Wright Medical Group N.V.
Form 10-Q
August 03, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 25, 2017
OR
o 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: 001-35065
WRIGHT MEDICAL GROUP N.V.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| The Netherlands | 98-0509600 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| Prins Bernhardplein 200<br>1097 JB Amsterdam, The Netherlands<br>(Address of principal executive offices) | None<br>(Zip Code) |

(+31) 20 521 4777
(Registrant's telephone number, including area code)
Not applicable
(Former name, former address and former fiscal year, if changed since last report)

_____

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. þ Yes o 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). þ Yes o No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes þ No
As of July 28, 2017, there were 104,803,155 ordinary shares outstanding.

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WRIGHT MEDICAL GROUP N.V.

QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTERLY PERIOD ENDED JUNE 25, 2017

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This document may contain certain “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (Exchange Act), and that are subject to the safe harbor created by those sections. These statements reflect management's current knowledge, assumptions, beliefs, estimates, and expectations and express management's current view of future performance, results, and trends. Forward-looking statements may be identified by their use of terms such as anticipate, believe, could, estimate, expect, intend, may, plan, predict, project, will, and other similar terms. Forward-looking statements are subject to a number of risks and uncertainties that could cause actual results to materially differ from those described in the forward-looking statements. The reader should not place undue reliance on forward-looking statements. Such statements are made as of the date of this report, and we undertake no obligation to update such statements after this date. Risks and uncertainties that could cause our actual results to materially differ from those described in forward-looking statements are discussed in our filings with the U.S. Securities and Exchange Commission (SEC) (including our most recent Annual Report on Form 10-K, which was filed with the SEC on February 23, 2017). By way of example and without implied limitation, such risks and uncertainties include:

- future actions of the SEC, the United States Attorney’s office, the U.S. Food and Drug Administration (FDA), the Department of Health and Human Services, or other U.S. or foreign government authorities, including those resulting from increased scrutiny under the U.S. Foreign Corrupt Practices Act and similar laws, that could delay, limit, or suspend our development, manufacturing, commercialization, and sale of products, or result in seizures, injunctions, monetary sanctions, or criminal or civil liabilities;
- risks associated with the merger between Tornier N.V. (Tornier or legacy Tornier) and Wright Medical Group, Inc. (WMG or legacy Wright), including the failure to realize intended benefits and anticipated synergies and cost-savings from the transaction or delay in realization thereof; our businesses may not be combined successfully, or such combination may take longer, be more difficult, time-consuming or costly to accomplish than expected; and business disruption after the transaction, including adverse effects on employee retention, our sales and distribution channel, especially in light of territory transitions, and business relationships with third parties;
- risks associated with the divestiture of the U.S. rights to certain of legacy Tornier's ankle and silastic toe replacement products;
- liability for product liability claims on hip/knee (OrthoRecon) products sold by Wright Medical Technology, Inc. (WMT) prior to the divestiture of the OrthoRecon business;
- risks and uncertainties associated with the recent metal-on-metal master settlement agreement and the settlement agreement with the three insurance companies, including without limitation, the final settlement amount and the final number of claims settled under the master settlement agreement, the resolution of the remaining unresolved claims, the effect of the broad release of certain insurance coverage for present and future claims, and the resolution of WMT’s dispute with the remaining carriers;
- failure to realize the anticipated benefits from previous acquisitions and dispositions;
- adverse outcomes in existing product liability litigation;
- new product liability claims;
- inadequate insurance coverage;
- copycat claims against our modular hip systems resulting from a competitor’s recall of its modular hip product;
- the ability of a creditor of any one particular entity within our corporate structure to reach the assets of the other entities within our corporate structure not liable for the underlying claims of the one particular entity, despite our corporate structure which is intended to ring-fence liabilities;
- failure to obtain anticipated commercial sales of our AUGMENT® Bone Graft in the United States;
- challenges to our intellectual property rights or inability to defend our products against the intellectual property rights of others;
- adverse effects of diverting resources and attention to transition services provided to the purchaser of our Large Joints business;

- failures of, interruptions to, or unauthorized tampering with, our information technology systems;
- failure or delay in obtaining FDA or other regulatory approvals for our products;
- the potentially negative effect of our ongoing compliance efforts on our relationships with customers and on our ability to deliver timely and effective medical education, clinical studies, and new products;
- the possibility of private securities litigation or shareholder derivative suits;
- insufficient demand for and market acceptance of our new and existing products;
- recently enacted healthcare laws and changes in product reimbursements, which could generate downward pressure on our product pricing;
- potentially burdensome tax measures;
- lack of suitable business development opportunities;

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- inability to capitalize on business development opportunities;
- product quality or patient safety issues;
- geographic and product mix impact on our sales;
- inability to retain key sales representatives, independent distributors, and other personnel or to attract new talent;
- inventory reductions or fluctuations in buying patterns by wholesalers or distributors;
- inability to generate sufficient cash flow to satisfy our capital requirements, including future milestone payments, and existing debt, including the conversion features of our convertible senior notes, or refinance our existing debt as it matures;
- risks associated with our credit, security and guaranty agreement for our senior secured asset-based line of credit;
- inability to raise additional financing when needed and on favorable terms;
- the negative impact of the commercial and credit environment on us, our customers, and our suppliers;
- deriving a significant portion of our revenues from operations in certain geographic markets that are subject to political, economic, and social instability, including in particular France, and risks and uncertainties involved in launching our products in certain new geographic markets;
- fluctuations in foreign currency exchange rates;
- not successfully developing and marketing new products and technologies and implementing our business strategy;
- not successfully competing against our existing or potential competitors and the effect of significant recent consolidations amongst our competitors;
- the reliance of our business plan on certain market assumptions;
- our private label manufacturers failing to provide us with sufficient supply of their products, or failing to meet appropriate quality requirements;
- our inability to timely manufacture products or instrument sets to meet demand;
- our plans to bring the manufacturing of certain of our products in-house and possible disruptions we may experience in connection with such transition;
- our plans to increase our gross margins by taking certain actions designed to do so;
- the loss of key suppliers, which may result in our inability to meet customer orders for our products in a timely manner or within our budget;
- the incurrence of significant expenditures of resources to maintain relatively high levels of inventory, which could reduce our cash flows and increase the risk of inventory obsolescence, which could harm our operating results;
- consolidation in the healthcare industry that could lead to demands for price concessions or the exclusion of some suppliers from certain of our markets, which could have an adverse effect on our business, financial condition, or operating results;
- our clinical trials and their results and our reliance on third parties to conduct them;
- the compliance of our products and activities with the laws and regulations of the countries in which they are marketed, which compliance may be costly and time-consuming;
- the use, misuse or off-label use of our products that may harm our image in the marketplace or result in injuries that may lead to product liability suits, which could be costly to our business or result in governmental sanctions;
- pending and future other litigation, which could have an adverse effect on our business, financial condition, or operating results; and
- risks in light of the material weakness in our internal control over financial reporting that we have identified in fiscal 2016.

For more information regarding these and other uncertainties and factors that could cause our actual results to differ materially from what we have anticipated in our forward-looking statements or otherwise could materially adversely affect our business, financial condition, or operating results, see “Part I. Item 1A. Risk Factors” of our most recent Annual Report on Form 10-K. The risks and uncertainties described above and in “Part I. Item 1A. Risk Factors” of our most recent Annual Report on Form 10-K are not exclusive and further information concerning us and our business, including factors that potentially could materially affect our financial results or condition, may emerge from time to time. We assume no obligation to update, amend, or clarify forward-looking statements to reflect actual results or

changes in factors or assumptions affecting such forward-looking statements. We advise you, however, to consult any further disclosures we make on related subjects in our future Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K we file with or furnish to the SEC.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (unaudited).

Wright Medical Group N.V.
Condensed Consolidated Balance Sheets
(In thousands, except share data)
(unaudited)

| | June 25, 2017 | December 25, 2016 |
|---|---|---|
| Assets: | | |
| Current assets: | | |
| Cash and cash equivalents | $228,877 | $262,265 |
| Restricted cash | 150,018 | 150,000 |
| Accounts receivable, net | 116,884 | 130,602 |
| Inventories | 161,769 | 150,849 |
| Prepaid expenses | 11,362 | 11,678 |
| Other current assets | 55,203 | 54,231 |
| Total current assets | 724,113 | 759,625 |
| Property, plant and equipment, net | 206,614 | 201,732 |
| Goodwill | 855,405 | 851,042 |
| Intangible assets, net | 225,402 | 231,797 |
| Deferred income taxes | 1,578 | 1,498 |
| Other assets | 278,359 | 244,892 |
| Total assets | $2,291,471 | $2,290,586 |
| Liabilities and Shareholders' Equity: | | |
| Current liabilities: | | |
| Accounts payable | $42,762 | $32,866 |
| Accrued expenses and other current liabilities | 432,430 | 407,704 |
| Current portion of long-term obligations | 25,639 | 33,948 |
| Total current liabilities | 500,831 | 474,518 |
| Long-term debt and capital lease obligations | 805,770 | 780,407 |
| Deferred income taxes | 27,509 | 27,550 |
| Other liabilities | 322,736 | 321,247 |
| Total liabilities | 1,656,846 | 1,603,722 |
| Commitments and contingencies (Note 12) | | |
| Shareholders' equity: | | |
| Ordinary shares, €0.03 par value, authorized: 320,000,000 shares; issued and outstanding: 104,735,229 shares at June 25, 2017 and 103,400,995 shares at December 25, 2016 | 3,859 | 3,815 |
| Additional paid-in capital | 1,937,097 | 1,908,749 |
| Accumulated other comprehensive loss | (231) | (19,461) |
| Accumulated deficit | (1,306,100) | (1,206,239) |
| Total shareholders' equity | 634,625 | 686,864 |
| Total liabilities and shareholders' equity | $2,291,471 | $2,290,586 |

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

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Wright Medical Group N.V.
Condensed Consolidated Statements of Operations
(In thousands, except per share data)
(unaudited)

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | June 25, 2017 | June 26, 2016 | June 25, 2017 | June 26, 2016 |
| Net sales | $179,693 | $170,716 | $356,884 | $340,007 |
| Cost of sales [1, 2] | 38,122 | 49,009 | 75,248 | 95,675 |
| Gross profit | 141,571 | 121,707 | 281,636 | 244,332 |
| Operating expenses: | | | | |
| Selling, general and administrative [1] | 130,818 | 136,483 | 260,652 | 271,229 |
| Research and development [1] | 12,547 | 12,108 | 24,979 | 24,224 |
| Amortization of intangible assets | 6,999 | 7,484 | 14,396 | 13,941 |
| Total operating expenses | 150,364 | 156,075 | 300,027 | 309,394 |
| Operating loss | (8,793) | (34,368) | (18,391) | (65,062) |
| Interest expense, net | 18,339 | 13,024 | 36,534 | 24,878 |
| Other (income) expense, net | (6,557) | (2,061) | 1,418 | (3,129) |
| Loss from continuing operations before income taxes | (20,575) | (45,331) | (56,343) | (86,811) |
| Provision (benefit) for income taxes | 385 | (3,300) | 1,324 | (4,588) |
| Net loss from continuing operations | (20,960) | (42,031) | (57,667) | (82,223) |
| Loss from discontinued operations, net of tax | (20,202) | (187,329) | (42,194) | (195,135) |
| Net loss | $(41,162) | $(229,360) | $(99,861) | $(277,358) |
| Net loss from continuing operations per share-basic and diluted (Note 11): | $(0.20) | $(0.41) | $(0.55) | $(0.80) |
| Net loss from discontinued operations per share-basic and diluted (Note 11): | $(0.19) | $(1.82) | $(0.41) | $(1.90) |
| Net loss per share-basic and diluted (Note 11): | $(0.39) | $(2.23) | $(0.96) | $(2.70) |
| Weighted-average number of ordinary shares outstanding-basic and diluted: | 104,377 | 102,785 | 104,020 | 102,745 |

[1] These line items include the following amounts of non-cash, share-based compensation expense for the periods indicated:

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | June 25, 2017 | June 26, 2016 | June 25, 2017 | June 26, 2016 |
| Cost of sales | $132 | $ 42 | $251 | $ 175 |
| Selling, general and administrative | 4,323 | 2,852 | 7,979 | 5,902 |
| Research and development | 277 | 162 | 456 | 296 |

[2] Cost of sales includes amortization of inventory step-up adjustment of $10.4 million and $20.6 million for the three and six months ended June 26, 2016, respectively.

