**	39.1
Machinery and equipment	**124.4**	136.8
Construction in progress	**21.5**	16.4
	187.9	192.3
Less accumulated depreciation	**(78.0)**	(83.0)
Total	**$ 109.9**	$ 109.3

There were $3 million and $5 million of capital expenditures in accounts payable as of December 31, 2017 and 2016, respectively.

As of the years ended December 31, 2017 and 2016, we held $57 million and $58 million, respectively, of net property, plant and equipment in the United States.

Depreciation expense was $19 million, $20 million and $17 million, respectively, in the years ended December 31, 2017, 2016 and 2015.

Intangible Assets

Intangible assets subject to amortization consist of the following (in millions):

	As of December 31,					
	2017			2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trademarks	**$ 125.9**	**$ (97.6)**	**$ 28.3**	$ 125.9	$ (93.8)	$ 32.1
Patents and acquired technologies	**253.0**	**(146.1)**	**106.9**	251.8	(131.1)	120.7
Other	**43.1**	**(35.1)**	**8.0**	42.9	(33.2)	9.7
Total	**$ 422.0**	**$ (278.8)**	**$ 143.2**	$ 420.6	$ (258.1)	$ 162.5

As of December 31, 2017, we had $6 million of indefinite-lived intangible assets that we acquired in connection with the Acquisition related to in-process research and development projects. Amortization expense for intangible assets was $21 million, $21 million and $25 million for the years ended December 31, 2017, 2016 and 2015, respectively.

We estimate amortization expense for the next five years and beyond will be as follows (in millions):

For the years ending December 31,	
2018	$ 18.2
2019	15.3
2020	13.1
2021	10.9
2022	10.4
Thereafter	75.3
Total	$ 143.2

Accrued Expenses

Accrued expenses consist of the following (in millions):

	As of December 31,	
	2017	2016
Accrued rebates	**$ 64.4**	$ 55.7
Accrued salaries and wages	**44.5**	49.9
Accrued taxes - income and other	**6.8**	4.4
Other	**29.2**	28.4
Total	**$ 144.9**	$ 138.4

Other Long-Term Liabilities

Other long-term liabilities consist of the following (in millions):

	As of December 31,	
	2017	2016
Taxes payable	**$ 10.0**	$ 3.4
Accrued compensation benefits	**4.6**	4.4
Other	**17.2**	16.0
Total	**$ 31.8**	$ 23.8

Note 6. Business Acquisition

On May 2, 2016, Halyard acquired all of the issued and outstanding capital stock of Medsystems Holdings, Inc. ("Medsystems") a Delaware corporation, for a purchase price of $175 million, net of cash acquired (the "Acquisition"). Medsystems owns and conducts its primary business through CORPAK Medsystems (Medsystems and CORPAK Medsystems hereinafter referred to as "Corpak").

The allocation of the purchase price was as follows (in millions):

	Purchase Price Allocation
Current assets acquired net of liabilities assumed	$ 14.1
Property, plant and equipment	4.4
Identifiable intangible assets, excluding IPR&D	105.1
Identifiable IPR&D	5.7
Deferred tax liabilities	(38.4)
Goodwill	84.1
Total	$ 175.0

Goodwill arising from the Acquisition is not fully tax deductible. The identifiable intangible assets, excluding IPR&D, include the following (in millions):

	Fair Value	Weighted Average Useful Lives (Yrs)
Portfolio of disposables	$ 102.9	15
Enteral access technology	2.2	6
Total	$ 105.1	

Restructuring

In June 2016, we initiated a restructuring plan to close the Corpak corporate headquarters and operating facility in Buffalo Grove, Illinois and consolidate operations into our existing corporate and operational facilities. For the year ended December 31, 2017, we have incurred $8 million of costs that are included in “Cost of products sold” and “Selling and general expenses” in the accompanying consolidated income statements. In the year ended December 31, 2017, we have paid $3 million to affected employees and the remaining accrual for severance and employee benefits was not material as of December 31, 2017.

Note 7. Fair Value Information

The following fair value information is based on a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels in the hierarchy used to measure fair value are:

Level 1: Unadjusted quoted prices in active markets accessible at the reporting date for identical assets and liabilities.

Level 2: Quoted prices for similar assets or liabilities in active markets. Quoted prices for identical or similar assets and liabilities in markets that are not considered active or financial instruments for which all significant inputs are observable, either directly or indirectly.

Level 3: Prices or valuations that require inputs that are significant to the valuation and are unobservable.

A financial instrument’s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The following table includes the fair value of our financial instruments for which disclosure of fair value is required (in millions):

	Fair Value Hierarchy Level	December 31, 2017		December 31, 2016	
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets					
Cash and cash equivalents	1	**$ 219.7**	**$ 219.7**	$ 113.7	$ 113.7
Liabilities					
Senior unsecured notes	1	**247.1**	**259.7**	246.5	256.4
Debt	2	**333.8**	**341.1**	332.5	341.3

Cash equivalents are recorded at cost, which approximates fair value due to their short-term nature.

The fair value of our senior unsecured notes is determined using observable market prices based on trading activity on a primary exchange. For the years ended December 31, 2017 and 2016, there were no transfers among Level 1, 2 or 3 fair value determinations. Transfers between levels occur when there are changes in the observability of inputs. Changes between levels are assumed to occur at the beginning of the year.

Note 8. Debt

As of December 31, 2017 and 2016, our debt balances were as follows (in millions):

	Weighted-Average Interest Rate	Maturities	As of December 31, 2017	As of December 31, 2016
Senior Secured Term Loan	3.83%	2021	**$ 339.0**	$ 339.0
Senior Unsecured Notes	6.25%	2022	**250.0**	250.0
Total debt			**589.0**	589.0
Unamortized Debt Discounts and Issuance Costs				
Senior Secured Term Loan			**(5.2)**	(6.5)
Senior Unsecured Notes			**(2.9)**	(3.5)
Total Debt, net			**580.9**	579.0
Less current portion of long-term debt			39.8	—
Total long-term debt			**$ 541.1**	**$ 579.0**

Senior Secured Term Loan and Revolving Credit Facility

The senior secured term loan (the "Term Loan Facility") is under a credit agreement that also includes a senior secured revolving credit facility allowing borrowings of up to $250 million, with a letter of credit sub-facility in an amount of $75 million and a swingline sub-facility in an amount of $25 million (the "Revolving Credit Facility" and together with the Term Loan Facility, the "Senior Credit Facilities"). The Senior Credit Facilities are secured by substantially all of our assets located in the United States and a certain percentage of our foreign subsidiaries' capital stock. Unamortized debt discount and issuance costs are being amortized to interest expense over the life of the Term Loan Facility using the interest method, resulting in an effective interest rate of 4.53% as of December 31, 2017.

The credit agreement contains an excess cash flow provision that requires a mandatory principal prepayment of our Term Loan Facility if we generate cash in excess of a defined measure of cash flow. Accordingly, we are required to prepay $40 million under this prepayment requirement as we generated Excess Cash in the year ended December 31, 2017. This prepayment is classified as "Current portion of long-term debt" in the accompanying consolidated balance sheet and will be paid in the first quarter of 2018.

Borrowings under the Term Loan Facility bear interest, at our option, at either (i) a reserve-adjusted LIBOR rate, subject to a floor of 0.75%, plus 2.75%, or (ii) a base rate, subject to a floor of 0.75%, (calculated as the greatest of (1) the prime rate, (2) the U.S. federal funds effective rate plus 0.50% or (3) the one month LIBOR Rate plus 1.00%) plus 1.75%. As of December 31, 2017, the interest rate in effect for the Term Loan Facility was 4.10%.

Borrowings under the Revolving Credit Facility will bear interest, at our option, at either (i) a reserve-adjusted LIBOR rate, plus a margin ranging between 1.75% to 2.50% per annum, depending on our consolidated total leverage ratio, or (ii) the base rate plus a margin ranging between 0.75% to 1.50% per annum, depending on our consolidated total leverage ratio. The unused portion of our Revolving Credit Facility will be subject to a commitment fee equal to (i) 0.25% per annum, when our consolidated total leverage ratio is less than 2.25 to 1.00 and (ii) 0.40% per annum, otherwise.

To the extent we remain in compliance with certain financial covenants in our credit agreement. we have the ability to access our Revolving Credit Facility. As of December 31, 2017, we had no borrowings and letters of credit of $3 million outstanding under the Revolving Credit Facility. The maturity date for the Revolving Credit Facility is October 31, 2019.

Senior Unsecured Notes

The Senior Unsecured Notes ("Notes") will mature on October 15, 2022 and interest accrues at a rate of 6.25% per annum and is payable semi-annually in arrears on April 15 and October 15 of each year. The Notes are guaranteed, jointly and severally, by each of our domestic subsidiaries that guarantees the Senior Credit Facilities. Unamortized debt discount and issuance costs are being amortized to interest expense over the life of the credit agreement using the interest method, resulting in an effective interest rate of 6.53% as of December 31, 2017.