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

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Wright Medical Group N.V.
Condensed Consolidated Statements of Comprehensive Loss
(In thousands)
(unaudited)

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | June 25, 2017 | June 26, 2016 | June 25, 2017 | June 26, 2016 |
| Net loss | $(41,162) | $(229,360) | $(99,861) | $(277,358) |
| | | | | |
| Other comprehensive income: | | | | |
| Changes in foreign currency translation | 10,785 | (4,067) | 19,230 | 7,283 |
| Other comprehensive income (loss) | 10,785 | (4,067) | 19,230 | 7,283 |
| | | | | |
| Comprehensive loss | $(30,377) | $(233,427) | $(80,631) | $(270,075) |

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

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Wright Medical Group N.V.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(unaudited)

| | Six months ended | |
|---|---|---|
| | June 25, 2017 | June 26, 2016 |
| Operating activities: | | |
| Net loss | $(99,861) | $(277,358) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation | 27,124 | 27,317 |
| Share-based compensation expense | 8,686 | 6,373 |
| Amortization of intangible assets | 14,396 | 14,282 |
| Amortization of deferred financing costs and debt discount | 24,643 | 17,126 |
| Deferred income taxes | (725) | (3,199) |
| Provision for excess and obsolete inventory | 7,619 | 10,478 |
| Non-cash loss on extinguishment of debt | — | 12,343 |
| Amortization of inventory step-up adjustment | — | 22,895 |
| Non-cash adjustment to derivative fair values | (3,964) | (23,273) |
| Impairment loss on large joints assets held for sale (Note 3) | — | 21,876 |
| Mark-to-market adjustment for CVRs (Note 5) | 2,236 | 6,727 |
| Other | 1,470 | 2,052 |
| Changes in assets and liabilities: | | |
| Accounts receivable | 15,238 | 7,453 |
| Inventories | (16,563) | (2,969) |
| Prepaid expenses and other current assets | 8,971 | 1,551 |
| Accounts payable | 8,121 | (3,004) |
| Accrued expenses and other liabilities | (22,930) | (13,936) |
| Provision for metal-on-metal product liabilities (Note 12) | 14,721 | 150,000 |
| Net cash used in operating activities | (10,818) | (23,266) |
| Investing activities: | | |
| Capital expenditures | (31,355) | (24,761) |
| Purchase of intangible assets | (944) | (4,223) |
| Net cash used in investing activities | (32,299) | (28,984) |
| Financing activities: | | |
| Issuance of ordinary shares | 19,670 | 774 |
| Proceeds from convertible senior notes | — | 395,000 |
| Redemption of convertible senior notes | — | (102,974) |
| Payment of notes premium | — | (1,619) |
| Proceeds from stock warrants | — | 54,629 |
| Proceeds from notes hedge option | — | 3,892 |
| Payment of notes hedge option | — | (99,816) |
| Payments of deferred financing costs and equity issuance costs | — | (8,318) |
| Proceeds from issuance of other long-term debt | — | 821 |
| Repurchase of stock warrants | | (3,319) |
| Payment of contingent consideration | (987) | — |
| Payments of capital lease obligations | (1,065) | (1,115) |
| Payments of debt | (9,374) | — |
| Net cash provided by financing activities | 8,244 | 237,955 |

| | | |
|---|---|---|
| Effect of exchange rates on cash, cash equivalents and restricted cash | 1,503 | 742 |
| Net (decrease) increase in cash, cash equivalents and restricted cash | (33,370) | 186,447 |

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Wright Medical Group N.V.
Consolidated Statements of Cash Flows (Continued)
(In thousands)

| | Six months ended | |
|---|---|---|
| | June 25, 2017 | June 26, 2016 |
| Cash, cash equivalents and restricted cash, beginning of period | 412,265 | 139,804 |
| Cash, cash equivalents and restricted cash, end of period | $378,895 | $326,251 |

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

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WRIGHT MEDICAL GROUP N.V.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Organization and Description of Business

Wright Medical Group N.V. (Wright or we) is a global medical device company focused on extremities and biologics products. We are committed to delivering innovative, value-added solutions improving quality of life for patients worldwide and are a recognized leader of surgical solutions for the upper extremities (shoulder, elbow, wrist and hand), lower extremities (foot and ankle) and biologics markets, three of the fastest growing segments in orthopaedics. We market our products in over 50 countries worldwide.

Our global corporate headquarters are located in Amsterdam, the Netherlands. We also have significant operations located in Memphis, Tennessee (U.S. headquarters, research and development, sales and marketing administration, and administrative activities); Bloomington, Minnesota (upper extremities sales and marketing and warehousing operations); Arlington, Tennessee (manufacturing and warehousing operations); Franklin, Tennessee (manufacturing and warehousing operations); Montbonnot, France (manufacturing and warehousing operations); and Macroom, Ireland (manufacturing). In addition, we have local sales and distribution offices in Canada, Australia, Asia, Latin America, and throughout Europe. For purposes of this report, references to "international" or "foreign" relate to non-U.S. matters while references to "domestic" relate to U.S. matters.

Our fiscal year-end is generally determined on a 52-week basis and runs from the Monday nearest to the 31st of December of a year, and ends on the Sunday nearest to the 31st of December of the following year. Every few years, it is necessary to add an extra week to the year making it a 53-week period. Prior to the merger (the Wright/Tornier merger or the merger) with Tornier N.V. (legacy Tornier) in October 2015, our fiscal year ended December 31 each year.

The condensed consolidated financial statements and accompanying notes present our consolidated results for each of the three and six months ended June 25, 2017 and June 26, 2016. The three and six months ended June 25, 2017 and June 26, 2016 each consisted of thirteen and twenty-six weeks, respectively.

All amounts are presented in U.S. dollars ($), except where expressly stated as being in other currencies, e.g., Euros (€). References in these notes to condensed consolidated financial statements to "we," "our" and "us" refer to Wright Medical Group N.V. and its subsidiaries after the Wright/Tornier merger and Wright Medical Group, Inc. (WMG or legacy Wright) and its subsidiaries before the Wright/Tornier merger.

2. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation. The unaudited condensed consolidated interim financial statements of Wright Medical Group N.V. have been prepared in accordance with generally accepted accounting principles in the United States (US GAAP) for interim financial statements and the instructions to the Quarterly Report on Form 10-Q and Rule 10-01 of Regulation S-X. Certain information and footnote disclosures normally included in financial statements prepared in accordance with US GAAP have been condensed or omitted pursuant to these rules and regulations. Accordingly, these unaudited condensed consolidated interim financial statements should be read in conjunction with our audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 25, 2016, as filed with the U.S. Securities and Exchange Commission (SEC) on February 23, 2017.

In the opinion of management, these unaudited condensed consolidated interim financial statements reflect all adjustments necessary for a fair presentation of our interim financial results. All such adjustments are of a normal and recurring nature. The results of operations for any interim period are not indicative of results for the full fiscal year.

The accompanying unaudited condensed consolidated interim financial statements include our accounts and those of our domestic and international subsidiaries, all of which are wholly-owned subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation. The preparation of these financial statements requires management

to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the dates of the financial statements and the amounts of revenues and expenses during the reporting periods. Actual amounts realized or paid could differ from those estimates.

Discontinued Operations. On October 21, 2016, pursuant to a binding offer letter dated as of July 8, 2016, Tornier France SAS (Tornier France) and certain other entities related to us and Corin Orthopaedics Holdings Limited (Corin) entered into a business sale agreement and simultaneously completed and closed the sale of our business operations operating under the large joints operating segment. Pursuant to the terms of the agreement, Tornier France sold substantially all of the assets related to our hip and knee, or large joints, business (the Large Joints business) to Corin for approximately €29.7 million in cash, less approximately

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WRIGHT MEDICAL GROUP N.V.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(UNAUDITED)

€11.1 million for net working capital adjustments and subject to certain other closing adjustments. Upon closing, the parties also executed a transitional services agreement and supply agreement, among other ancillary agreements required to implement the transaction.

On January 9, 2014, legacy Wright completed the divestiture and sale of its hip and knee (OrthoRecon) business to MicroPort Scientific Corporation (MicroPort). Certain liabilities associated with the OrthoRecon business, including product liability claims associated with hip and knee products sold prior to the closing, were not assumed by MicroPort. Charges associated with these product liability claims, including legal defense, settlements and judgments, income associated with product liability insurance recoveries, and changes to any contingent liabilities associated with the OrthoRecon business have been reflected within results of discontinued operations.

All current and historical operating results for the Large Joints and OrthoRecon businesses are reflected within discontinued operations in the condensed consolidated financial statements.

Other than the discontinued operations discussed in Note 3, unless otherwise stated, all discussion of assets and liabilities in these notes to the condensed consolidated financial statements reflects the assets and liabilities held and used in our continuing operations, and all discussion of revenues and expenses reflects those associated with our continuing operations.

Recent Accounting Pronouncements. In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers, and has subsequently issued several supplemental and/or clarifying ASUs (collectively ASC 606). Accounting Standards Codification (ASC) 606 prescribes a single common revenue standard that replaces most existing U.S. GAAP revenue recognition guidance. ASC 606 outlines a five-step model, under which we will recognize revenue as performance obligations within a customer contract are satisfied. ASC 606 is intended to provide more consistent interpretation and application of the principles outlined in the standard across filers in multiple industries and within the same industries compared to current practices, which should improve comparability. Adoption of ASC 606 is required for annual reporting periods beginning after December 15, 2017 (fiscal year 2018 for Wright), including interim periods within the reporting period. Upon adoption, we must elect to adopt either retrospectively to each prior reporting period presented or using the cumulative effect transition method with the cumulative effect of initial adoption recognized at the date of initial application. We have not determined what transition method we will use. We are currently assessing the impact that the future adoption of ASC 606 may have on our consolidated financial statements by analyzing our current portfolio of customer contracts, including a review of historical accounting policies and practices to identify potential differences in applying the guidance of ASC 606. Based on our preliminary review of our customer contracts, we expect that revenue on the majority of our customer contracts will continue to be recognized at a point in time, generally upon surgical implantation or shipment of products to distributors, consistent with our current revenue recognition model.

On February 25, 2016, the FASB issued ASU 2016-02, Leases, which introduces a lessee model that brings most leases on the balance sheet. The new standard also aligns many of the underlying principles of the new lessor model with those in FASB ASC 606, the FASB's new revenue recognition standard (e.g., those related to evaluating when profit can be recognized). Furthermore, the ASU addresses other concerns related to the current leases model. The ASU will be effective for us beginning in fiscal year 2019. We are in the initial phases of our adoption plans; and accordingly, we are unable to estimate any effect this may have on our consolidated financial statements.

On March 30, 2016, the FASB issued ASU 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which is to simplify accounting for income taxes, forfeitures, and withholding taxes associated with share-based payment arrangements, and reduce ambiguity in cash flow reporting. We adopted this ASU during the quarter ended March 26, 2017 and noted no impact on our condensed consolidated financial statements.

On August 26, 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments, which amends the guidance in ASC 230 on the classification of certain cash receipts and payments in the statement of cash flows. The primary purpose of the ASU is to reduce the diversity in practice that has resulted from the lack of consistent principles on this topic. The ASU's amendments add or clarify guidance on eight cash flow issues, including debt prepayment or debt extinguishment costs, contingent consideration payments made after a business combination, and proceeds from the settlement of insurance claims. We elected to early adopt this guidance for the year ended December 25, 2016. The application of this guidance did not impact the historical presentation of our consolidated statement of cash flows.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows: Restricted Cash, which amends ASC 230 to add or clarify guidance on the classification and presentation of restricted cash in the statement of cash flows. The amendments require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period

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WRIGHT MEDICAL GROUP N.V.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(UNAUDITED)

total amounts shown on the statement of cash flows. We elected to early adopt the methodology for presenting restricted cash resulting from the Escrow Agreement described in Note 13 for the year ended December 25, 2016.
On January 26, 2017, the FASB issued ASU 2017-04, Simplifying the Test for Goodwill Impairment, which removes the requirement to compare the implied fair value of goodwill with its carrying amount as part of step 2 of the goodwill impairment test. Under the new guidance, if a reporting unit's carrying amount exceeds its fair value, an entity will record an impairment charge based on that difference. The guidance in the ASU is effective for our interim and annual goodwill impairment tests beginning in 2020 with early adoption permitted for annual and interim goodwill impairment testing dates after January 1, 2017. We are in the initial phases of our adoption plans; and, accordingly, we are unable to estimate any effect this may have on our consolidated financial statements.

3. Discontinued Operations

For the three months ended June 25, 2017 and June 26, 2016, our loss from discontinued operations, net of tax, totaled $20.2 million and $187.3 million, respectively. For the six months ended June 25, 2017 and June 26, 2016, our loss from discontinued operations, net of tax, totaled $42.2 million and $195.1 million, respectively. Our loss from discontinued operations was attributable primarily to expenses associated with legacy Wright's former OrthoRecon business and, to a lesser degree, the former Large Joints business.

Large Joints Business

On October 21, 2016, pursuant to a binding offer letter dated as of July 8, 2016, Tornier France, Corin, and certain other entities related to us and Corin entered into a business sale agreement and simultaneously completed and closed the sale of our Large Joints business. Pursuant to the terms of the agreement, we sold substantially all of the assets related to our Large Joints business to Corin for approximately €29.7 million in cash, less approximately €11.1 million for net working capital adjustments. Upon closing, the parties also executed a transitional services agreement and supply agreement, among other ancillary agreements required to implement the transaction. These agreements are on arm's length terms and are not expected to be material to our condensed consolidated financial statements.

All historical operating results for the Large Joints business as well as continued involvement in accordance with the transitional service agreement and supply agreement are reflected within discontinued operations in the condensed consolidated statements of operations.

For the three and six months ended June 25, 2017, our loss from discontinued operations for the Large Joints business, net of tax, totaled $0.5 million and $1.5 million and was primarily attributable to professional fees and internal costs to support transition activities, costs associated with transition services and working capital adjustments. The basic and diluted weighted-average number of ordinary shares outstanding was 104.4 million and 104.0 million for the three months and six months ended June 25, 2017, respectively. The basic and diluted net loss from discontinued operations per share for the Large Joints business was $0.01 for the three and six months ended June 25, 2017.

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The following table summarizes the results of discontinued operations for the Large Joints business for the three and six months ended June 26, 2016 (in thousands, except per share data):

| | Three months ended June 26, 2016 | Six months ended June 26, 2016 |
|---|---|---|
| Net sales | $10,164 | $21,900 |
| Cost of sales | 5,711 | 11,360 |
| Selling, general and administrative | 6,008 | 10,172 |
| Other | 627 | 1,234 |
| Loss from discontinued operations before income taxes | (2,182) | (866) |
| Impairment loss on assets held for sale, before income taxes | 21,876 | 21,876 |
| Total loss from discontinued operations before income taxes | (24,058) | (22,742) |
| Income tax benefit | 5,175 | 4,770 |
| Total loss from discontinued operations, net of tax | $(18,883) | $(17,972) |
| | | |
| Net loss from discontinued operations per share-basic and diluted (Note 11) | $(0.18) | $(0.18) |
| | | |
| Weighted-average number of ordinary shares outstanding-basic and diluted (Note 11) | 102,785 | 102,745 |

Cash used in operating activities from the Large Joints business totaled $1.3 million for the six months ended June 25, 2017. Cash provided by operating activities from the Large Joints business totaled $4.1 million for the six months ended June 26, 2016.

OrthoRecon Business

On January 9, 2014, legacy Wright completed the divestiture and sale of its OrthoRecon business to MicroPort Scientific Corporation. Pursuant to the terms of the agreement, the purchase price (as defined in the agreement) was approximately $283 million (including a working capital adjustment), which MicroPort paid in cash. As a result of the transaction, we recognized approximately $24.3 million as the gain on disposal of the OrthoRecon business, before the effect of income taxes.

Certain liabilities associated with the OrthoRecon business, including product liability claims associated with hip and knee products sold by legacy Wright prior to the closing, were not assumed by MicroPort. Charges associated with these product liability claims, including legal defense, settlements and judgments, income associated with product liability insurance recoveries, and changes to any contingent liabilities associated with the OrthoRecon business have been reflected within results of discontinued operations, and we will continue to reflect these within results of discontinued operations in future periods.

All current and historical operating results for the OrthoRecon business are reflected within discontinued operations in the condensed consolidated financial statements. The following table summarizes the results of discontinued operations for the OrthoRecon business (in thousands, except per share data):

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| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | June 25, 2017 | June 26, 2016 | June 25, 2017 | June 26, 2016 |
| Net sales | $— | $— | $— | $— |
| Selling, general and administrative | 19,648 | 168,446 | 40,661 | 177,163 |
| Loss from discontinued operations before income taxes | (19,648) | (168,446) | (40,661) | (177,163) |
| Benefit for income taxes | — | — | — | — |
| Total loss from discontinued operations, net of tax | $(19,648) | $(168,446) | $(40,661) | $(177,163) |
| Net loss from discontinued operations per share-basic and diluted (Note 11) | $(0.19) | $(1.64) | $(0.39) | $(1.72) |
| Weighted-average number of ordinary shares outstanding-basic and diluted (Note 11) | 104,377 | 102,785 | 104,020 | 102,745 |

The above selling, general and administrative expenses during the three and six months ended June 26, 2016, included a $150 million charge related to the retained metal-on-metal product liability claims associated with the OrthoRecon business.

We will incur continuing cash outflows associated with legal defense costs and the ultimate resolution of these contingent liabilities, net of insurance proceeds, until these liabilities are resolved. Cash used in operating activities by the OrthoRecon business totaled $17.7 million and $15.8 million for the six months ended June 25, 2017 and June 26, 2016, respectively.

4. Inventories

Inventories consist of the following (in thousands):

| | June 25, 2017 | December 25, 2016 |
|---|---|---|
| Raw materials | $10,558 | $15,319 |
| Work-in-process | 29,887 | 22,422 |
| Finished goods | 121,324 | 113,108 |
| | $161,769 | $150,849 |

5. Fair Value of Financial Instruments and Derivatives

We account for derivatives in accordance with FASB ASC 815, which establishes accounting and reporting standards requiring that derivative instruments be recorded on the balance sheet as either an asset or liability measured at fair value. Additionally, changes in the derivatives' fair value shall be recognized currently in earnings unless specific hedge accounting criteria are met.

FASB ASC Section 820, Fair Value Measurements and Disclosures requires fair value measurements be classified and disclosed in one of the following three categories:

Level 1: Financial instruments with unadjusted, quoted prices listed on active market exchanges.

Level 2: Financial instruments determined using prices for recently traded financial instruments with similar underlying terms as well as directly or indirectly observable inputs, such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3: Financial instruments that are not actively traded on a market exchange. This category includes situations where there is little, if any, market activity for the financial instrument. The prices are determined using significant unobservable inputs or valuation techniques.

2021 Notes Conversion Derivative and Notes Hedges

On May 20, 2016, we issued $395 million aggregate principal amount of 2.25% cash convertible senior notes due 2021 (2021 Notes). See Note 8 of the condensed consolidated financial statements for additional information regarding the 2021 Notes. The 2021 Notes have a conversion derivative feature (2021 Notes Conversion Derivative) that requires bifurcation from the 2021 Notes

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in accordance with ASC Topic 815, and is accounted for as a derivative liability. The fair value of the 2021 Notes Conversion Derivative at the time of issuance of the 2021 Notes was $117.2 million.

In connection with the issuance of the 2021 Notes, we entered into hedges (2021 Notes Hedges) with two option counterparties. The 2021 Notes Hedges, which are cash-settled, are generally intended to reduce our exposure to potential cash payments that we are required to make upon conversion of the 2021 Notes in excess of the principal amount of converted notes if our ordinary share price exceeds the conversion price. The aggregate cost of the 2021 Notes Hedges was $99.8 million and is accounted for as a derivative asset in accordance with ASC Topic 815. However, in connection with certain events, these option counterparties have the discretion to make certain adjustments to the 2021 Note Hedges, which may reduce the effectiveness of the 2021 Note Hedges.

The following table summarizes the fair value and the presentation in our condensed consolidated balance sheets (in thousands) of the 2021 Notes Hedges and 2021 Notes Conversion Derivative:

| | Location on condensed consolidated balance sheet | June 25, 2017 | December 25, 2016 |
|---|---|---|---|
| 2021 Notes Hedges | Other assets | $186,892 | $ 159,095 |
| 2021 Notes Conversion Derivative | Other liabilities | $187,191 | $ 161,601 |

In the first quarter of 2017, the closing price of our ordinary shares was greater than 130% of the 2021 Notes conversion price for 20 or more of the 30 consecutive trading days preceding the quarter-end; and, therefore, the holders of the 2021 Notes had the ability to convert the notes during the succeeding quarterly period. Due to the ability of the holders of the 2021 Notes to convert the notes during this period, the carrying value of the 2021 Notes and the fair value of the 2021 Notes Conversion Derivative were classified as current liabilities, and the fair value of the 2021 Notes Hedges were classified as current assets as of March 26, 2017. There were no conversions during the second quarter of 2017. The closing price of our ordinary shares was less than 130% of the 2021 Notes conversion price for more than 20 of the 30 consecutive trading days preceding the quarter ended June 25, 2017, which resulted in the 2021 Notes no longer being convertible. As such, the 2021 Notes, 2021 Notes Conversion Derivative and 2021 Notes Hedges were classified as long-term as of June 25, 2017.

The 2021 Notes Hedges and the 2021 Notes Conversion Derivative are measured at fair value using Level 3 inputs. These instruments are not actively traded and are valued using an option pricing model that uses observable and unobservable market data for inputs.

Neither the 2021 Notes Conversion Derivative nor the 2021 Notes Hedges qualify for hedge accounting; thus, any change in the fair value of the derivatives is recognized immediately in our condensed consolidated statements of operations. The following table summarizes the net gain on changes in fair value (in thousands) related to the 2021 Notes Hedges and 2021 Notes Conversion Derivative:

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | June 25, 2017 | June 26, 2016 | June 25, 2017 | June 26, 2016 |
| 2021 Notes Hedges | $(73,416) | $(15,511) | $27,797 | $(15,511) |
| 2021 Notes Conversion Derivative | 76,244 | 30,797 | (25,590 ) | 30,797 |
| Net gain on changes in fair value | $2,828 | $15,286 | $2,207 | $15,286 |

2020 Notes Conversion Derivative and Notes Hedges

On February 13, 2015, WMG issued $632.5 million aggregate principal amount of 2.00% cash convertible senior notes due 2020 (2020 Notes). See Note 8 of the condensed consolidated financial statements for additional information regarding the 2020 Notes. The 2020 Notes have a conversion derivative feature (2020 Notes Conversion Derivative) that requires bifurcation from the 2020 Notes in accordance with ASC Topic 815, and is accounted for as a derivative liability. The fair value of the 2020 Notes Conversion Derivative at the time of issuance of the 2020 Notes was $149.8 million.

In connection with the issuance of the 2020 Notes, WMG entered into hedges (2020 Notes Hedges) with three option counterparties. The 2020 Notes Hedges, which are cash-settled, are generally intended to reduce WMG's exposure to potential cash payments that WMG is required to make upon conversion of the 2020 Notes in excess of the principal amount of converted notes if our ordinary share price exceeds the conversion price. The aggregate cost of the 2020 Notes Hedges was $144.8 million and is accounted for as a derivative asset in accordance with ASC Topic 815. However, in connection with certain events, these option counterparties

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have the discretion to make certain adjustments to the 2020 Note Hedges, which may reduce the effectiveness of the 2020 Note Hedges.

Concurrently with the issuance and sale of the 2021 Notes, certain holders of the 2020 Notes exchanged approximately $45 million aggregate principal amount of 2020 Notes (including the 2020 Notes Conversion Derivative) for the 2021 Notes. For each $1,000 principal amount of 2020 Notes validly submitted for exchange, we delivered $990.00 principal amount of the 2021 Notes (subject, in each case, to rounding down to the nearest $1,000 principal amount of the 2021 Notes, the difference being referred as the rounded amount) to the investor plus an amount of cash equal to the unpaid interest on the 2020 Notes and the rounded amount at an aggregate cost of approximately $44.6 million. We settled the associated portion of the 2020 Notes Conversion Derivative at a benefit of approximately $0.4 million and satisfied the accrued interest, which was not material.

In addition, during the second quarter of 2016, we settled a portion of the 2020 Notes Hedges (receiving $3.9 million) and repurchased a portion of the warrants associated with the 2020 Notes (paying $3.3 million), generating net proceeds of approximately $0.6 million.

The following table summarizes the fair value and the presentation in our condensed consolidated balance sheets (in thousands) of the 2020 Notes Hedges and 2020 Notes Conversion Derivative:

| | Location on condensed consolidated balance sheet | June 25, 2017 | December 25, 2016 |
|---|---|---|---|
| 2020 Notes Hedges | Other assets | $84,034 | $ 77,232 |
| 2020 Notes Conversion Derivative | Other liabilities | $82,752 | $ 77,758 |

The 2020 Notes Hedges and the 2020 Notes Conversion Derivative are measured at fair value using Level 3 inputs. These instruments are not actively traded and are valued using an option pricing model that uses observable and unobservable market data for inputs.

Neither the 2020 Notes Conversion Derivative nor the 2020 Notes Hedges qualify for hedge accounting; thus, any change in the fair value of the derivatives is recognized immediately in our condensed consolidated statements of operations. The following table summarizes the net gain (loss) on changes in fair value (in thousands) related to the 2020 Notes Hedges and 2020 Notes Conversion Derivative:

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | June 25, 2017 | June 26, 2016 | June 25, 2017 | June 26, 2016 |
| 2020 Notes Hedges | $(66,177) | $(28,308) | $6,802 | $(90,445) |
| 2020 Notes Conversion Derivative | 67,318 | 28,238 | (4,994) | 90,122 |
| Net gain (loss) on changes in fair value | $1,141 | $(70) | $1,808 | $(323) |

2017 Notes Conversion Derivative and Notes Hedges

On August 31, 2012, WMG issued $300 million aggregate principal amount of 2.00% cash convertible senior notes due 2017 (2017 Notes). See Note 8 of the condensed consolidated financial statements for additional information regarding the 2017 Notes. The 2017 Notes have a conversion derivative feature (2017 Notes Conversion Derivative) that requires bifurcation from the 2017 Notes in accordance with ASC Topic 815, and is accounted for as a derivative liability. The fair value of the 2017 Notes Conversion Derivative at the time of issuance of the 2017 Notes was $48.1 million.