Debt Covenants

The senior secured term loan and the Notes are subject to similar covenants that, among other things, limit our ability and the ability of certain of our subsidiaries to:

- incur additional indebtedness, guarantee indebtedness or issue disqualified stock or, in the case of our restricted subsidiaries, preferred stock;
- pay dividends on, repurchase or make distributions in respect of our capital stock;
- make certain investments or acquisitions;
- sell, transfer or otherwise convey certain assets;
- create liens;
- enter into agreements restricting certain subsidiaries' ability to pay dividends or make other intercompany transfers;
- consolidate, merge, sell or otherwise dispose of all or substantially all of our and our subsidiaries' assets;
- enter into transactions with affiliates; and
- prepay certain kinds of indebtedness.

We have the ability to divest significant assets, such as the Divestiture described in "Discontinued Operations" in Note 2. The credit agreement allows re-investment of the proceeds into the business through acquisition of another business or through capital expenditures. However, if no investments are made within a specified period of time, the proceeds are to be used to reduce amounts owed under the Senior Credit Facilities and the Notes.

Pursuant to the restrictive covenants that limit our ability to pay dividends, we have the ability to pay dividends, repurchase stock and make investments up to an "Available Amount," as defined in the credit agreement governing the Senior Credit Facilities, provided that we are in compliance with all required covenants, there are no events of default and upon meeting certain financial ratios.

As of December 31, 2017, we were in compliance with all of our debt covenants. As of December 31, 2017, our repayment requirements in the next five years includes a mandatory prepayment of $40 million on our Term Loan facility in the first quarter of 2018, with the remainder owed under our Term Loan Facility and the $250 million Notes due on their respective maturity dates, which are October 31, 2021 and October 15, 2022.

Note 9. Income Taxes

Our income taxes are calculated using the asset and liability method of accounting, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities.

The provision for income taxes includes federal, state and foreign taxes currently payable and those deferred because of net operating losses and temporary differences between the consolidated financial statements and tax bases of assets and liabilities.

The components of income (loss) before income taxes, and the provision (benefit) for income taxes are as follows (in millions):

	Year Ended December 31,		
	2017	**2016**	**2015**
Income before income taxes			
United States	**$ (76.2)**	$ (140.5)	$ (167.2)
Foreign	**4.0**	1.3	(1.3)
Total	**(72.2)**	(139.2)	(168.5)
Income tax provision (benefit):			
Current:			
United States	**(27.4)**	(30.6)	(49.5)
State	**(4.6)**	(3.5)	(4.2)
Foreign	**1.4**	0.7	(0.2)
Total	**(30.6)**	(33.4)	(53.9)
Deferred:			
United States	**(9.0)**	(21.3)	(12.5)
State	**(0.4)**	(1.0)	(0.8)
Foreign	**(0.1)**	(0.2)	(0.1)
Total	**(9.5)**	(22.5)	(13.4)
Total income tax benefit	**$ (40.1)**	$ (55.9)	$ (67.3)

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Act") was signed into law making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, the transition of U.S. international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017. We have calculated our best estimate of the impact of the Act in its year end income tax provision in accordance with our understanding of the Act and guidance available as of the date of this filing and as a result have recorded $10 million as an additional income tax benefit in the fourth quarter of 2017, the period in which the legislation was enacted. The provisional amount related to the re-measurement of certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future was $16 million of benefit. The provisional amount related to the one-time transition tax on the mandatory deemed repatriation of foreign earnings was $7 million based on cumulative foreign earnings of $101 million. We also recorded a $1 million benefit related to the treatment of current year cash dividends in relation to the repatriation tax.

On December 22, 2017, Staff Accounting Bulletin No. 118 ("SAB 118") was issued to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Act. In accordance with SAB 118, we have determined that the $16 million of deferred tax benefit recorded in connection with the re-measurement of certain deferred tax assets and liabilities, the $7 million of current tax expense recorded in connection with the transition tax on the mandatory deemed repatriation of foreign earnings and the $1 million benefit related to the treatment of current year cash dividends in relation to the repatriation tax are provisional amounts and reasonable estimates at December 31, 2017. The impact of the Act may differ from this estimate, possibly materially, due to, among other things, changes in interpretations we have made, guidance that may be issued and actions we may take as a result of the Act. Additional work is necessary for a more detailed

analysis of our deferred tax assets and liabilities and our historical foreign earnings as well as potential correlative adjustments. We have not accounted for the tax impacts related to the Global Intangible Low Tax Income, Base Erosion Anti Abuse Tax or Foreign Derived Intangible Income regimes or any of the other provisions of the tax legislation that are not effective until fiscal year 2018. Any subsequent adjustment to these amounts will be recorded to current tax expense in the quarter of 2018 when the analysis is complete.

At December 31, 2017, prior to the calculation of the transition tax on the mandatory deemed repatriation, U.S. income taxes and foreign withholding taxes had not been provided on $151 million of current and prior year undistributed earnings of subsidiaries operating outside the U.S. These earnings, which are considered to be invested indefinitely, would become subject to income tax if they were remitted as dividends, were lent to one of our U.S. entities or if we were to sell our stock in the subsidiaries.

While the provisional transition tax of approximately $7 million resulted in the reduction of the excess amount of financial reporting over the tax basis in our foreign subsidiaries, we have not completed our analysis of the Act's impact as an actual repatriation from our non-U.S. subsidiaries could still be subject to additional foreign withholding taxes and U.S. state taxes. We have not completed our analysis of our global working capital and cash requirements and the potential tax liabilities attributable to a repatriation. Therefore, we have not made a provisional estimate of the deferred taxes attributable to repatriation. We will record the tax effects of any change in our prior assertion with respect to these investments, and disclose any unrecognized deferred tax liability for temporary differences related to our foreign investments, if practicable, in the period that we are first able to make a reasonable estimate, no later than December 2018. While we otherwise intend to maintain the indefinite reinvestment exception, we have provided for a deferred tax asset of $5 million representing our tax basis over book basis in our investment in certain investments in connection with the proposed divestiture of our S&IP business.

Major differences between the federal statutory rate and the effective tax rate are as follows:

	Year Ended December 31,		
	2017	**2016**	**2015**
Federal statutory rate	**35.0%**	35.0%	35.0%
Rate of state income taxes, net of federal tax benefit	**4.5**	2.8	2.0
Statutory rate other than U.S. statutory rate	**0.1**	0.4	—
Sec. 987 regulation change, federal and state impact	**—**	1.2	—
U.S. federal research and development credit	**3.0**	1.5	1.0
Impacts of U.S. federal tax reform	**14.2**	—	—
Other, net	**(1.2)**	(0.7)	1.9
Effective tax rate	**55.6%**	40.2%	39.9%

The following is a summary of the significant components of the Company's deferred tax assets and liabilities (in millions):

	As of December 31,	
	2017	2016
Deferred tax assets		
Accrued liabilities	**$ 18.7**	$ 34.1
Investment in Joint Venture	**5.3**	—
Stock-based compensation	**7.3**	8.7
Transaction costs	**5.8**	—
Other	**6.7**	8.4
	43.8	51.2
Valuation allowance	**(1.3)**	(0.5)
Total deferred assets	**42.5**	50.7
Deferred tax liabilities		
Intangibles, net	**10.2**	17.7
Inventories	**12.8**	13.0
Property, plant and equipment, net	**29.4**	45.8
Other	**0.3**	1.0
Total deferred tax liabilities	**52.7**	77.5
Net deferred tax liabilities	**$ 10.2**	$ 26.8

Valuation allowances increased $0.8 million during the year ended December 31, 2017, primarily relating to net operating losses that we believe will not be realizable as a result of the proposed disposition of our S&IP business. Valuation allowances at the end of 2017 and 2016 primarily relate to tax credits and income tax loss carryforwards.

Realization of income tax loss carryforwards is dependent on generating sufficient taxable income prior to expiration of these carryforwards. Although realization is not assured, we believe it is more likely than not that all of the deferred tax assets, net of applicable valuation allowances, will be realized. The amount of the deferred tax assets considered realizable could be reduced or increased due to changes in the tax environment or if estimates of future taxable income change during the carryforward period.

At December 31, 2017, we have credit carryforwards for state income tax purposes of $3.0 million, all of which will expire in 2025. At December 31, 2017, certain foreign subsidiaries have net operating loss carryforwards for income tax purposes of $12 million, of which $7 million will expire in 2020. The remaining net operating losses are available for carryforward indefinitely.

In connection with the proposed disposition of our S&IP business, we have recognized a deferred tax asset for our tax basis over book basis of $5 million relating to certain investments.

A reconciliation of the beginning and ending amount of unrecognized tax benefit is as follows (in millions):

	As of December 31,	
	2017	2016
Beginning of year	**$ 2.7**	$ 1.5
Gross increases for tax positions of prior years	**0.1**	1.5
Gross decreases for tax positions of prior years	**—**	(0.2)
Decreases for settlements with taxing authorities	**—**	(0.1)
Decreases for lapse of the applicable statute of limitations	**(0.1)**	—
End of year	**$ 2.7**	$ 2.7

The amount, if recognized, that would affect our effective tax rate as of December 31, 2017 and 2016 is $3 million and $2 million, respectively.