In connection with the issuance of the 2017 Notes, WMG entered into hedges (2017 Notes Hedges) with three option counterparties. The aggregate cost of the 2017 Notes Hedges was $56.2 million and was accounted for as a derivative asset in accordance with ASC Topic 815.

In connection with the issuance of the 2020 Notes, WMG used approximately $292 million of the 2020 Notes' net proceeds to repurchase and extinguish approximately $240 million aggregate principal amount of the 2017 Notes, settle the associated portion of the 2017 Notes Conversion Derivative at a cost of approximately $49 million, and

satisfy the accrued interest of $2.4 million. WMG also settled all of the 2017 Notes Hedges (receiving $70 million) and repurchased all of the warrants associated with the 2017 Notes (paying $60 million), generating net proceeds of approximately $10 million.

Concurrently with the issuance and sale of the 2021 Notes, certain holders of the 2017 Notes exchanged approximately $54.4 million aggregate principal amount of 2017 Notes (including the 2017 Notes Conversion Derivative) for the 2021 Notes. For each

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$1,000 principal amount of 2017 Notes validly submitted for exchange, we delivered $1,035.40 principal amount of the 2021 Notes (subject, in each case, to rounding down to the nearest $1,000 principal amount of the 2021 Notes, the difference being referred as the rounded amount) to the investor plus an amount of cash equal to the unpaid interest on the 2017 Notes and the rounded amount at a cost of approximately $56.3 million. We settled the associated portion of the 2017 Notes Conversion Derivative at a cost of approximately $1.9 million and satisfied the accrued interest, which was not material.

In addition, during the second quarter of 2016, we repurchased and extinguished an additional $3.6 million aggregate principal amount of the 2017 Notes in privately negotiated transactions and settled the associated portion of the 2017 Notes Conversion Derivative at a cost of approximately $0.1 million, and satisfied the accrued interest, which was not material.

The following table summarizes the fair value and the presentation in our condensed consolidated balance sheets (in thousands) of the 2017 Notes Conversion Derivative:

| | Location on condensed consolidated balance sheet | June 25, 2017 | December 25, 2016 |
|---|---|---|---|
| 2017 Notes Conversion Derivative | Accrued expenses and other current liabilities | $ 215 | $ 164 |

The 2017 Notes Conversion Derivative is measured at fair value using Level 3 inputs. This instrument is not actively traded and is valued using an option pricing model that uses observable and unobservable market data for inputs. Neither the 2017 Notes Conversion Derivative nor the 2017 Notes Hedges qualify for hedge accounting; thus, any change in the fair value of the derivatives is recognized immediately in our condensed consolidated statements of operations. The following table summarizes the net gain (loss) on changes in fair value (in thousands) related to the 2017 Notes Conversion Derivative:

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | June 25, 2017 | June 26, 2016 | June 25, 2017 | June 26, 2016 |
| 2017 Notes Conversion Derivative | $360 | $1,416 | $(51) | $8,310 |
| Net gain (loss) on changes in fair value | $360 | $1,416 | $(51) | $8,310 |

To determine the fair value of the embedded conversion option in the 2017, 2020, and 2021 Notes Conversion Derivatives, a trinomial lattice model was used. A trinomial stock price lattice generates three possible outcomes of stock price - one up, one down, and one stable. This lattice generates a distribution of stock prices at the maturity date and throughout the life of the 2017, 2020, and 2021 Notes. Using this stock price lattice, a convertible note lattice was created where the value of the embedded conversion option was estimated by comparing the value produced in a convertible note lattice with the option to convert against the value without the ability to convert. In each case, the convertible note lattice first calculates the possible convertible note values at the maturity date, using the distribution of stock prices, which equals to the maximum of (x) the remaining bond cash flows and (y) stock price times the conversion price. The values of the 2017, 2020, and 2021 Notes Conversion Derivatives at the valuation date were estimated using the values at the maturity date and moving back in time on the lattices (both for the lattice with the conversion option and without the conversion option). Specifically, at each node, if the 2017, 2020, or 2021 Notes are eligible for early conversion, the value at this node is the maximum of (i) converting to stock, which is the stock price times the conversion price, and (ii) holding onto the 2017, 2020, and 2021 Notes, which is the discounted and probability-weighted value from the three possible outcomes at the future nodes plus any accrued but unpaid coupons that are not considered at the future nodes. If the 2017, 2020, or 2021 Notes are not eligible for early conversion, the value of the conversion option at this node equals to (ii). In the lattice, a credit adjustment was applied to the discount

for each cash flow in the model as the embedded conversion option, as well as the coupon and notional payments, is settled with cash instead of shares.

To estimate the fair value of the 2020 and 2021 Notes Hedges, we used the Black-Scholes formula combined with credit adjustments, as the option counterparties have credit risk and the call options are cash settled. We assumed that the call options will be exercised at the maturity since our ordinary shares do not pay any dividends and management does not expect to declare dividends in the near term.

The following assumptions were used in the fair market valuations of the 2017 Notes Conversion Derivative, 2020 Notes Conversion Derivative, 2020 Notes Hedge, 2021 Notes Conversion Derivative, and 2021 Notes Hedge as of June 25, 2017:

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| | 2017 Notes Conversion Derivative | 2020 Notes Conversion Derivative | 2020 Notes Hedge | 2021 Notes Conversion Derivative | 2021 Notes Hedge |
|---|---|---|---|---|---|
| Stock Price Volatility (1) | 34.43% | 28.84% | 28.84% | 31.75% | 31.75% |
| Credit Spread for Wright (2) | 4.01% | 2.01% | N/A | 2.65% | N/A |
| Credit Spread for Deutsche Bank AG (3) | N/A | N/A | 0.54% | N/A | N/A |
| Credit Spread for Wells Fargo Securities, LLC (3) | N/A | N/A | 0.24% | N/A | N/A |
| Credit Spread for JPMorgan Chase Bank (3) | N/A | N/A | 0.29% | N/A | 0.38% |
| Credit Spread for Bank of America (3) | N/A | N/A | N/A | N/A | 0.4% |

(1) Volatility selected based on historical and implied volatility of ordinary shares of Wright Medical Group N.V.
(2) Credit spread implied from traded price.
(3) Credit spread of each bank is estimated using CDS curves. Source: Bloomberg.

Derivatives not Designated as Hedging Instruments

We employ a derivative program using foreign currency forward contracts to mitigate the risk of currency fluctuations on our intercompany receivable and payable balances that are denominated in foreign currencies. These forward contracts are expected to offset the transactional gains and losses on the related intercompany balances. These forward contracts are not designated as hedging instruments under FASB ASC Topic 815. Accordingly, the changes in the fair value and the settlement of the contracts are recognized in the period incurred in the accompanying condensed consolidated statements of operations. At June 25, 2017 and December 25, 2016, we had $0.7 million and $0.4 million in foreign currency contracts outstanding, respectively.

As part of our acquisition of WG Healthcare on January 7, 2013, we may be obligated to pay contingent consideration upon the achievement of certain revenue milestones; therefore, we have recorded the estimated fair value of future contingent consideration of approximately $0.4 million as of June 25, 2017 and December 25, 2016.

As a result of the acquired sales and distribution business of Surgical Specialties Australia Pty. Ltd in 2015, we have recorded the estimated fair value of future contingent consideration of approximately $1 million and $1.7 million as of June 25, 2017 and December 25, 2016, respectively.

The fair value of the contingent consideration as of June 25, 2017 and December 25, 2016 was determined using a discounted cash flow model and probability adjusted estimates of the future earnings and is classified in Level 3. Changes in the fair value of contingent consideration are recorded in “Other (income) expense, net” in our condensed consolidated statements of operations.

On March 1, 2013, as part of our acquisition of BioMimetic Therapeutics, Inc. (BioMimetic), we issued Contingent Value Rights (CVRs) as part of the merger consideration. Each CVR entitles its holder to receive additional cash payments of up to $6.50 per share, which are payable upon receipt of FDA approval of AUGMENT® Bone Graft and upon achieving certain revenue milestones. On September 1, 2015, AUGMENT® Bone Graft received FDA approval and the first of the milestone payments associated with the CVRs was paid out at $3.50 per share, which totaled $98.1 million. The fair value of the CVRs outstanding at June 25, 2017 and December 25, 2016 was $39.2 million and $37.0 million, respectively, and was determined using the closing price of the security in the active market (Level 1). For the three and six months ended June 25, 2017, the change in the fair value of the CVRs resulted in income of $3.9 million and expense of $2.2 million, respectively. For the three and six months ended June 26, 2016, the change in the fair value of the CVRs resulted in expense of $1.4 million and $6.7 million, respectively. The income or expense related to the change in the value of the CVRs is recorded in “Other (income) expense, net” in our condensed consolidated

statements of operations. If, prior to March 1, 2019, sales of AUGMENT® Bone Graft reach $40 million over 12 consecutive months, cash payment would be required at $1.50 per share, or $42 million. Further, if, prior to March 1, 2019, sales of AUGMENT® Bone Graft reach $70 million over 12 consecutive months, an additional cash payment would be required at $1.50 per share, or $42 million. As of June 25, 2017, we have reflected the $39 million balance related to CVR liability within "Accrued expenses and other current liabilities."

The carrying value of cash and cash equivalents, accounts receivable, and accounts payable approximates the fair value of these financial instruments at June 25, 2017 and December 25, 2016 due to their short maturities and variable rates.

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The following tables summarize the valuation of our financial instruments (in thousands):

| | Total | Quoted prices in active markets (Level 1) | Prices with other observable inputs (Level 2) | Prices with unobservable inputs (Level 3) |
|---|---|---|---|---|
| At June 25, 2017 | | | | |
| Assets | | | | |
| Cash and cash equivalents | $228,877 | $228,877 | $— | $— |
| Restricted cash | 150,018 | 150,018 | — | — |
| 2020 Notes Hedges | 84,034 | — | — | 84,034 |
| 2021 Notes Hedges | 186,892 | — | — | 186,892 |
| Total | $649,821 | $378,895 | $— | $270,926 |
| | | | | |
| Liabilities | | | | |
| 2017 Notes Conversion Derivative | $215 | $— | $— | $215 |
| 2020 Notes Conversion Derivative | 82,752 | — | — | 82,752 |
| 2021 Notes Conversion Derivative | 187,191 | — | — | 187,191 |
| Contingent consideration | 1,537 | — | — | 1,537 |
| Contingent consideration (CVRs) | 39,241 | 39,241 | — | — |
| Total | $310,936 | $39,241 | $— | $271,695 |

| | Total | Quoted prices in active markets (Level 1) | Prices with other observable inputs (Level 2) | Prices with unobservable inputs (Level 3) |
|---|---|---|---|---|
| At December 25, 2016 | | | | |
| Assets | | | | |
| Cash and cash equivalents | $262,265 | $262,265 | $— | $— |
| Restricted cash | 150,000 | 150,000 | — | — |
| 2020 Notes Hedges | 77,232 | — | — | 77,232 |
| 2021 Notes Hedges | 159,095 | — | — | 159,095 |
| Total | $648,592 | $412,265 | $— | $236,327 |
| | | | | |
| Liabilities | | | | |
| 2017 Notes Conversion Derivative | $164 | $— | $— | $164 |
| 2020 Notes Conversion Derivative | 77,758 | — | — | 77,758 |
| 2021 Notes Conversion Derivative | 161,601 | — | — | 161,601 |
| Contingent consideration | 2,249 | — | — | 2,249 |
| Contingent consideration (CVRs) | 36,999 | 36,999 | — | — |
| Total | $278,771 | $36,999 | $— | $241,772 |

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The following is a roll forward of our assets and liabilities measured at fair value on a recurring basis using unobservable inputs (Level 3) (in thousands):

| | Balance at December 25, 2016 | Additions | Transfers into Level 3 | Gain/(loss) included in earnings | Settlements | Currency | Balance at June 25, 2017 |
|---|---|---|---|---|---|---|---|
| 2017 Notes Conversion Derivative | $ (164) | $ — | $ — | $ (51) | $ — | $ — | $ (215) |
| 2020 Notes Hedges | 77,232 | — | — | 6,802 | — | — | 84,034 |
| 2020 Notes Conversion Derivative | (77,758) | — | — | (4,994) | — | — | (82,752) |
| 2021 Notes Hedges | 159,095 | — | — | 27,797 | — | — | 186,892 |
| 2021 Notes Conversion Derivative | (161,601) | — | — | (25,590) | — | — | (187,191) |
| Contingent consideration | (2,249) | — | — | (171) | 987 | (104) | (1,537) |

6. Property, Plant and Equipment

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

| | June 25, 2017 | December 25, 2016 |
|---|---|---|
| Property, plant and equipment, at cost | $396,142 | $368,278 |
| Less: Accumulated depreciation | (189,528) | (166,546) |
| | $206,614 | $201,732 |

7. Goodwill and Intangible Assets

Changes in the carrying amount of goodwill occurring during the six months ended June 25, 2017, are as follows (in thousands):

| | U.S. Lower Extremities & Biologics | U.S. Upper Extremities | International Extremities & Biologics | Total |
|---|---|---|---|---|
| Goodwill at December 25, 2016 | $ 218,525 | $ 558,669 | $ 73,848 | $851,042 |
| Foreign currency translation | — | — | 4,363 | 4,363 |
| Goodwill at June 25, 2017 | $ 218,525 | $ 558,669 | $ 78,211 | $855,405 |

Goodwill is recognized for the excess of the purchase price over the fair value of net assets of businesses acquired. Goodwill is required to be tested for impairment at least annually. Unless circumstances otherwise dictate, the annual impairment test is performed in the fourth quarter annually.