We classify interest and penalties on uncertain tax benefits as income tax expense. As of each year ended December 31, 2017 and 2016, before any tax benefits, we had $1 million of accrued interest and penalties on unrecognized tax benefits.

During the next twelve months, we do not expect the resolution of any tax audits which could potentially reduce unrecognized tax benefits by a material amount. In addition, no expiration of the statute of limitations for a tax year in which we have recorded uncertain tax benefits will occur in the next twelve months.

Federal and state income tax returns are generally subject to examination for a period of three to five years after filing of the respective returns. The state effect of any changes to filed federal positions remains subject to examination by various states for a period of up to two years after formal notification to the states. We have various federal and state income tax return positions in the process of examination, administrative appeals or litigation.

Note 10. Employee Benefit Plans

Defined Contribution Plans

Eligible employees participate in our defined contribution plans. Our 401(k) plan and supplemental plan provide for a matching contribution of a U.S. employee's contributions and accruals, subject to predetermined limits. Halyard also has defined contribution pension plans for certain employees outside the U.S. in which eligible employees may participate. We recognized $7 million of expense for our matching contributions to the 401(k) plan in each of the years ended December 31, 2017, 2016 and 2015, respectively. Our matching contributions to the 401(k) plan are recognized in cost of products sold, research and development and selling and general expenses in our consolidated income statements.

Defined Benefit Plans

Certain plans in our international operations are our direct obligation, and therefore, the related funded status has been recorded within our consolidated balance sheet. These plans are primarily unfunded and the aggregated projected benefit obligation was $3 million and $2 million as of December 31, 2017 and 2016, respectively. Net periodic pension cost for each of the years ended December 31, 2017, 2016 and 2015 was $1 million. Over the next ten years, we expect gross benefit payments to be $1 million in total for the years 2018 through 2022, and $1 million in total for the years 2023 through 2027.

Note 11. Accumulated Other Comprehensive Income

The changes in the components of Accumulated Other Comprehensive Income ("AOCI"), net of tax, are as follows (in millions):

	Unrealized Translation	Cash Flow Hedges	Defined Benefit Pension Plans	Accumulated Other Comprehensive Income
Balance, December 31, 2014	$ (18.3)	$ (0.5)	$ (0.3)	$ (19.1)
Other comprehensive loss	(22.1)	(0.7)	(1.3)	(24.1)
Balance, December 31, 2015	(40.4)	(1.2)	(1.6)	(43.2)
Other comprehensive (loss) income	(8.3)	0.8	0.6	(6.9)
Balance, December 31, 2016	(48.7)	(0.4)	(1.0)	(50.1)
Other comprehensive (loss) income	**17.1**	**1.2**	**0.5**	**18.8**
Balance, December 31, 2017	**$ (31.6)**	**$ 0.8**	**$ (0.5)**	**$ (31.3)**

The net changes in the components of AOCI, including the tax effect, are as follows (in millions):

	Year Ended December 31,		
	2017	2016	2015
Unrealized translation	**$ 17.1**	$ (8.3)	$ (22.1)
Defined benefit pension plans	**0.6**	0.7	(1.9)
Tax effect	**(0.1)**	(0.1)	0.6
Defined benefit pension plans, net of tax	**0.5**	0.6	(1.3)
Cash flow hedges	**1.5**	1.0	(1.0)
Tax effect	**(0.3)**	(0.2)	0.3
Cash flow hedges, net of tax	**1.2**	0.8	(0.7)
Change in AOCI	**$ 18.8**	$ (6.9)	$ (24.1)

Note 12. Stock-Based Compensation

The Halyard Health, Inc. Equity Participation Plan and the Halyard Health, Inc. Outside Directors' Compensation Plan (together, the "Equity Plans") provide for awards of stock options, stock appreciation rights, restricted stock (and in certain limited cases, unrestricted stock), restricted stock units, performance units and cash awards to eligible employees (including officers who are employees), directors, advisors and consultants of Halyard or its subsidiaries. A maximum of 4.9 million shares of Halyard common stock may be issued under the Equity Plans, and there are 1.9 million shares remaining available for issuance as of December 31, 2017.

Aggregate stock-based compensation expense under the Equity Plans was $13 million, $15 million and $14 million for the years ended December 31, 2017, 2016 and 2015, respectively, which includes amounts allocated to discontinued operations. Stock-based compensation expense included in continuing operations totals $12 million, $14 million and $13 million in the years ended December 31, 2017, 2016 and 2015, respectively. Stock-based compensation expense described by award type below refers to expense in continuing operations only. Stock-based compensation expense is included in cost of sales, research and development expenses and selling and general expenses.

Stock Options

Stock options are granted at an exercise price equal to the fair market value of Halyard's common stock on the date of grant. Stock options are generally subject to graded vesting whereby options vest 30% at the end of each of the first two 12-month periods following the grant and 40% at the end of the third 12-month period and have a term of 10 years.

The fair value of stock option awards was determined using a Black-Scholes option-pricing model utilizing a range of assumptions related to volatility, risk-free interest rate, expected term and dividend yield. Expected volatility was based on historical weekly closing stock price volatility for a peer group of companies. The risk-free interest rate was based on the U.S. Treasury yield curve in effect at the time of grant. The expected term was based on historical observed settlement behavior. The dividend yield was based on the expectation that no dividends are expected to be paid on our common stock.

The weighted-average fair value of options granted in the years ended December 31, 2017, 2016 and 2015 was $9.07, $7.70 and $15.15, respectively, based on the following assumptions:

	Year Ended December 31,		
	2017	2016(a)	2015
Volatility	24% to 25%	26%	25% to 34%
Risk-free rate	1.7% to 1.8%	1.2%	0.7% to 1.9%
Expected term (Years)	5	5	2 to 7
Dividend Yield	0%	0%	0%

(a) In the year ended December 31, 2016, all stock options granted had uniform terms and were awarded on the same grant date.

Stock-based compensation expense related to stock options was $3 million, $5 million and $6 million for the years ended December 31, 2017, 2016 and 2015, respectively.

A summary of stock option activity is presented below:

	Shares (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in millions)
Outstanding at December 31, 2016	1,526	$ 37.42		
Granted	558	37.59		
Exercises	(136)	34.80		
Forfeitures	(278)	40.38		
Outstanding at December 31, 2017	1,670	$ 37.20	6.9	$ 15.0
Vested and exercisable at December 31, 2017	949	$ 36.23	5.7	$ 9.4

The following table summarizes information about options outstanding as of December 31, 2017:

	Options Outstanding		Options Exercisable	
Range of Exercise Prices	Shares (in thousands)	Weighted-Average Remaining Contractual Term (Years)	Shares (in thousands)	Weighted-Average Exercise Price
$25.00 to $35.00	530	6.3	380	$ 30.29
$35.00 to $45.00	724	7.5	366	37.24
$45.00+	416	6.6	203	45.53
	1,670	6.9	949	$ 36.23

In the year ended December 31, 2017, options with an aggregate intrinsic value of $1 million were exercised resulting in an excess tax benefit of $0.4 million. In the years ended December 31, 2016 and 2015, the intrinsic value of exercised options and the resulting excess tax benefit were not material. For stock options outstanding at December 31, 2017, we expect to recognize an additional $4 million of expense over the remaining average service period of one year.

Restricted Share Units

Restricted shares, time-vested restricted share units and performance-based restricted share units granted to employees and directors are valued at the closing market price of our common stock on the grant date with vesting conditions determined upon approval of the award.

Stock-based compensation expense related to restricted stock units was $4 million, $5 million and $8 million for the years ended December 31, 2017, 2016 and 2015, respectively. A summary of restricted share unit activity is presented below:

	Shares (in thousands)	Weighted Average Fair Value
Outstanding at December 31, 2016	528	$ 39.12
Granted	123	38.16
Vested	(166)	37.99
Forfeited	(56)	40.51
Outstanding at December 31, 2017	429	$ 39.10

For restricted share units outstanding at December 31, 2017, we expect to recognize an additional $4 million of expense over the remaining average service period of one year.

We also issue restricted share units for which vesting is conditioned on meeting a defined measure of total shareholder return ("TSR units") over a restricted period of three years. Total shareholder return is measured as our stock price performance over the restricted period compared to defined group of peer companies. The expense recognition for TSR units differs from awards with service or performance conditions in that the expense is recognized over the restricted period regardless of whether the total shareholder return target is met or not, while expense for awards with service and performance conditions is recognized based on the number of awards expected to vest. The fair value of TSR units is determined using a Monte Carlo simulation with a volatility assumption based on the average stock-price volatility for a peer group of companies over the restricted period. For awards granted in the years ended December 31, 2017 and 2016, the assumed volatility was 25% in each of the years and the weighted average fair value per TSR unit was $42.24 and $38.64, respectively. For the years ended December 31, 2017 and 2016, stock-based compensation expense related to TSR units was $5 million and $4 million, respectively. There were no TSR units awarded before 2016.

A summary of TSR unit activity is presented below.

	Shares (in thousands)	Weighted Average Fair Value
Outstanding at December 31, 2016	224	$ 38.60
Granted	231	42.24
Forfeited	(57)	42.02
Outstanding at December 31, 2017	398	$ 40.22

For TSR units outstanding at December 31, 2017, we expect to recognize an additional $6 million of expense over the weighted average remaining restricted period of two years.

Note 13. Commitments and Contingencies

Legal Matters

We are subject to various legal proceedings, claims and governmental inspections, audits or investigations pertaining to issues such as contract disputes, product liability, tax matters, patents and trademarks, advertising, governmental regulations, employment and other matters, including the matters described below. Under the terms of the distribution agreement we entered into with Kimberly-Clark Corporation ("Kimberly-Clark") prior to the Spin-off, legal proceedings, claims and other liabilities that are primarily related to our business are our responsibility and we are obligated to indemnify and hold Kimberly-Clark harmless for such matters ("Indemnification Obligation"). For the years ended December 31, 2017, 2016 and 2015, we have incurred $21 million, $20 million and $17 million, respectively, related to these matters.

Chondrolysis Litigation

An exception to our Indemnification Obligation relates to the pain pump litigation referenced in this paragraph. We are one of several manufacturers of continuous infusion medical devices, such as our ON-Q PAINBUSTER pain pumps, that are involved in several different pending or threatened litigation matters from multiple plaintiffs alleging that use of the continuous infusion device to deliver anesthetics directly into a synovial joint after surgery resulted in postarthroscopic glenohumeral chondrolysis, or a disintegration of the cartilage covering the bones in the joint (typically, in the shoulder). Plaintiffs generally seek monetary

damages and attorneys' fees. Although Kimberly-Clark generally retained the liabilities related to these matters, the distribution agreement between us and Kimberly-Clark provides that we will indemnify Kimberly-Clark for any such claims or causes of action arising after the Spin-off.

Surgical Gown Litigation and Related Matters

Bahamas Surgery Center

We have an Indemnification Obligation for, and have assumed the defense of, the matter styled *Bahamas Surgery Center, LLC v. Kimberly-Clark Corporation and Halyard Health, Inc.,* No. 2:14-cv-08390-DMG-SH (C.D. Cal.) (*"Bahamas"*), filed on October 29, 2014. In that case, the plaintiff brought a putative class action asserting claims for common law fraud (affirmative misrepresentation and fraudulent concealment) and violation of California's Unfair Competition Law ("UCL") in connection with our marketing and sale of MicroCool surgical gowns.

On April 7, 2017, after a two-week trial, a jury returned a verdict for the plaintiff, finding that Kimberly-Clark was liable for $4 million in compensatory damages (not including prejudgment interest) and $350 million in punitive damages, and that Halyard was liable for $0.3 million in compensatory damages (not including prejudgment interest) and $100 million in punitive damages. Subsequently, the court also ruled on the plaintiff's UCL claim and request for injunctive relief. The court found in favor of the plaintiff on the UCL claim but denied the plaintiff's request for restitution. The court also denied the plaintiff's request for injunctive relief.

On May 25, 2017, we filed three post-trial motions: a renewed motion for judgment as a matter of law; a motion to decertify the class; and a motion for new trial, remittitur, or amendment of the judgment. The renewed motion for judgment as a matter of law seeks to have the court reverse the jury's verdict in whole or in part because it was based on insufficient facts and/or did not correctly apply the law. The motion to decertify the class seeks to have the court decertify the class on the basis that the evidence at trial did not support the Court's initial class certification order and therefore the case should not have proceeded as a class action. The motion for new trial, remittitur or amendment of the judgment seeks, among other relief, to have the court reduce the jury's punitive damages award because it was not supported by the facts and was excessive in violation of due process under the U.S. Constitution. The U.S. Supreme Court has stated that the Constitutional outer limit for the ratio between punitive damages and compensatory damages in cases such as ours is approximately 9 to 1 or lower, and we believe that in a case such as ours that, if there is any award of punitive damages (a premise we dispute), the ratio should be 1 to 1. We intend to continue our vigorous defense of the Bahamas matter.

Kimberly-Clark Corporation

We have notified Kimberly-Clark that we have reserved our rights to challenge any purported obligation to indemnify Kimberly-Clark for the punitive damages awarded against them. In connection with our reservation of rights, on May 1, 2017, we filed a complaint in the matter styled *Halyard Health, Inc. v. Kimberly-Clark Corporation*, Case No. BC659662 (County of Los Angeles, Superior Court of California). In that case, we seek a declaratory judgment that we have no obligation, under the Distribution Agreement or otherwise, to indemnify, pay, reimburse, assume, or otherwise cover punitive damages assessed against Kimberly-Clark in *Bahamas Surgery Center, LLC, et al. v. Kimberly-Clark Corporation and Halyard Health, Inc.*, No. 14-CV-08390 (C.D. Cal., originally filed on October 29, 2014), or any Expenses or Losses (as defined in the distribution agreement) associated with an award of punitive damages. On May 2, 2017, Kimberly-Clark filed a complaint in the matter styled *Kimberly-Clark Corporation v. Halyard Health, Inc.,* Case No. 2017-0332-AGB (Court of Chancery of the State of Delaware). In that case, Kimberly-Clark seeks a declaratory judgment that (1) we must indemnify them for all damages, including punitive damages, assessed against them in the *Bahamas* matter, (2) we have anticipatorily and materially breached the Distribution Agreement by our failure to indemnify them, and (3) we are estopped from asserting, or have otherwise waived, any claim that we are not required to indemnify them for all damages, including punitive damages, that may be awarded in the *Bahamas* matter. On May 26, 2017, we moved to dismiss or stay Kimberly-Clark's Delaware complaint, and on June 16, 2017, Kimberly-Clark moved for summary judgment. On September 12, 2017, the Delaware court granted our motion to stay Kimberly-Clark's complaint and therefore did not take any action on Kimberly-Clark's motion for summary judgment. We intend to vigorously pursue our case against Kimberly-Clark in California and to vigorously defend against their case against us.

Government Investigation

In June 2015, we were served with a subpoena from the Department of Veterans Affairs Office of the Inspector General ("VA OIG") seeking information related to the design, manufacture, testing, sale and promotion of MicroCool and other Company

surgical gowns, and, in July 2015, we also became aware that the subpoena and an earlier VA OIG subpoena served on Kimberly-Clark requesting information about gown sales to the federal government are related to a United States Department of Justice ("DOJ") investigation. In May 2016 and April 2017, we received additional subpoenas from the DOJ seeking further information related to Company gowns. The Company is cooperating with the DOJ investigation.

Shahinian and Edgett

On October 12, 2016, after the DOJ and various States declined to intervene in two qui tam matters, both matters were unsealed and the complaints were subsequently served on Kimberly-Clark and Halyard, as applicable. One of those matters is *U.S. ex rel. Shahinian, et al. v. Kimberly-Clark Corporation,* No. 2:14-cv-08313-JAK-JPR (C. D. Cal.) ("*Shahinian"*), filed on October 27, 2014. The other matter is *U.S. ex rel. Edgett, et al. v. Kimberly-Clark Corporation, Halyard Health, Inc., et al,* No. 3:15-cv-00434-B (N.D. Tex.) (*"Edgett"*), filed on February 9, 2015. Both cases allege, among other things, violations of the federal and various state False Claims Acts in connection with the marketing and sale of certain surgical gowns.

Shahinian: On March 8, 2017, Kimberly-Clark moved to dismiss the Shahinian complaint, and on July 14, 2017, the California court granted Kimberly-Clark's motion while also granting the plaintiff leave to amend his complaint. The plaintiff then filed a second amended complaint. On August 11, 2017, Kimberly-Clark moved to dismiss the complaint, and on November 30, 2017, the California court again granted Kimberly-Clark's motion while also granting the plaintiff leave to amend his complaint. The plaintiff then filed a third amended complaint. On January 18, 2018, Kimberly-Clark moved to dismiss it.

Edgett: On May 17, 2017, Kimberly-Clark and Halyard moved to dismiss the Edgett complaint. On September 22, 2017, the court granted Kimberly-Clark's and Halyard's motions to dismiss, and on November 6, 2017, the court entered final judgment dismissing the Edgett complaint. The plaintiff did not appeal the entry of judgment.

We may have an Indemnification Obligation for the *Shahinian* and *Edgett* matters under the distribution agreement with Kimberly-Clark and have notified Kimberly-Clark that we reserve our rights to challenge the obligation to indemnify Kimberly-Clark for any damages or penalties which are not indemnifiable under applicable law or public policy. We intend to vigorously defend the remaining claims.