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The components of our identifiable intangible assets, net, are as follows (in thousands):

| | June 25, 2017 | | December 25, 2016 | |
|---|---|---|---|---|
| | Cost | Accumulated amortization | Cost | Accumulated amortization |
| Indefinite life intangibles: | | | | |
| In-process research and development (IPRD) technology | $997 | | $938 | |
| Finite life intangibles: | | | | |
| Distribution channels | 900 | $ 510 | 900 | $ 374 |
| Completed technology | 139,170 | 33,949 | 133,966 | 26,550 |
| Licenses | 4,868 | 1,323 | 4,868 | 1,115 |
| Customer relationships | 126,135 | 19,090 | 122,974 | 15,133 |
| Trademarks | 14,188 | 8,698 | 13,950 | 6,881 |
| Non-compete agreements | 10,868 | 8,338 | 11,810 | 7,833 |
| Other | 551 | 367 | 524 | 247 |
| Total finite life intangibles | 296,680 | $ 72,275 | 288,992 | $ 58,133 |
| Total intangibles | 297,677 | | 289,930 | |
| Less: Accumulated amortization | (72,275 ) | | (58,133 ) | |
| Intangible assets, net | $225,402 | | $231,797 | |

Based on the total finite life intangible assets held at June 25, 2017, we expect amortization expense of approximately $28.3 million in 2017, $23.2 million in 2018, $21.1 million in 2019, $20.5 million in 2020, and $20.3 million in 2021.

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8. Debt and Capital Lease Obligations

Debt and capital lease obligations consist of the following (in thousands):

| | June 25, 2017 | December 25, 2016 |
|---|---|---|
| Capital lease obligations | $16,600 | $ 14,892 |
| | | |
| 2021 Notes | 290,198 | 280,811 |
| 2020 Notes | 497,364 | 482,364 |
| 2017 Notes | 2,015 | 1,971 |
| Asset-based line of credit | 21,069 | 30,000 |
| Mortgages | 2,480 | 2,544 |
| Shareholder debt | 1,683 | 1,773 |
| | 831,409 | 814,355 |
| Less: Current portion | (25,639) | (33,948) |
| | $805,770 | $ 780,407 |

2021 Notes

On May 20, 2016, we issued $395 million aggregate principal amount of the 2021 Notes pursuant to an indenture (2021 Notes Indenture), dated as of May 20, 2016, between us and The Bank of New York Mellon Trust Company, N.A., as trustee. The 2021 Notes require interest to be paid at an annual rate of 2.25% semi-annually in arrears on each May 15 and November 15, and will mature on November 15, 2021 unless earlier converted or repurchased. The 2021 Notes are convertible, subject to certain conditions, solely into cash. The initial conversion rate for the 2021 Notes will be 46.8165 ordinary shares (subject to adjustment as provided in the 2021 Notes Indenture) per $1,000 principal amount of the 2021 Notes (subject to, and in accordance with, the settlement provisions of the 2021 Notes Indenture), which is equal to an initial conversion price of approximately $21.36 per ordinary share. We may not redeem the 2021 Notes prior to the maturity date, and no “sinking fund” is available for the 2021 Notes, which means that we are not required to redeem or retire the 2021 Notes periodically.

The holders of the 2021 Notes may convert their 2021 Notes at any time prior to May 15, 2021 solely into cash, in multiples of $1,000 principal amount, upon satisfaction of one or more of the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on June 30, 2016 (and only during such calendar quarter), if the last reported sale price of our ordinary shares for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any five consecutive trading day period in which the trading price per $1,000 principal amount of 2021 Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our ordinary shares and the conversion rate on each such trading day; or (3) upon the occurrence of specified corporate events. On or after May 15, 2021 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their 2021 Notes solely into cash, regardless of the foregoing circumstances. Upon conversion, a holder will receive an amount in cash, per $1,000 principal amount of the 2021 Notes, equal to the settlement amount as calculated under the 2021 Notes Indenture. If we undergo a fundamental change, as defined in the 2021 Notes Indenture, subject to certain conditions, holders of the 2021 Notes will have the option to require us to repurchase for cash all or a portion of their 2021 Notes at a repurchase price equal to 100% of the principal amount of the 2021 Notes to be repurchased, plus any accrued and unpaid interest to, but excluding, the fundamental change repurchase date, as defined in the 2021 Notes Indenture. In addition, following certain corporate transactions, we, under certain circumstances, will increase the applicable conversion rate for a holder that elects to convert its 2021 Notes in connection with such corporate transaction. The 2021 Notes are senior

unsecured obligations that rank: (i) senior in right of payment to any of our indebtedness that is expressly subordinated in right of payment to the 2021 Notes; (ii) equal in right of payment to any of our unsecured indebtedness that is not so subordinated; (iii) effectively junior in right of payment to any of our secured indebtedness to the extent of the value of the assets securing such indebtedness; and (iv) structurally junior to all indebtedness and other liabilities (including trade payables) of our subsidiaries. As a result of the issuance of the 2021 Notes, we recorded deferred financing charges of approximately $7.3 million, which are being amortized over the term of the 2021 Notes using the effective interest method.

In the first quarter of 2017, the closing price of our ordinary shares was greater than 130% of the 2021 Notes conversion price for 20 or more of the 30 consecutive trading days preceding the quarter-end; and, therefore, the holders of the 2021 Notes had the ability to convert the notes during the succeeding quarterly period. Due to the ability of the holders of the 2021 Notes to convert the notes during this period, the carrying value of the 2021 Notes and the fair value of the 2021 Notes Conversion Derivative were

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classified as current liabilities, and the fair value of the 2021 Notes Hedges were classified as current assets as of March 26, 2017. There were no conversions during the second quarter of 2017. The closing price of our ordinary shares was less than 130% of the 2021 Notes conversion price for more than 20 of the 30 consecutive trading days preceding the quarter ended June 25, 2017, which resulted in the 2021 Notes no longer being convertible. As such, the 2021 Notes, 2021 Notes Conversion Derivative and 2021 Notes Hedges were classified as long-term as of June 25, 2017.

The 2021 Notes Conversion Derivative requires bifurcation from the 2021 Notes in accordance with ASC Topic 815, Derivatives and Hedging, and is accounted for as a derivative liability. See Note 5 for additional information regarding the 2021 Notes Conversion Derivative. The fair value of the 2021 Notes Conversion Derivative at the time of issuance of the 2021 Notes was $117.2 million and was recorded as original debt discount for purposes of accounting for the debt component of the 2021 Notes. This discount is amortized as interest expense using the effective interest method over the term of the 2021 Notes. For the three and six months ended June 25, 2017, we recorded $4.5 million and $8.8 million, respectively, of interest expense related to the amortization of the debt discount based upon an effective rate of 9.72%.

The components of the 2021 Notes were as follows (in thousands):

| | June 25, 2017 | December 25, 2016 |
|---|---|---|
| Principal amount of 2021 Notes | $395,000 | $ 395,000 |
| Unamortized debt discount | (98,606) | (107,441) |
| Unamortized debt issuance costs | (6,196) | (6,748) |
| Net carrying amount of 2021 Notes | $290,198 | $ 280,811 |

The estimated fair value of the 2021 Notes was approximately $543.0 million at June 25, 2017, based on a quoted price in an active market (Level 1).

We entered into 2021 Notes Hedges in connection with the issuance of the 2021 Notes with two counterparties. The 2021 Notes Hedges, which are cash-settled, are generally intended to reduce our exposure to potential cash payments that we would be required to make if holders elect to convert the 2021 Notes at a time when our ordinary share price exceeds the conversion price. However, in connection with certain events, including, among others, (i) a merger or other make-whole fundamental change (as defined in the 2021 Notes Indenture); (ii) certain hedging disruption events, which may include changes in tax laws, an increase in the cost of borrowing our ordinary shares in the market or other material increases in the cost to the option counterparties of hedging the 2021 Note Hedges; (iii) our failure to perform certain obligations under the 2021 Notes Indenture or under the 2021 Notes Hedges; (iv) certain payment defaults on our existing indebtedness in excess of $25 million; or (v) if we or any of our significant subsidiaries become insolvent or otherwise becomes subject to bankruptcy proceedings, the option counterparties have the discretion to terminate the 2021 Notes Hedges, which may reduce the effectiveness of the 2021 Notes Hedges. In addition, the option counterparties have broad discretion to make certain adjustments to the 2021 Notes Hedges and warrant transactions upon the occurrence of certain other events, including, among others, (i) any adjustment to the conversion rate of the 2021 Notes; or (ii) upon the announcement of certain significant corporate events, including events that may give rise to a termination event as described above, such as the announcement of a third-party tender offer. Any such adjustment may also reduce the effectiveness of the 2021 Note Hedges. The aggregate cost of the 2021 Notes Hedges was $99.8 million and is accounted for as a derivative asset in accordance with ASC Topic 815. See Note 5 of the condensed consolidated financial statements for additional information regarding the 2021 Notes Hedges and the 2021 Notes Conversion Derivative.

We also entered into warrant transactions in which we sold warrants for an aggregate of 18.5 million ordinary shares to the two option counterparties, subject to adjustment, for an aggregate of $54.6 million. The strike price of the

warrants is $30.00 per share, which was 69% above the last reported sale price of our ordinary shares on May 12, 2016. The warrants are expected to be net-share settled and exercisable over the 100 trading day period beginning on February 15, 2022. The warrant transactions will have a dilutive effect on our ordinary shares to the extent that the market value per ordinary share during such period exceeds the applicable strike price of the warrants. However, in connection with certain events, these option counterparties have the discretion to make certain adjustments to warrant transactions, which may increase our obligations under the warrant transactions.

Aside from the initial payment of the $99.8 million premium in the aggregate to the two option counterparties and subject to the right of the option counterparties to terminate the 2021 Notes Hedges in certain circumstances, we do not expect to be required to make any cash payments to the option counterparties under the 2021 Notes Hedges and expect to be entitled to receive from the option counterparties cash, generally equal to the amount by which the market price per ordinary share exceeds the strike price

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of the convertible note hedging transactions during the relevant valuation period. The strike price under the 2021 Notes Hedges is initially equal to the conversion price of the 2021 Notes. However, in connection with certain events, these option counterparties have the discretion to make certain adjustments to the 2021 Note Hedges, which may reduce the effectiveness of the 2021 Note Hedges. Additionally, if the market value per ordinary share exceeds the strike price on any settlement date under the warrant transaction, we will generally be obligated to issue to the option counterparties in the aggregate a number of shares equal in value to one percent of the amount by which the then-current market value of one ordinary share exceeds the then-effective strike price of each warrant, multiplied by the number of ordinary shares into which the 2021 Notes are initially convertible. We will not receive any additional proceeds if warrants are exercised.

As described in more detail below, concurrently with the issuance and sale of the 2021 Notes, certain holders of the 2017 Notes and the 2020 Notes exchanged their 2017 Notes or 2020 Notes for the 2021 Notes.

2020 Notes

On February 13, 2015, WMG issued $632.5 million aggregate principal amount of the 2020 Notes pursuant to an indenture (2020 Notes Indenture), dated as of February 13, 2015 between WMG and The Bank of New York Mellon Trust Company, N.A., as trustee. The 2020 Notes require interest to be paid semi-annually on each February 15 and August 15 at an annual rate of 2.00%, and mature on February 15, 2020 unless earlier converted or repurchased. The 2020 Notes were initially issued whereby they were convertible at the option of the holder, during certain periods and subject to certain conditions described below, solely into cash at an initial conversion rate of 32.3939 shares of WMG common stock per $1,000 principal amount of the 2020 Notes, subject to adjustment upon the occurrence of certain events, which represented an initial conversion price of approximately $30.87 per share of WMG common stock. On November 24, 2015, Wright Medical Group N.V. executed a supplemental indenture, fully and unconditionally guaranteeing, on a senior unsecured basis, WMG’s obligations relating to the 2020 Notes, changing the underlying reference securities from WMG common stock to Wright Medical Group N.V. ordinary shares and making a corresponding adjustment to the conversion price. From and after the effective time of the Wright/Tornier merger, (i) all calculations and other determinations with respect to the 2020 Notes previously based on references to WMG common stock are calculated or determined by reference to our ordinary shares, and (ii) the conversion rate (as defined in the 2020 Notes Indenture) for the 2020 Notes was adjusted to a conversion rate of 33.39487 ordinary shares (subject to adjustment as provided in the 2020 Notes Indenture) per $1,000 principal amount of the 2020 Notes, which represents a conversion price of approximately $29.94 per ordinary share (subject to, and in accordance with, the settlement provisions of the 2020 Notes Indenture). The 2020 Notes may not be redeemed by WMG prior to the maturity date, and no “sinking fund” is available for the 2020 Notes, which means that WMG is not required to redeem or retire the 2020 Notes periodically.