Kromenaker

On March 17, 2017, the DOJ submitted a filing declining to intervene in another qui tam matter, and the complaint was unsealed and subsequently served on Kimberly-Clark and Halyard. That matter is styled *U.S. ex rel. Kromenaker v. Kimberly-Clark Corporation and Halyard Health, Inc.,* No. 1:15-cv-04413-SCJ (N. D. Ga.) ("Kromenaker"), filed on December 21, 2015. In that case, the plaintiff alleges, among other things, violations of the federal False Claims Act in connection with the marketing and sale of certain products, including feminine hygiene products, surgical gowns and endotracheal tubes. On June 12, 2017, Kimberly-Clark and Halyard moved to dismiss the complaint. On August 21, 2017, Kromenaker filed an amended complaint, and Kimberly-Clark and Halyard filed motions to dismiss the amended complaint on September 20, 2017. We may have an Indemnification Obligation for certain parts of this matter under the distribution agreement with Kimberly-Clark and have notified Kimberly-Clark that we reserve our rights to challenge the obligation to indemnify Kimberly-Clark for any damages or penalties which are not indemnifiable under applicable law or public policy. We intend to vigorously defend this matter.

Jackson

We were served with a complaint in a matter styled *Jackson v. Halyard Health, Inc., Robert E. Abernathy, Steven E. Voskuil, et al.,* No. 1:16-cv-05093-LTS (S.D.N.Y.), filed on June 28, 2016. In that case, the plaintiff brings a putative class action against the Company, our Chief Executive Officer, our Chief Financial Officer and other defendants, asserting claims for violations of the Securities Exchange Act, Sections 10(b) and 20(a). The plaintiff alleges that the defendants made misrepresentations and failed to disclose certain information about the safety and effectiveness of our MicroCool gowns and thereby artificially inflated the Company's stock prices during the respective class periods. The alleged class period for purchasers of Kimberly-Clark securities who subsequently received Halyard Health securities is February 25, 2013 to October 21, 2014, and the alleged class period for purchasers of Halyard Health securities is October 21, 2014 to April 29, 2016. On February 16, 2017, we moved to dismiss the case. We intend to continue our vigorous defense of this matter.

Richardson, Chiu and Pick

We were also served with a complaint in a matter styled *Margaret C. Richardson Trustee of the Survivors Trust Dated 6/12/84 for the Benefit of the H&M Richardson Revocable Trust v. Robert E. Abernathy, Steven E. Voskuil, et al.,* No. 1:16-cv-06296 (S.

D. N. Y.) (*"Richardson"*), filed on August 9, 2016. In that case, the plaintiff sues derivatively on behalf of Halyard Health, Inc., and alleges that the defendants breached their fiduciary duty, were unjustly enriched, and violated Section 14(A) of the Securities and Exchange Act in connection with Halyard Health, Inc.'s marketing and sale of MicroCool gowns. We were also served with a complaint in a matter styled *Kai Chiu v. Robert E. Abernathy, Steven E. Voskuil, et al*, No. 2:16-cv-08768 (C.D. Cal.), filed on November 23, 2016. In that case, the plaintiff sues derivatively on behalf of Halyard Health, Inc., and makes allegations and brings causes of action similar to those in *Richardson*, but the plaintiff also adds causes of action for abuse of control, gross mismanagement, and waste of corporate assets. We were also served with a complaint in a matter styled *Lukas Pick v. Robert E. Abernathy, Steven E. Voskuil, et al.* No. e:18-cv-00295 (D. Del.), filed of February 21, 2018. In that case, the plaintiff sues derivatively on behalf of Halyard Health, Inc., and makes allegations and brings causes of action similar to those in *Richardson* and *Chiu.* We intend to vigorously defend these matters.

Medline Industries

We were also served with a complaint in the matter styled *Medline Industries, Inc. v. Kimberly-Clark Corporation, Halyard Health, Inc., et al.*, No. 2:16-cv-08571 (C. D. Cal.), filed on November 17, 2016. In that case, the plaintiff makes allegations similar to those in *Bahamas*, *Shahinian*, and *Edgett*, and brings causes of action under federal and state false advertising laws and state unfair competition laws. On March 31, 2017, we moved to dismiss certain of Medline's claims and to transfer any surviving claims from California to Georgia. On June 2, 2017, the court granted our motion to transfer the case to Georgia and denied without prejudice our motion to dismiss. On June 30, 2017, now before the court in Georgia and with the case re-styled as *Medline Industries, Inc. v. Kimberly-Clark Corporation, Halyard Health, Inc., et al.*, No. 1:17-cv-02032 (N. D. Ga.), Kimberly-Clark and Halyard filed renewed motions to dismiss certain of Medline's claims. We may have an Indemnification Obligation for this matter under the distribution agreement with Kimberly-Clark and have notified Kimberly-Clark that we reserve our rights to challenge the obligation to indemnify Kimberly-Clark for any damages or penalties which are not indemnifiable under applicable law or public policy. We intend to vigorously defend this matter.

Naeyaert

On April 13, 2017, Kimberly-Clark was served with a complaint in the matter styled *Christopher Naeyaert v. Kimberly-Clark Corporation, et al.,* No. PSC 1603503 (County of Riverside, Superior Court of California), filed on July 21, 2016. In that case, the plaintiff makes allegations similar to those in *Bahamas* and brings causes of action similar to those in *Bahamas,* except the allegations and causes of action relate to the Ultra surgical gown. On June 5, 2017, Kimberly-Clark moved to dismiss the complaint. On August 21, 2017, Naeyaert filed an amended complaint and on September 18, 2017, Kimberly-Clark filed a motion to dismiss the amended complaint. We may have an Indemnification Obligation for this matter under the distribution agreement with Kimberly-Clark and have notified Kimberly-Clark that we reserve our rights to challenge the obligation to indemnify Kimberly-Clark for any damages or penalties which are not indemnifiable under applicable law or public policy. We intend to vigorously defend this matter.

Patent Litigation

We operate in an industry characterized by extensive patent litigation and competitors may claim that our products infringe upon their intellectual property. Resolution of patent litigation or other intellectual property claims is typically time consuming and costly and can result in significant damage awards and injunctions that could prevent the manufacture and sale of the affected products or require us to make significant royalty payments in order to continue selling the affected products. At any given time we may be involved as either a plaintiff or a defendant in a number of patent infringement actions, the outcomes of which may not be known for prolonged periods of time.

General

While we maintain general and professional liability, product liability and other insurance, our insurance policies may not cover all of these matters and may not fully cover liabilities arising out of these matters. In addition, we may be obligated to indemnify our directors and officers against these matters.

Although the results of litigation and claims cannot be predicted with certainty, we believe that the ultimate resolution of these matters will not materially impact our liquidity, access to capital markets or ability to conduct our daily operations.

As of December 31, 2017, we have an accrued liability for the matters described herein. The accrued liability is included in "Accrued Expenses" in the accompanying consolidated balance sheet. Our estimate of these liabilities is based on facts and circumstances existing at this time, along with other variables. Factors that may affect our estimate include, but are not limited to: (i) changes in the number of lawsuits filed against us, including the potential for similar, duplicate or "copycat" lawsuits

filed in multiple jurisdictions, including lawsuits that bring causes or action or allege violations of law with regard to additional products; (ii) changes in the legal costs of defending such claims; (iii) changes in the nature of the lawsuits filed against us, (iv) changes in the applicable law governing any legal claims against us; (v) a determination that our assumptions used in estimating the liability are no longer reasonable; and (vi) the uncertainties associated with the judicial process, including adverse judgments rendered by courts or juries. Thus, the actual amount of these liabilities for existing and future claims could be different than the accrued amount. Additionally, the above matters, regardless of the outcome, could disrupt our business and result in substantial costs and diversion of management attention.

Environmental Compliance

We are subject to federal, state and local environmental protection laws and regulations with respect to our business operations and are operating in compliance with, or taking action aimed at ensuring compliance with, these laws and regulations. None of our compliance obligations with environmental protection laws and regulations, individually or in the aggregate, is expected to have a material adverse effect on our business, financial condition, results of operations or liquidity.

Operating Leases

We have entered into operating leases for principal executive offices, located in Alpharetta, Georgia, as well as certain warehouse, manufacturing and distribution facilities. The future minimum obligations under operating leases, including those associated with discontinued operations, having a non-cancelable term in excess of one year are as follows (in millions):

Year	Amount
2018	$ 18.0
2019	15.6
2020	11.2
2021	10.0
2022	9.2
Thereafter	39.2
Future minimum obligations	$ 103.2

Rental expense under all operating leases, including those associated with discontinued operations, was $24 million, $22 million and $22 million in the years ended December 31, 2017, 2016 and 2015, respectively.

Note 14. Earnings Per Share ("EPS")

Basic EPS is calculated by dividing net income by the weighted average number of common shares outstanding during each period. Diluted earnings per share is calculated by dividing net income by the number of common shares outstanding and the effect of all dilutive common stock equivalents outstanding during each period, as determined using the treasury stock method. The calculation of basic and diluted EPS for each of the three years ended December 31, 2017, 2016 and 2015 is set forth in the following table (in millions, except per share amounts):

	Year Ended December 31,		
	2017	2016	2015
Net loss from continuing operations	**$ (32.1)**	$ (83.3)	$ (101.2)
Net income (loss) from discontinued operations	**111.4**	123.1	(325.1)
Net income (loss)	**$ 79.3**	$ 39.8	$ (426.3)
Weighted Average Shares Outstanding:			
Basic weighted average shares outstanding	**46.8**	46.6	46.6
Dilutive effect of stock options and restricted share unit awards	**—**	—	—
Diluted weighted average shares outstanding	**46.8**	46.6	46.6
Earnings (Loss) Per Share:			
Basic:			
Continuing Operations	**$ (0.69)**	$ (1.79)	$ (2.17)
Discontinued Operations	**2.38**	2.64	(6.98)
Basic Earnings (Loss) Per Share	**$ 1.69**	$ 0.85	$ (9.15)
Diluted:			
Continuing operations	**$ (0.69)**	$ (1.79)	$ (2.17)
Discontinued operations	**2.38**	2.64	(6.98)
Diluted Earnings (Loss) Per Share	**$ 1.69**	$ 0.85	$ (9.15)

Restricted share units ("RSUs") contain provisions allowing for the equivalent of any dividends paid on common stock during the restricted period to be reinvested into additional RSUs at the then fair market value of the common stock on the date dividends are paid. Such awards are to be included in the EPS calculation under the two-class method. Currently we do not anticipate any cash dividends for the foreseeable future and our outstanding RSU awards are not material in comparison to our weighted average shares outstanding. Accordingly, all EPS amounts reflect shares as if they were fully vested and the disclosures associated with the two-class method are not presented herein.

For the year ended December 31, 2017, 1 million of potentially dilutive stock options and restricted share unit awards were excluded from the computation of earnings per share as their effect would have been anti-dilutive.

Note 15. Business Segment Information

Our Medical Devices operating segment, which is also our reportable global business segment, was determined in accordance with how our executive managers currently develop and execute global strategies to drive growth and profitability.

The Medical Devices segment provides a portfolio of innovative product offerings focused on pain management and respiratory and digestive health to improve patient outcomes and reduce the cost of care. These products include post-operative pain management solutions, minimally invasive interventional (or chronic) pain therapies, closed airway suction systems and enteral feeding tubes.

Information concerning operations of our business segment is presented in the following table (in millions):

	Year Ended December 31,		
	2017	2016	2015
Net Sales			
Medical Devices	**$ 611.6**	$ 566.2	$ 509.0
Corporate and Other	**—**	—	—
Total Net Sales	**611.6**	566.2	509.0
Operating Profit (Loss)			
Medical Devices	**155.2**	123.8	107.8
Corporate and Other[(a)(b)(c)]	**(178.2)**	(211.2)	(227.3)
Other (expense) income, net[(d)]	**(20.1)**	(19.7)	(16.2)
Total Operating Loss	**(43.1)**	(107.1)	(135.7)
Interest income	**2.5**	0.6	0.3
Interest expense	**(31.6)**	(32.7)	(33.1)
Loss before Income Taxes	**$ (72.2)**	$ (139.2)	$ (168.5)

(a) For the year ended December 31, 2017, Corporate and other costs included $116 million, respectively, of costs historically presented as a component of the S&IP business, $55 million of general expenses, $5 million of restructuring costs and $8 million of acquisition-related charges partially offset by a $6 million benefit related to realignment of internal policies for our post-divestiture business.
(b) For the year ended December 31, 2016, Corporate and other costs included $114 million of costs historically presented as a component of the S&IP business, $66 million of general expenses, $14 million of post spin-related costs $18 million, respectively, of acquisition-related charges.
(c) For the year ended December 31, 2015, Corporate and other costs included $133 million of costs historically presented as a component of the S&IP business, $49 million of general expenses and $46 million of post spin-related expenses.
(d) Other expense, net is primarily costs related to litigation and legal matters.

For the year ended December 31, 2017, 2016 and 2015, products in our surgical pain, interventional pain, digestive health and respiratory health categories each accounted for more than 10% of our consolidated net sales. For the year ended December 31, 2017, 2016 and 2015, net sales to external customers in the United States were $467 million, $410 million and $389 million, respectively.

Depreciation, amortization and capital expenditures are as follows (in millions):

	Year Ended December 31,		
	2017	2016	2015
Depreciation and Amortization			
Medical Devices	**$ 27.4**	$ 30.4	$ 30.8
Corporate and Other[(a)]	**32.1**	34.8	34.6
Total Depreciation and Amortization	**59.5**	65.2	65.4
Capital Expenditures			
Medical Devices	**$ 21.9**	$ 17.7	$ 23.2
Corporate and Other[(b)]	**21.3**	11.4	47.2
Total Capital Expenditures	**$ 43.2**	$ 29.1	$ 70.4

(a) Depreciation and Amortization in Corporate and Other includes depreciation of corporate assets and depreciation and amortization of assets associated with discontinued operations (See “Discontinued Operations” in Note 2).
(b) Corporate and other capital expenditures includes expenditures for corporate assets and expenditures associated with discontinued operations.

Information concerning assets by business segment is presented in the following table (in millions):

	As of December 31,	
	2017	2016
Assets		
Medical Devices	**$ 1,189.6**	$ 1,197.2
Corporate and Other[(a)]	**1,006.3**	874.6
Total Assets	**$ 2,195.9**	$ 2,071.8

(a) Corporate and other assets includes corporate assets, certain current assets and liabilities associated with discontinued operations that we will retain after closing the Divestiture and assets held for sale.

Note 16. Supplemental Guarantor Financial Information

In October 2014, Halyard Health, Inc. (referred to below as "Parent") issued the Notes (described in Note 8, "Debt"). The Notes are guaranteed, jointly and severally by each of our domestic subsidiaries that guarantees the Senior Credit Facilities (each, a "Guarantor Subsidiary" and collectively, the "Guarantor Subsidiaries"). The guarantees are full and unconditional, subject to certain customary release provisions as defined in the Indenture dated October 17, 2014. Each Guarantor Subsidiary is directly or indirectly 100%-owned by Halyard Health, Inc. Each of the guarantees of the Notes is a general unsecured obligation of each Guarantor and ranks equally in right of payment with all existing and future indebtedness and all other obligations (except subordinated indebtedness) of each Guarantor.

The following condensed consolidating balance sheets as of December 31, 2017 and 2016 and the condensed consolidating statements of income and cash flows for the years ended December 31, 2017, 2016 and 2015 provide condensed consolidating financial information for Halyard Health, Inc. ("Parent"), the Guarantor Subsidiaries on a combined basis, the Non-Guarantor Subsidiaries on a combined basis and the Parent and its subsidiaries on a consolidating basis.

The Parent and the Guarantor Subsidiaries use the equity method of accounting to reflect ownership interests in subsidiaries which are eliminated upon consolidation. Eliminating entries in the following condensed consolidating financial information represent adjustments to (i) eliminate intercompany transactions between or among the Parent, the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries and (ii) eliminate the investments in subsidiaries.

HALYARD HEALTH, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING INCOME AND COMPREHENSIVE INCOME STATEMENTS
(in millions)

	Year Ended December 31, 2017				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net Sales	$ —	$ 679.2	$ 306.9	$ (374.5)	$ 611.6
Cost of products sold	—	385.7	263.5	(374.5)	274.7
Gross Profit	—	293.5	43.4	—	336.9
Research and development expenses	—	38.2	—	—	38.2
Selling and general expenses	29.9	249.7	42.1	—	321.7
Other expense (income), net	0.7	34.5	(15.1)	—	20.1
Operating (Loss) Profit	(30.6)	(28.9)	16.4	—	(43.1)
Interest income	0.9	0.1	4.5	(3.0)	2.5
Interest expense	(32.3)	(2.2)	(0.1)	3.0	(31.6)
(Loss) Income Before Income Taxes	(62.0)	(31.0)	20.8	—	(72.2)
Income tax benefit (provision)	20.0	23.2	(3.1)	—	40.1
Equity in earnings of consolidated subsidiaries	125.1	32.6	—	(157.7)	—
Net Income (Loss) from Continuing Operations	83.1	24.8	17.7	(157.7)	(32.1)
(Loss) Income on discontinued operations, net of tax	(3.8)	86.0	29.2	—	111.4
Net Income (Loss)	79.3	110.8	46.9	(157.7)	79.3
Total other comprehensive income (loss), net of tax	18.8	13.1	18.3	(31.4)	18.8
Comprehensive Income (Loss)	$ 98.1	$ 123.9	$ 65.2	$ (189.1)	$ 98.1

HALYARD HEALTH, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING INCOME AND COMPREHENSIVE INCOME STATEMENTS
(in millions)