The holders of the 2020 Notes may convert their notes at any time prior to August 15, 2019 solely into cash, in multiples of $1,000 principal amount, upon satisfaction of one or more of the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on March 31, 2015 (and only during such calendar quarter), if the last reported sale price of our ordinary shares for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any five consecutive trading day period in which the trading price per $1,000 principal amount of 2020 Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our ordinary shares and the conversion rate on each such trading day; or (3) upon the occurrence of specified corporate events. The Wright/Tornier merger did not result in a conversion right for holders of the 2020 Notes. On or after August 15, 2019 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their 2020 Notes solely into cash, regardless of the foregoing circumstances. Upon conversion, a holder will receive an amount in cash, per $1,000 principal amount of the 2020

Notes, equal to the settlement amount as calculated under the 2020 Notes Indenture. If WMG undergoes a fundamental change, as defined in the 2020 Notes Indenture, subject to certain conditions, holders of the 2020 Notes will have the option to require WMG to repurchase for cash all or a portion of their notes at a purchase price equal to 100% of the principal amount of the 2020 Notes to be repurchased, plus any accrued and unpaid interest to, but excluding, the fundamental change repurchase date, as defined in the 2020 Notes Indenture. In addition, following certain corporate transactions, WMG, under certain circumstances, will increase the applicable conversion rate for a holder that elects to convert its 2020 Notes in connection with such corporate transaction. The 2020 Notes are senior unsecured obligations that rank: (i) senior in right of payment to any of WMG's indebtedness that is expressly subordinated in right of payment to the 2020 Notes; (ii) equal in right of payment to any of WMG's unsecured indebtedness that is not so subordinated; (iii) effectively junior in right of payment to any secured indebtedness to the extent of the value of the assets securing such indebtedness; and (iv) structurally junior to all indebtedness and other liabilities (including trade payables) of WMG's subsidiaries. In conjunction with the issuance of the 2020 Notes, we recorded deferred financing charges of approximately $18.1 million, which are being amortized over the term of the 2020 Notes using the effective interest method.

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The 2020 Notes Conversion Derivative requires bifurcation from the 2020 Notes in accordance with ASC Topic 815, Derivatives and Hedging, and is accounted for as a derivative liability. See Note 5 of the condensed consolidated financial statements for additional information regarding the 2020 Notes Conversion Derivative. The fair value of the 2020 Notes Conversion Derivative at the time of issuance of the 2020 Notes was $149.8 million and was recorded as original debt discount for purposes of accounting for the debt component of the 2020 Notes. This discount is amortized as interest expense using the effective interest method over the term of the 2020 Notes. For the three and six months ended June 25, 2017, we recorded $6.8 million and $13.4 million, respectively, of interest expense related to the amortization of the debt discount based upon an effective rate of 8.54% For the three and six months ended June 26, 2016, we recorded $6.6 million and $13.1 million, respectively, of interest expense related to the amortization of the debt discount based upon an effective rate of 8.54%.

Concurrently with the issuance and sale of the 2021 Notes, certain holders of the 2020 Notes exchanged approximately $45.0 million aggregate principal amount of their 2020 Notes for the 2021 Notes. For each $1,000 principal amount of 2020 Notes validly submitted for exchange, we delivered $990.00 principal amount of the 2021 Notes (subject to rounding down to the nearest $1,000 principal amount of the 2021 Notes, the difference being referred as the rounded amount) to the investor plus an amount of cash equal to the unpaid interest on the 2020 Notes and the rounded amount. As a result of this note exchange and retirement of $45.0 million aggregate principal amount of the 2020 Notes, we recognized approximately $9.3 million for the write-off of related pro-rata unamortized deferred financing fees and debt discount within “Other (income) expense, net” in our condensed consolidated statements of operations during the three months ended June 26, 2016.

The components of the 2020 Notes were as follows (in thousands):

| | June 25, 2017 | December 25, 2016 |
|---|---|---|
| Principal amount of 2020 Notes | $587,500 | $ 587,500 |
| Unamortized debt discount | (80,374) | (93,749) |
| Unamortized debt issuance costs | (9,762) | (11,387) |
| Net carrying amount of 2020 Notes | $497,364 | $ 482,364 |

The estimated fair value of the 2020 Notes was approximately $646.3 million at June 25, 2017, based on a quoted price in an active market (Level 1).

WMG entered into the 2020 Notes Hedges in connection with the issuance of the 2020 Notes with three option counterparties. See Note 5 of the condensed consolidated financial statements for additional information on the 2020 Notes Hedges. The 2020 Notes Hedges, which are cash-settled, are generally intended to reduce WMG's exposure to potential cash payments that WMG would be required to make if holders elect to convert the 2020 Notes at a time when our ordinary share price exceeds the conversion price. However, in connection with certain events, including, among others, (i) a merger or other make-whole fundamental change (as defined in the 2020 Notes indenture); (ii) certain hedging disruption events, which may include changes in tax laws, an increase in the cost of borrowing our ordinary shares in the market or other material increases in the cost to the option counterparties of hedging the 2020 Note Hedges; (iii) WMG's failure to perform certain obligations under the 2020 Notes Indenture or under the 2020 Notes Hedges; (iv) certain payment defaults on WMG's existing indebtedness in excess of $25 million; or (v) if WMG or any of its significant subsidiaries become insolvent or otherwise becomes subject to bankruptcy proceedings, the option counterparties have the discretion to terminate the 2020 Note Hedges at a value determined by them in a commercially reasonable manner and/or adjust the terms of the 2020 Note Hedges, which may reduce the effectiveness of the 2020 Note Hedges. In addition, the option counterparties have broad discretion to make certain adjustments to the 2020 Notes Hedges upon the occurrence of certain other events, including, among others, (i) any adjustment to the conversion rate of the 2020 Notes; or (ii) upon the announcement of certain significant corporate events, including events that may give rise to a termination event as described above, such as the announcement of a

third-party tender offer. Any such adjustment may also reduce the effectiveness of the 2020 Note Hedges. The aggregate cost of the 2020 Notes Hedges was $144.8 million and is accounted for as a derivative asset in accordance with ASC Topic 815. See Note 5 of the condensed consolidated financial statements for additional information regarding the 2020 Notes Hedges and the 2020 Notes Conversion Derivative.

WMG also entered into warrant transactions in which it sold warrants for an aggregate of 20.5 million shares of WMG common stock to the three option counterparties, subject to adjustment. The strike price of the warrants was initially $40 per share of WMG common stock, which was 59% above the last reported sale price of WMG common stock on February 9, 2015. On November 24, 2015, Wright Medical Group N.V. assumed WMG's obligations pursuant to the warrants. Following the assumption, the warrants became exercisable for 21.1 million Wright Medical Group N.V. ordinary shares and the strike price of the warrants was adjusted to $38.8010 per ordinary share. The warrants are expected to be net-share settled and exercisable over the 200 trading

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day period beginning on May 15, 2020. The warrant transactions will have a dilutive effect on our ordinary shares to the extent that the market value per ordinary share during such period exceeds the applicable strike price of the warrants. However, in connection with certain events, these option counterparties have the discretion to make certain adjustments to warrant transactions, which may increase our obligations under the warrant transactions.

In addition, during the second quarter of 2016, we settled a portion of the 2020 Notes Hedges (receiving $3.9 million) and repurchased a portion of the warrants associated with the 2020 Notes (paying $3.3 million), generating net proceeds of approximately $0.6 million. Subsequent to this partial settlement, we had warrants which were exercisable for 19.6 million ordinary shares and the strike price of the warrants remained $38.8010 per ordinary share.

Aside from the initial payment of the $144.8 million premium in the aggregate to the option counterparties, we do not expect to be required to make any cash payments to the option counterparties under the 2020 Notes Hedges and expect to be entitled to receive from the option counterparties cash, generally equal to the amount by which the market price per ordinary share exceeds the strike price of the convertible note hedging transactions during the relevant valuation period. The strike price under the 2020 Notes Hedges is initially equal to the conversion price of the 2020 Notes. However, in connection with certain events, these option counterparties have the discretion to make certain adjustments to the 2020 Note Hedges, which may reduce the effectiveness of the 2020 Note Hedges. Additionally, if the market value per ordinary share exceeds the strike price on any settlement date under the warrant transaction, we will generally be obligated to issue to the option counterparties in the aggregate a number of ordinary shares equal in value to one half of one percent of the amount by which the then-current market value of one ordinary share exceeds the then-effective strike price of each warrant, multiplied by the number of reference ordinary shares into which the 2020 Notes are initially convertible. We will not receive any additional proceeds if warrants are exercised.

2017 Notes

On August 31, 2012, WMG issued $300 million aggregate principal amount of the 2017 Notes pursuant to an indenture (2017 Notes Indenture), dated as of August 31, 2012 between WMG and The Bank of New York Mellon Trust Company, N.A., as trustee. The 2017 Notes mature on August 15, 2017, and we pay interest on the 2017 Notes semi-annually on each February 15 and August 15 at an annual rate of 2.00%. WMG may not redeem the 2017 Notes prior to the maturity date, and no “sinking fund” is available for the 2017 Notes, which means that WMG is not required to redeem or retire the 2017 Notes periodically. The 2017 Notes are convertible at the option of the holder, during certain periods and subject to certain conditions as described below, solely into cash at an initial conversion rate of 39.3140 shares per $1,000 principal amount of the 2017 Notes, subject to adjustment upon the occurrence of specified events, which represents an initial conversion price of $25.44 per share. Holders could have converted their 2017 Notes at any time prior to February 15, 2017 only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending December 31, 2012 (and only during such calendar quarter), if the last reported sale price of our ordinary shares for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter was greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any five consecutive trading day period in which the trading price per $1,000 principal amount of notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our ordinary shares and the conversion rate on each such trading day; or (3) upon the occurrence of specified corporate events. On or after February 15, 2017 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their 2017 Notes solely into cash, regardless of the foregoing circumstances. While we currently do not expect significant conversions because the 2017 Notes currently trade at a premium to the as-converted value, and a converting holder would forego future interest payments, any conversions would reduce our cash resources. Upon conversion, a holder will receive an amount in cash, per $1,000 principal amount of the 2017 Notes, equal to the settlement amount as calculated under the 2017 Notes Indenture. If we undergo a fundamental change, as defined in the 2017 Notes Indenture, subject to certain conditions, holders of the 2017 Notes will have the

option to require WMG to repurchase for cash all or a portion of their 2017 Notes at a purchase price equal to 100% of the principal amount of the 2017 Notes to be repurchased, plus any accrued and unpaid interest to, but excluding, the fundamental change repurchase date, as defined in the 2017 Notes Indenture. In addition, following certain corporate transactions, WMG, under certain circumstances, will pay a cash make-whole premium by increasing the applicable conversion rate for a holder that elects to convert its 2017 Notes in connection with such corporate transaction. The 2017 Notes are senior unsecured obligations that rank: (i) senior in right of payment to any of WMG's indebtedness that is expressly subordinated in right of payment to the 2017 Notes; (ii) equal in right of payment to any of WMG's unsecured indebtedness that is not so subordinated; (iii) effectively junior in right of payment to any secured indebtedness to the extent of the value of the assets securing such indebtedness; and (iv) structurally junior to all indebtedness and other liabilities (including trade payables) of WMG's subsidiaries. As a result of the issuance of the 2017 Notes, we recognized deferred financing charges of approximately $8.8 million, which are being amortized over the term of the 2017 Notes using the effective interest method.

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In connection with the issuance of the 2020 Notes on February 13, 2015, WMG repurchased and extinguished $240 million aggregate principal amount of the 2017 Notes and settled all of the 2017 Notes Hedges (receiving $70 million) and repurchased all of the warrants (paying $60 million) associated with the 2017 Notes. As a result of the repurchase, we recognized approximately $25.1 million for the write-off of related pro-rata unamortized deferred financing fees and debt discount within “Other (income) expense, net” in our condensed consolidated statements of operations during the three months ended March 31, 2015.