	Year Ended December 31, 2016				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net Sales	$ —	$ 625.4	$ 250.0	$ (309.2)	$ 566.2
Cost of products sold	—	356.7	221.5	(309.2)	269.0
Gross Profit	—	268.7	28.5	—	297.2
Research and development expenses	—	38.0	0.4	—	38.4
Selling and general expenses	37.2	274.2	34.8	—	346.2
Other (income) expense, net	(0.8)	36.4	(17.5)	1.6	19.7
Operating (Loss) Profit	(36.4)	(79.9)	10.8	(1.6)	(107.1)
Interest income	0.3	0.1	2.5	(2.3)	0.6
Interest expense	(33.1)	(1.7)	(0.2)	2.3	(32.7)
(Loss) Income Before Income Taxes	(69.2)	(81.5)	13.1	(1.6)	(139.2)
Income tax benefit (provision)	25.5	33.9	(3.5)	—	55.9
Equity in earnings of consolidated subsidiaries	85.3	22.3	—	(107.6)	—
Income (Loss) from Continued Operations	41.6	(25.3)	9.6	(109.2)	(83.3)
(Loss) Income from discontinued operations, net of tax	(1.8)	108.6	16.3	—	123.1
Net Income (Loss)	39.8	83.3	25.9	(109.2)	39.8
Total other comprehensive loss, net of tax	(6.9)	(6.3)	(7.2)	13.5	(6.9)
Comprehensive Income	$ 32.9	$ 77.0	$ 18.7	$ (95.7)	$ 32.9

HALYARD HEALTH, INC. AND SUBSIDIARIES
CONDENSED COMBINED CONSOLIDATING INCOME AND COMPREHENSIVE INCOME STATEMENTS
(in millions)

	Year Ended December 31, 2015				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net Sales	$ —	$ 591.2	$ 266.4	$ (348.6)	$ 509.0
Cost of products sold	—	338.8	261.0	(348.6)	251.2
Gross Profit	—	252.4	5.4	—	257.8
Research and development expenses	—	27.6	—	—	27.6
Selling and general expenses	30.6	274.4	44.7	—	349.7
Other (income) expense, net	(0.8)	26.9	(9.9)	—	16.2
Operating Loss	(29.8)	(76.5)	(29.4)	—	(135.7)
Interest income	0.3	—	3.1	(3.1)	0.3
Interest expense	(33.8)	(2.1)	(0.3)	3.1	(33.1)
Loss Before Income Taxes	(63.3)	(78.6)	(26.6)	—	(168.5)
Income tax benefit (provision)	24.3	44.7	(1.7)	—	67.3
Equity in (loss) earnings of consolidated subsidiaries	(389.5)	22.4	—	367.1	—
(Loss) Income from Continued Operations	(428.5)	(11.5)	(28.3)	367.1	(101.2)
Income (Loss) from discontinued operations, net of tax	2.2	(366.4)	39.1	—	(325.1)
Net (Loss) Income	(426.3)	(377.9)	10.8	367.1	(426.3)
Total other comprehensive loss, net of tax	—	(0.1)	(24.0)	—	(24.1)
Comprehensive (Loss) Income	$ (426.3)	$ (378.0)	$ (13.2)	$ 367.1	$ (450.4)

HALYARD HEALTH, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING BALANCE SHEETS
(in millions)

	As of December 31, 2017				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current Assets					
Cash and cash equivalents	$ 114.5	$ 16.0	$ 89.2	$ —	$ 219.7
Accounts receivable, net	1.1	623.0	266.3	(687.4)	203.0
Inventories	—	76.0	15.1	—	91.1
Prepaid and other current assets	0.6	11.7	2.1	—	14.4
Assets held for sale	0.3	546.7	85.5	—	632.5
Total Current Assets	116.5	1,273.4	458.2	(687.4)	1,160.7
Property, Plant and Equipment, Net	—	92.9	17.0	—	109.9
Investment in Consolidated Subsidiaries	2,154.3	403.2	—	(2,557.5)	—
Goodwill	—	738.1	26.6	—	764.7
Other Intangible Assets, net	—	139.5	9.4	—	148.9
Other Assets	0.3	6.0	5.4	—	11.7
TOTAL ASSETS	$ 2,271.1	$ 2,653.1	$ 516.6	$ (3,244.9)	$ 2,195.9
LIABILITIES AND EQUITY					
Current Liabilities					
Current portion of long-term debt	$ 39.8	$ —	$ —	$ —	$ 39.8
Trade accounts payable	454.0	347.0	49.8	(679.6)	171.2
Accrued expenses	11.6	113.9	27.4	(8.0)	144.9
Liabilities held for sale	—	7.8	26.1	—	33.9
Total Current Liabilities	505.4	468.7	103.3	(687.6)	389.8
Long-Term Debt	541.1	—	—	—	541.1
Other Long-Term Liabilities	9.2	36.1	4.3	—	49.6
Total Liabilities	1,055.7	504.8	107.6	(687.6)	980.5
Total Equity	1,215.4	2,148.3	409.0	(2,557.3)	1,215.4
TOTAL LIABILITIES AND EQUITY	$ 2,271.1	$ 2,653.1	$ 516.6	$ (3,244.9)	$ 2,195.9

HALYARD HEALTH, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING BALANCE SHEETS
(in millions)

	As of December 31, 2016				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current Assets					
Cash and cash equivalents	$ 54.2	$ 9.5	$ 50.0	$ —	$ 113.7
Accounts receivable, net	3.1	552.5	239.9	(607.0)	188.5
Inventories	—	69.2	11.5	—	80.7
Prepaid and other current assets	5.0	10.1	1.8	(0.3)	16.6
Assets held for sale	—	162.3	31.7	—	194.0
Total Current Assets	62.3	803.6	334.9	(607.3)	593.5
Property, Plant and Equipment, Net	—	96.7	12.6	—	109.3
Investment in Consolidated Subsidiaries	2,029.5	328.7	—	(2,358.2)	—
Goodwill	—	736.1	26.2	—	762.3
Other Intangible Assets, net	—	159.5	8.7	—	168.2
Other Assets	0.7	7.7	3.2	—	11.6
Assets Held for Sale	0.3	380.0	46.6	—	426.9
TOTAL ASSETS	$ 2,092.8	$ 2,512.3	$ 432.2	$ (2,965.5)	$ 2,071.8
LIABILITIES AND EQUITY					
Current Liabilities					
Trade accounts payable	$ 398.3	$ 325.9	$ 38.3	$ (601.9)	$ 160.6
Accrued expenses	11.1	108.5	24.2	(5.4)	138.4
Liabilities held for sale	—	8.3	17.1	—	25.4
Total Current Liabilities	409.4	442.7	79.6	(607.3)	324.4
Long-Term Debt	579.0	—	—	—	579.0
Other Long-Term Liabilities	1.9	52.9	4.4	—	59.2
Liabilities Held for Sale	—	1.5	5.2	—	6.7
Total Liabilities	990.3	497.1	89.2	(607.3)	969.3
Total Equity	1,102.5	2,015.2	343.0	(2,358.2)	1,102.5
TOTAL LIABILITIES AND EQUITY	$ 2,092.8	$ 2,512.3	$ 432.2	$ (2,965.5)	$ 2,071.8

HALYARD HEALTH, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
(in millions)

	Year Ended December 31, 2017				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating Activities					
Cash (Used in) Provided by Operating Activities	$ (43.3)	$ 137.2	$ 50.3	$ —	$ 144.2
Investing Activities					
Capital expenditures	—	(32.4)	(10.8)	—	(43.2)
Proceeds from dispositions of property	—	0.1	—	—	0.1
Intercompany contributions	—	(98.8)	—	98.8	—
Cash (Used in) Provided by Investing Activities	—	(131.1)	(10.8)	98.8	(43.1)
Financing Activities					
Intercompany contributions	101.4	—	(2.6)	(98.8)	—
Purchase of treasury stock	(2.5)	—	—	—	(2.5)
Proceeds and excess tax benefits from the exercise of stock options	4.7	—	—	—	4.7
Cash Provided by (Used in) Financing Activities	103.6	—	(2.6)	(98.8)	2.2
Effect of Exchange Rate on Cash and Cash Equivalents	—	0.4	2.3	—	2.7
Increase in Cash and Cash Equivalents	60.3	6.5	39.2	—	106.0
Cash and Cash Equivalents, Beginning of Period	54.2	9.5	50.0	—	113.7
Cash and Cash Equivalents, End of Period	$ 114.5	$ 16.0	$ 89.2	$ —	$ 219.7

HALYARD HEALTH, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
(in millions)

	Year Ended December 31, 2016				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating Activities					
Cash (Used in) Provided by Operating Activities	$ (33.0)	$ 207.7	$ 15.8	$ (1.7)	$ 188.8
Investing Activities					
Capital expenditures	—	(22.7)	(6.4)	—	(29.1)
Acquisition of business, net of cash acquired	(175.0)	—	—	—	(175.0)
Proceeds from property dispositions	—	3.2	—	—	3.2
Intercompany contributions	0.5	(177.9)	2.7	174.7	—
Cash (Used in) Provided by Investing Activities	(174.5)	(197.4)	(3.7)	174.7	(200.9)
Financing Activities					
Intercompany contributions	170.8	—	(0.3)	(170.5)	—
Line of credit facility proceeds	72.0	—	—	—	72.0
Line of credit facility repayments	(72.0)	—	—	—	(72.0)
Debt issuance costs	(0.9)	—	—	—	(0.9)
Purchase of treasury stock	(0.9)	—	—	—	(0.9)
Proceeds and excess tax benefits from the exercise of stock options	0.4	—	—	—	0.4
Cash Provided by (Used in) Financing Activities	169.4	—	(0.3)	(170.5)	(1.4)
Effect of Exchange Rate on Cash and Cash Equivalents	—	(0.8)	(1.5)	—	(2.3)
(Decrease) Increase in Cash and Cash Equivalents	(38.1)	9.5	10.3	2.5	(15.8)
Cash and Cash Equivalents, Beginning of Period	92.3	—	39.7	(2.5)	129.5
Cash and Cash Equivalents, End of Period	$ 54.2	$ 9.5	$ 50.0	$ —	$ 113.7

HALYARD HEALTH, INC. AND SUBSIDIARIES
CONDENSED COMBINED CONSOLIDATING STATEMENTS OF CASH FLOWS
(in millions)

	Year Ended December 31, 2015				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating Activities					
Cash (Used in) Provided by Operating Activities	$ (44.7)	$ 110.5	$ 34.3	$ (2.5)	$ 97.6
Investing Activities					
Capital expenditures	—	(61.3)	(9.1)	—	(70.4)
Proceeds from property dispositions	—	—	7.8	—	7.8
Intercompany contributions	39.9	(53.1)	1.3	11.9	—
Cash Provided by (Used in) Investing Activities	39.9	(114.4)	—	11.9	(62.6)
Financing Activities					
Intercompany contributions	46.5	—	(34.6)	(11.9)	—
Debt repayments	(51.0)	—	—	—	(51.0)
Purchase of treasury stock	(1.0)	—	—	—	(1.0)
Proceeds and excess tax benefits from the exercise of stock options	1.4	—	—	—	1.4
Cash Used in Financing Activities	(4.1)	—	(34.6)	(11.9)	(50.6)
Effect of Exchange Rate on Cash and Cash Equivalents	—	—	(3.9)	—	(3.9)
Decrease in Cash and Cash Equivalents	(8.9)	(3.9)	(4.2)	(2.5)	(19.5)
Cash and Cash Equivalents, Beginning of Period	101.2	3.9	43.9	—	149.0
Cash and Cash Equivalents, End of Period	$ 92.3	$ —	$ 39.7	$ (2.5)	$ 129.5

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Halyard Health, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Halyard Health, Inc. and subsidiaries (the "Company") as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income (loss), stockholders' equity, and cash flows, for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework (2013*) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2018, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

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

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

/s/ DELOITTE & TOUCHE LLP

Deloitte & Touche LLP
Atlanta, Georgia
February 27, 2018

We have served as the Company's auditor since 2013.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2017. The term "disclosure controls and procedures," as defined in Rule 13a-15 under the Securities Exchange Act of 1934, as amended (or the “Exchange Act”), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Based on our evaluation, our chief executive officer and chief financial officer believe that, as of December 31, 2017, our disclosure controls and procedures were effective.

Management’s Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2017 based on the criteria related to internal control over financial reporting described in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2017.

Deloitte & Touche LLP, the independent registered public accounting firm that audited the consolidated financial statements included in this Form 10-K, has issued a report, included herein, on the effectiveness of the Company's internal control over financial reporting as of December 31, 2017.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during our fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Halyard Health, Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Halyard Health, Inc. and subsidiaries (the "Company") as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2017, of the Company and our report dated February 27, 2018, expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

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

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ DELOITTE & TOUCHE LLP

Deloitte & Touche LLP
Atlanta, Georgia
February 27, 2018

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The following sections of our 2018 Proxy Statement for the Annual Meeting of Stockholders (the "2018 Proxy Statement") are incorporated in this Item 10 by reference:

- "The Nominees" and "Directors Continuing in Office" under "Proposal 1. Election of Directors," which identifies our directors and nominees for our Board of Directors.
- "Other Information—Section 16(a) Beneficial Ownership Reporting Compliance."
- "Corporate Governance—Other Corporate Governance Policies and Practices–Code of Conduct," which describes our Code of Conduct.
- "Other Information—Stockholder Nominations for Board of Directors," which describes the procedures by which stockholders may nominate candidates for election to our Board of Directors.
- "Corporate Governance—Board Committees–Audit Committee," which identifies members of the Audit Committee of our Board of Directors and an audit committee financial expert.

Information regarding our executive officers is reported under the caption "Executive Officers of the Registrant" in Part I of this Report.

We believe we are in compliance with all applicable corporate governance requirements of the New York Stock Exchange, the Securities and Exchange Commission, the Sarbanes-Oxley Act of 2002 and the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 that have become effective as of the date of this Annual Report on Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

The information in the sections of the 2018 Proxy Statement captioned "Compensation Discussion and Analysis," "Compensation Tables," "Director Compensation" and "Corporate Governance—Compensation Committee Interlocks and Insider Participation" is incorporated in this Item 11 by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information in the section of the 2018 Proxy Statement captioned "Other Information—Security Ownership Information" is incorporated in this Item 12 by reference.

Equity Compensation Plan Information

The following table gives information about our common stock that may be issued upon the exercise of options, warrants and rights under all of our equity compensation plans as of December 31, 2017.

	Number of securities to be issued upon exercise of outstanding options, warrants, and rights (in thousands) (a)	Weighted average exercise price of outstanding options, warrants, and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (in thousands) (c)
Equity compensation plans approved by stockholders[1]	2,497[2]	$37.20	1,902

(1) Includes (a) the Halyard Health, Inc. Equity Participation Plan (the "Employee Plan"), effective November 1, 2014 and (b) the Halyard Health, Inc. Outside Directors' Compensation Plan, effective November 1, 2014 (the "Director Plan").

(2) Includes 736 restricted share units granted under the Employee Plan (including shares that may be issued pursuant to outstanding performance-based restricted share units, assuming the target award is met; actual shares issued may vary, depending on actual performance). Upon vesting, a share of

Halyard common stock is issued for each restricted share unit. Column (a) also includes 91 restricted share units granted under the Director Plan. Under the Director Plan, upon retirement from, or any other termination of service from the Board, a share of Halyard common stock is issued for each restricted share unit. Column (b) does not take these awards into account because they do not have an exercise price.

Halyard Health, Inc. Outside Directors' Compensation Plan

In 2014, our Board of Directors and our stockholders approved the Director Plan. A maximum of 400,000 shares of our common stock is available for grant under this plan. The Board may grant awards in the form of stock options, stock appreciation rights, restricted stock, restricted share units or any combination of cash, stock options, stock appreciation rights, restricted stock or restricted share units under this plan.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information in the sections of the 2018 Proxy Statement captioned "Other Information—Transactions with Related Persons" and "Corporate Governance—Director Independence" is incorporated in this Item 13 by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information in the sections of the 2018 Proxy Statement captioned "Principal Accounting Firm Fees" and "Audit Committee Approval of Audit and Non-Audit Services" under "Proposal 2. Ratification of Auditors" is incorporated in this Item 14 by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) **Documents filed as part of this report.**

1. Financial statements.

   The financial statements are set forth under Item 8 of this report on Form 10-K.

2. Financial statement schedules.

   The following information is filed as part of this Form 10-K and should be read in conjunction with the financial statements contained in Item 8:

   - Report of Independent Registered Public Accounting Firm

   All other schedules have been omitted because they were not applicable or because the required information has been included in the financial statements or notes thereto.

3. Exhibits

Exhibit Number	Description
10(a)	Halyard Health, Inc. Amended and Restated Executive Severance Plan, incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K dated October 26, 2017.
10(b)	Halyard Health, Inc. Amended and Restated Severance Pay Plan, incorporated by reference to Exhibit 10.2 of our Current Report on Form 8-K dated October 26, 2017.
12	Computation of ratio of earnings to fixed charges for the five years ended December 31, 2017, filed herewith.
21	Subsidiaries of the Corporation, filed herewith.
23	Consent of Independent Registered Public Accounting Firm, filed herewith.
24	Powers of Attorney, filed herewith.
31(a)	Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), filed herewith.
31(b)	Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act, filed herewith.
32(a)	Certification of Chief Executive Officer required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code, furnished herewith.
32(b)	Certification of Chief Financial Officer required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code, furnished herewith.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HALYARD HEALTH, INC.

February 27, 2018 By: /s/ Steven E. Voskuil

Steven E. Voskuil
Senior Vice President and
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Joseph F. Woody **Joseph F. Woody**	Chief Executive Officer and Director (principal executive officer)	February 27, 2018
/s/ Steven E. Voskuil **Steven E. Voskuil**	Senior Vice President and Chief Financial Officer (principal financial officer)	February 27, 2018
/s/ Renato Negro **Renato Negro**	Vice President and Controller (principal accounting officer)	February 27, 2018

Directors

Gary D. Blackford
John P. Byrnes
Ronald W. Dollens
Heidi Kunz
William A. Hawkins III
Patrick J. O'Leary
Maria Sainz
Dr. Julie Shimer

By: /s/ S. Ross Mansbach February 27, 2018

S. Ross Mansbach
Attorney-in-Fact

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www.halyardhealth.com