Concurrently with the issuance and sale of the 2021 Notes, certain holders of the 2017 Notes exchanged approximately $54.4 million aggregate principal amount their 2017 Notes for the 2021 Notes. For each $1,000 principal amount of 2017 Notes validly submitted for exchange, we delivered $1,035.40 principal amount of 2021 Notes (subject to rounding down to the nearest $1,000 principal amount of the 2021 Notes, the difference being referred as the rounded amount) to the investor plus an amount of cash equal to the unpaid interest on the 2017 Notes and the rounded amount. In addition, during the three months ended June 26, 2016, we repurchased and extinguished an additional $3.6 million aggregate principal amount of the 2017 Notes in privately negotiated transactions. As a result of this exchange and these repurchases, we recognized approximately $3.0 million for the write-off of related pro-rata unamortized deferred financing fees and debt discount within “Other (income) expense, net” in our condensed consolidated statements of operations during the three months ended June 26, 2016.

The components of the 2017 Notes were as follows (in thousands):

| | June 25, 2017 | December 25, 2016 |
|---|---|---|
| Principal amount of 2017 Notes | $2,026 | $ 2,026 |
| Unamortized debt discount | (9) | (47) |
| Unamortized debt issuance costs | (2) | (8) |
| Net carrying amount of 2017 Notes | $2,015 | $ 1,971 |

The estimated fair value of the 2017 Notes was approximately $2.1 million at June 25, 2017, based on a quoted price in an active market (Level 1).

ABL Facility

On December 23, 2016, we, together with WMG and certain of our other wholly-owned U.S. subsidiaries (collectively, Borrowers), entered into a Credit, Security and Guaranty Agreement (ABL Credit Agreement) with Midcap Financial Trust, as administrative agent (Agent) and a lender and the additional lenders from time to time party thereto. The ABL Credit Agreement provides for a $150.0 million senior secured asset-based line of credit, subject to the satisfaction of a borrowing base requirement (ABL Facility). The ABL Facility may be increased by up to $100.0 million upon the Borrowers’ request, subject to the consent of the Agent and each of the other lenders providing such increase. All borrowings under the ABL Facility are subject to the satisfaction of customary conditions, including the absence of default, the accuracy of representations and warranties in all material respects and the delivery of an updated borrowing base certificate. As of June 25, 2017 and December 25, 2016, we had $21.1 million and $30.0 million, respectively, in borrowings outstanding under the ABL Facility. We have reflected this

debt as a current liability on our condensed consolidated balance sheet as of June 25, 2017 and December 25, 2016, as required by US GAAP due to the weekly lockbox repayment/re-borrowing arrangement underlying the agreement, as well as the ability for the lenders to accelerate the repayment of the debt under certain circumstances as described below. As of June 25, 2017 and December 25, 2016, we had $2.4 million and $2.5 million, respectively, of unamortized debt issuance costs related to the ABL Facility. These amounts are included within "Other assets" on our condensed consolidated balance sheets and will be amortized over the five-year term of the ABL Facility as described below.

The interest rate margin applicable to borrowings under the ABL Facility is, at the option of the Borrowers, equal to either (a) 3.25% for base rate loans or (b) 4.25% for LIBOR rate loans, subject to a 0.75% LIBOR floor. In addition to paying interest on the outstanding loans under the ABL Facility, the Borrowers also are required to pay a customary unused line fee equal to 0.50%

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per annum in respect of unutilized commitments and certain other customary fees related to Agent's administration of the ABL Facility. Beginning January 1, 2017, the Borrowers are required to maintain a minimum drawn balance on the ABL Facility equal to 20% of the average borrowing base for each month. To the extent the actual drawn balance is less than 20%, the Borrowers must pay a fee equal to the amount the lenders under the ABL Facility would have earned had the Borrowers maintained a minimum drawn balance equal to 20% of the average borrowing base for such month.

The ABL Credit Agreement requires that the Borrowers calculate the borrowing base for the ABL Facility on at least a monthly basis and each time the Borrowers make a draw on the ABL Facility in accordance with the formula set forth in the ABL Credit Agreement. The borrowing base is subject to adjustment and the implementation of reserves by the Agent in its permitted discretion, as further described in the ABL Credit Agreement. If at any time the outstanding drawn balance under the ABL Facility exceeds the borrowing base as in effect at such time, Borrowers will be required to prepay loans under the ABL Facility in an amount equal to such excess. Certain accounts receivables and proceeds of collateral of the Borrowers will be applied to reduce the outstanding principal amount of the ABL Facility on a periodic basis.

There is no scheduled amortization under the ABL Facility and (subject to borrowing base requirements and applicable conditions to borrowing) the available revolving commitment may be borrowed, repaid and reborrowed without restriction. All outstanding loans under the ABL Facility will be due and payable in full on the date that is the earliest to occur of (x) December 23, 2021; (y) the date that is 91 days prior to the maturity date of the 2020 Notes or (z) the date that is 91 days prior to the maturity date of the 2021 Notes; provided that, the springing maturity under clauses (y) and (z) are subject to the Borrowers' ability to refinance, extend, renew or replace the 2020 Notes and/or the 2021 Notes, as applicable, in full pursuant to the terms of the ABL Credit Agreement. Any voluntary or mandatory permanent reduction or termination of the revolving commitments under the ABL Facility is subject to a prepayment premium applicable to such reduced or terminated amount equal to (i) 3.0% through December 23, 2017, (ii) 2.0% from December 24, 2017 through December 23, 2018 and (iii) 0.75% at any time thereafter.

The ABL Credit Agreement contains certain negative covenants that restrict our ability to take certain actions as specified in the ABL Credit Agreement and an affirmative covenant that we maintain net revenue at or above minimum levels and maintain liquidity in the United States at a level specified in the ABL Credit Agreement, subject to certain exceptions. All of the obligations under the ABL Facility are guaranteed jointly and severally by Wright Medical Group N.V. and each of the Borrowers on the terms set forth in the ABL Credit Agreement. Subject to certain exceptions set forth in the ABL Credit Agreement, amounts outstanding under the ABL Facility are secured by a senior first priority security interest in substantially all existing and after-acquired assets of Wright Medical Group N.V. and each Borrower. As of June 25, 2017, we were in compliance with all covenants under the ABL Credit Agreement.

Mortgages and Shareholder Debt

We have mortgages that had an outstanding balance of $2.5 million at June 25, 2017 and December 25, 2016. The majority of this debt is mortgages that were acquired as a result of the Wright/Tornier merger. These mortgages are secured by an office building in Montbonnot, France and bear fixed annual interest rates of 2.55%-4.9%.

The shareholder debt acquired was the result of a 2008 transaction where a 51%-owned and consolidated subsidiary of legacy Tornier borrowed $2.2 million from a then-current member of the legacy Tornier board of directors, who was also a 49% owner of the consolidated subsidiary. This loan was used to partially fund the purchase of real estate in Grenoble, France, to be used as a manufacturing facility. Interest on the debt is variable-based on the three-month Euro Libor rate plus 0.5% and has no stated term. The outstanding balance on this debt was $1.7 million as of June 25, 2017 and $1.8 million as of December 25, 2016.

9. Accumulated Other Comprehensive Income (AOCI)

Other comprehensive income (loss) (OCI) includes certain gains and losses that under US GAAP are included in comprehensive income (loss) but are excluded from net income (loss) as these amounts are initially recorded as an adjustment to shareholders' equity. Amounts in OCI may be reclassified to net income (loss) upon the occurrence of certain events.

For the six months ended June 25, 2017 and June 26, 2016, OCI was comprised solely of foreign currency translation adjustments.

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Changes in AOCI for the six months ended June 25, 2017 and June 26, 2016 were as follows (in thousands):

| | Six months ended June 25, 2017 Currency translation adjustment |
|---|---|
| Balance at December 25, 2016 | $ (19,461) |
| Other comprehensive income | 19,230 |
| Balance at June 25, 2017 | $ (231) |

| | Six months ended June 26, 2016 Currency translation adjustment |
|---|---|
| Balance at December 27, 2015 | $ (10,484) |
| Other comprehensive income | 7,283 |
| Balance at June 26, 2016 | $ (3,201) |

10. Changes in Shareholders' Equity

The below table provides an analysis of changes in each balance sheet caption of shareholders' equity for the six months ended June 25, 2017 and June 26, 2016 (in thousands, except share data):

| | Six months ended June 25, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Ordinary shares | | Additional paid-in capital | Accumulated deficit | Accumulated other comprehensive income (loss) | Total shareholders' equity |
| | Number of shares | Amount | | | | |
| Balance at December 25, 2016 | 103,400,995 | $ 3,815 | $ 1,908,749 | $ (1,206,239) | $ (19,461) | $ 686,864 |
| 2017 Activity: | | | | | | |
| Net loss | — | — | — | (99,861) | — | (99,861) |
| Foreign currency translation | — | — | — | — | 19,230 | 19,230 |
| Issuances of ordinary shares | 960,075 | 31 | 19,639 | — | — | 19,670 |
| Vesting of restricted stock units | 374,159 | 13 | (13) | — | — | — |
| Share-based compensation | — | — | 8,722 | — | — | 8,722 |
| Balance at June 25, 2017 | 104,735,229 | $ 3,859 | $ 1,937,097 | $ (1,306,100) | $ (231) | $ 634,625 |

| | Six months ended June 26, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Ordinary shares | | Additional paid-in capital | Accumulated deficit | Accumulated other comprehensive income (loss) | Total shareholders' equity |
| | Number of shares | Amount | | | | |
| Balance at December 27, 2015 | 102,672,678 | $ 3,790 | $ 1,835,586 | $ (773,866) | $ (10,484) | $ 1,055,026 |
| 2016 Activity: | | | | | | |
| Net loss | — | — | — | (277,358) | — | (277,358) |
| Foreign currency translation | — | — | — | — | 7,283 | 7,283 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Issuances of ordinary shares | 37,947 | 1 | 774 | — | — | 775 |
| Vesting of restricted stock units | 263,676 | 9 | (9) | — | — | — |
| Share-based compensation | — | — | 6,331 | — | — | 6,331 |
| Issuance of stock warrants, net of repurchases and equity issuance costs | — | — | 50,312 | — | — | 50,312 |
| Balance at June 26, 2016 | 102,974,301 | $3,800 | $1,892,994 | $(1,051,224) | $ (3,201) | $842,369 |

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11. Capital Stock and Earnings Per Share

We are authorized to issue up to 320 million ordinary shares, each share with a par value of three Euro cents (€0.03). We had 104.7 million and 103.4 million ordinary shares issued and outstanding as of June 25, 2017 and December 25, 2016, respectively.

FASB ASC Topic 260, Earnings Per Share, requires the presentation of basic and diluted earnings per share. Basic earnings per share is calculated based on the weighted-average number of ordinary shares outstanding during the period. Diluted earnings per share is calculated to include any dilutive effect of our ordinary share equivalents. For the three and six months ended June 25, 2017 and June 26, 2016, our ordinary share equivalents consisted of stock options, restricted stock units, and warrants. The dilutive effect of the stock options, restricted stock units, and warrants is calculated using the treasury-stock method.

We had outstanding options to purchase 9.3 million ordinary shares and 0.9 million restricted stock units at June 25, 2017 and options to purchase 9.3 million ordinary shares and 0.7 million restricted stock units at June 26, 2016. We had outstanding net-share settled warrants on the 2020 Notes of 19.6 million ordinary shares at June 25, 2017 and June 26, 2016. We also had net-share settled warrants on the 2021 Notes of 18.5 million ordinary shares at June 25, 2017.

None of the options, restricted stock units, or warrants were included in diluted earnings per share for the three and six months ended June 25, 2017 or June 26, 2016 because we recorded a net loss for all periods; and therefore, including these instruments would be anti-dilutive.

The weighted-average number of ordinary shares outstanding for basic and diluted earnings per share purposes is as follows (in thousands):

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | June 25, 2017 | June 26, 2016 | June 25, 2017 | June 26, 2016 |
| Weighted-average number of ordinary shares outstanding-basic and diluted | 104,377 | 102,785 | 104,020 | 102,745 |

12. Commitments and Contingencies

Legal Contingencies

The legal contingencies described in this footnote relate primarily to Wright Medical Technology, Inc. (WMT), an indirect subsidiary of Wright Medical Group N.V., and are not necessarily applicable to Wright Medical Group N.V. or other affiliated entities. Maintaining separate legal entities within our corporate structure is intended to ring-fence liabilities. We believe our ring-fenced structure should preclude corporate veil-piercing efforts against entities whose assets are not associated with particular claims.

As described below, our business is subject to various contingencies, including patent and other litigation, product liability claims, and a government inquiry. These contingencies could result in losses, including damages, fines, or penalties, any of which could be substantial, as well as criminal charges. Although such matters are inherently unpredictable, and negative outcomes or verdicts can occur, we believe we have significant defenses in all of them, and are vigorously defending all of them. However, we could incur judgments, pay settlements, or revise our expectations regarding the outcome of any matter. Such developments, if any, could have a material adverse effect on our results of operations in the period in which applicable amounts are accrued, or on our cash flows in the period in which amounts are paid, however, unless otherwise indicated, we do not believe any of them will have a material adverse effect on our financial position.

Our legal contingencies are subject to significant uncertainties and, therefore, determining the likelihood of a loss or the measurement of a loss can be complex. We have accrued for losses that are both probable and reasonably estimable. Unless otherwise indicated, we are unable to estimate the range of reasonably possible loss in excess of amounts accrued. Our assessment process relies on estimates and assumptions that may prove to be incomplete or

inaccurate. Unanticipated events and circumstances may occur that could cause us to change our estimates and assumptions.

Governmental Inquiries

On August 3, 2012, we received a subpoena from the United States Attorney's Office for the Western District of Tennessee requesting records and documentation relating to our PROFEMUR® series of hip replacement devices. The subpoena covers the period from January 1, 2000 to August 2, 2012. We continue to cooperate with the investigation.

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Patent Litigation

In June 2013, Anglefix, LLC filed suit in the United States District Court for the Western District of Tennessee, alleging that our ORTHOLOC® products infringe Anglefix's asserted patent. On April 14, 2014, we filed a request for Inter Partes Review (IPR) with the U.S. Patent and Trademark Office. In October 2014, the Court stayed the case pending outcome of the IPR. On June 30, 2015, the Patent Office Board entered judgment in our favor as to all patent claims at issue in the IPR. Following the conclusion of the IPR, the District Court lifted the stay, and we have been continuing with our defense as to remaining patent claims asserted by Anglefix. On June 27, 2016, the Court granted in part our motion for summary judgment on Anglefix's lack of standing and gave Anglefix 30 days to join the University of North Carolina (UNC) as a co-plaintiff in the lawsuit. On July 25, 2016, Anglefix filed a motion asking the Court to accept a waiver of claims by UNC as a substitute for joining UNC as a co-plaintiff in the lawsuit. The Court denied Anglefix's motion, but granted leave for additional time to properly join UNC as co-plaintiff. Anglefix moved to add UNC as co-plaintiff on September 15, 2016. We opposed the motion and, on November 15, 2016, the Court allowed the motion, and subsequently directed Anglefix and UNC to file an amended complaint by January 18, 2017. On February 1, 2017, we filed a motion to dismiss the amended complaint filed by Anglefix and UNC. We have also filed motions for summary judgment of non-infringement and invalidity of the remaining patent claims asserted by Anglefix and a motion to exclude testimony by Anglefix's technical expert. Anglefix has filed a motion for summary judgment of infringement of certain of the remaining asserted patent claims. The Court heard oral argument on those motions on January 31, 2017. On July 12, 2017, the Court struck opinions from plaintiffs' technical expert witness that were contrary to the Court's claim construction. On July 13, 2017, the Court denied plaintiffs' motion for summary judgment of infringement, and granted our motion for summary judgment of noninfringement as to the asserted apparatus claims. The Court denied our motion as to the asserted method claims based on the perceived possible existence of a fact issue. The Court also denied our motion to dismiss the amended complaint and our motion for summary judgment of invalidity. In the wake of the Court's rulings, on July 28, 2017, plaintiffs Anglefix and UNC stipulated to dismissal of their claims against us with prejudice. On the same date, the Court entered judgment dismissing plaintiffs' claims against us with prejudice, thereby ending the case.

On September 23, 2014, Spineology filed a patent infringement lawsuit, Case No. 0:14-cv-03767, in the U.S. District Court in Minnesota, alleging that our X-REAM® bone reamer infringes U.S. Patent No. RE42,757 entitled "EXPANDABLE REAMER." In January 2015, on the deadline for service of its complaint, Spineology dismissed its complaint without prejudice and filed a new, identical complaint. We filed an answer to the new complaint with the Court on April 27, 2015. The Court conducted a Markman hearing on March 23, 2016. Mediation was held on August 11, 2016, but no agreement could be reached. The Court issued a Markman decision on August 30, 2016, in which it found all asserted product claims invalid as indefinite under applicable patent laws and construed several additional claim terms. The parties have completed fact and expert discovery with respect to the remaining asserted method claims. We have filed a motion for summary judgment of non-infringement of the remaining asserted patent claims and motions to exclude testimony from Spineology's technical and damages experts. Spineology has filed a motion for summary judgment of infringement. On July 25, 2017, the Court granted our motion for summary judgment of non-infringement; denied Spineology's motion for summary judgment of infringement; and denied all remaining motions as moot. The Court also entered judgment in our favor and against Spineology on all issues, thereby ending that case.

On September 13, 2016, we filed a civil action, Case No. 2:16-cv-02737-JPM, against Spineology in the U.S. District Court for the Western District of Tennessee alleging breach of contract, breach of implied warranty against infringement, and seeking a judicial declaration of indemnification from Spineology for patent infringement claims brought against us stemming from our sale and/or use of certain expandable reamers purchased from Spineology. Spineology filed a motion to dismiss on October 17, 2016, but withdrew the motion on November 28, 2016. On December 7, 2016, Spineology filed an answer to our complaint and counterclaims, including counterclaims relating

to a 2004 non-disclosure agreement between Spineology and WMT. On December 28, 2016, we filed a motion to dismiss the counterclaims relating to that 2004 agreement. On January 4, 2017, Spineology filed a motion for summary judgment on certain claims set forth in our complaint. We have opposed that motion. On January 27, 2017, we filed a motion for summary judgment on certain issues pertaining to our indemnification claims. Spineology has opposed that motion. On July 7, 2017, the Court extended the deadlines for completing discovery until after it rules on those pending motions.

On March 1, 2016, Musculoskeletal Transplant Foundation (MTF) filed suit against Solana and WMT in the United States District Court for the District of New Jersey alleging that the TenFUSE PIP product infringes U.S. Patent No. 6,432,436 entitled “Partially Demineralized Cortical Bone Constructs.” On May 25, 2016, we agreed to waive service of MTF’s complaint. Following a series of court-ordered extensions of time, we filed our answer to MTF’s complaint and counterclaims on December 5, 2016. In the first quarter of 2017, we entered into a settlement agreement with MTF to settle the litigation for an immaterial amount. As a result, the litigation has been dismissed with prejudice.

In August 2016, we received a letter from KFx Medical Corporation (KFx) alleging that a legacy Tornier product (the Piton Suture Anchor) infringes one of KFx’s patents when used in knotless double row tissue fixation techniques. On April 6, 2017, we filed

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a declaratory judgment action in the United States District Court for the District of Delaware, Case No. 1:17-cv-00384, seeking declaratory judgment of non-infringement and invalidity of United States Patent Nos. 7,585,311; 8,100,942; and 8,109,969. On April 20, 2017, KFx filed an answer and counterclaim alleging we indirectly infringe, and induce infringement of, these patents.

Product Liability

We have received claims for personal injury against us associated with fractures of our PROFEMUR® long titanium modular neck product (PROFEMUR® Claims). As of June 25, 2017 there were approximately 30 pending U.S. lawsuits and approximately 60 pending non-U.S. lawsuits alleging such claims. The overall fracture rate for the product is low and the fractures appear, at least in part, to relate to patient demographics. Beginning in 2009, we began offering a cobalt-chrome version of our PROFEMUR® modular neck, which has greater strength characteristics than the alternative titanium version. Historically, we have reflected our liability for these claims as part of our standard product liability accruals on a case-by-case basis. However, during the quarter ended September 30, 2011, as a result of an increase in the number and monetary amount of these claims, management estimated our liability to patients in the United States and Canada who have previously required a revision following a fracture of a PROFEMUR® long titanium modular neck, or who may require a revision in the future. Management has estimated that this aggregate liability ranges from approximately $23.2 million to $26.6 million. Any claims associated with this product outside of the United States and Canada, or for any other products, will be managed as part of our standard product liability accrual methodology on a case-by-case basis.

Due to the uncertainty within our aggregate range of loss resulting from the estimation of the number of claims and related monetary payments, we have recorded a liability of $23.2 million, which represents the low-end of our estimated aggregate range of loss. We have classified $13.2 million of this liability as current in “Accrued expenses and other current liabilities,” as we expect to pay such claims within the next twelve months, and $10.0 million as non-current in “Other liabilities” on our consolidated balance sheet. We expect to pay the majority of these claims within the next three years.

We are aware that MicroPort has recalled certain sizes of its cobalt chrome modular neck products as a result of alleged fractures. As of June 25, 2017, there were five pending U.S. lawsuits and seven pending non-U.S. lawsuits against us alleging personal injury resulting from the fracture of a cobalt chrome modular neck. These claims will be managed as part of our standard product liability accrual methodology on a case-by-case basis.

We have maintained product liability insurance coverage on a claims-made basis. During the quarter ended March 31, 2013, we received a customary reservation of rights from our primary product liability insurance carrier asserting that present and future claims related to fractures of our PROFEMUR® titanium modular neck hip products and which allege certain types of injury (Titanium Modular Neck Claims) would be covered as a single occurrence under the policy year the first such claim was asserted. The effect of this coverage position would be to place Titanium Modular Neck Claims into a single prior policy year in which applicable claims-made coverage was available, subject to the overall policy limits then in effect. Management agrees with the assertion that the Titanium Modular Neck Claims should be treated as a single occurrence, but notified the carrier that it disputed the carrier's selection of available policy years. During the second quarter of 2013, we received confirmation from the primary carrier confirming their agreement with our policy year determination. Based on our insurer's treatment of Titanium Modular Neck Claims as a single occurrence, we increased our estimate of the total probable insurance recovery related to Titanium Modular Neck Claims by $19.4 million, and recognized such additional recovery as a reduction to our selling, general and administrative expenses for the three months ended March 31, 2013, within results of discontinued operations. In the quarter ended June 30, 2013, we received payment from the primary insurance carrier of $5 million. In the quarter ended September 30, 2013, we received payment of $10 million from the next insurance carrier in the tower. We have requested, but not yet received, payment of the remaining $25 million from the third insurance carrier in the tower for that policy period. The policies with the second and third carrier in this tower are “follow form” policies and

management believes the third carrier should follow the coverage position taken by the primary and secondary carriers. On September 29, 2015, that third carrier asserted that the terms and conditions identified in its reservation of rights will preclude coverage for the Titanium Modular Neck Claims. We strongly dispute the carrier's position and, in accordance with the dispute resolution provisions of the policy, have initiated an arbitration proceeding in London, England seeking payment of these funds. Pursuant to applicable accounting standards, we reduced our insurance receivable balance for this claim to $0, and recorded a $25 million charge within "Net loss from discontinued operations" during the year ended December 27, 2015. The arbitration proceeding is ongoing.

Claims for personal injury have also been made against us associated with our metal-on-metal hip products (primarily our CONSERVE® product line). The pre-trial management of certain of these claims has been consolidated in the federal court system, in the United States District Court for the Northern District of Georgia under multi-district litigation (MDL) and certain other claims by the Judicial Counsel Coordinated Proceedings (JCCP) in state court in Los Angeles County, California (collectively the Consolidated Metal-on-Metal Claims).

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As of June 25, 2017, there were approximately 1,300 lawsuits pending in the MDL and JCCP, and an additional 50 cases pending in various state courts. As of that date, we have also entered into approximately 1,000 so called "tolling agreements" with potential claimants who have not yet filed suit. The number of lawsuits pending in the MDL and JCCP and tolling agreements disclosed above includes the claims that have been resolved pursuant to the Master Settlement Agreement discussed below. Based on presently available information, we believe at least 350 of these lawsuits allege claims involving bilateral implants. As of June 25, 2017, there were also approximately 50 non-U.S. lawsuits pending. We believe we have data that supports the efficacy and safety of our metal-on-metal hip products. Every metal-on-metal hip case involves fundamental issues of law, science and medicine that often are uncertain, that continue to evolve, and which present contested facts and issues that can differ significantly from case to case. Such contested facts and issues include medical causation, individual patient characteristics, surgery specific factors, statutes of limitation, and the existence of actual, provable injury.

The first bellwether trial in the MDL commenced on November 9, 2015 in Atlanta, Georgia. On November 24, 2015, the jury returned a verdict in favor of the plaintiff and awarded the plaintiff $1 million in compensatory damages and $10 million in punitive damages. We believe there were significant trial irregularities and vigorously contested the trial result. On December 28, 2015, we filed a post-trial motion for judgment as a matter of law or, in the alternative, for a new trial or a reduction of damages awarded. On April 5, 2016, the trial judge issued an order reducing the punitive damage award from $10 million to $1.1 million, but otherwise denied our motion. On May 4, 2016, we filed a notice of appeal with the United States Court of Appeals for the Eleventh Circuit. The United States Court of Appeals for the Eleventh Circuit heard oral arguments on January 26, 2017 and on March 20, 2017, the Eleventh Circuit Court of Appeals upheld the lower court’s verdict. On April 10, 2017, we filed a petition for rehearing en banc or for panel rehearing, which was denied. In light of this denial, we elected to forego a further appeal and paid the judgment in July 2017.

The first bellwether trial in the JCCP, which was scheduled to commence on October 31, 2016, and subsequently rescheduled to January 9, 2017, was settled for an immaterial amount.

The first state court metal-on-metal hip trial not part of the MDL or JCCP commenced on October 24, 2016, in St. Louis, Missouri. On November 3, 2016, the jury returned a verdict in our favor. The plaintiff has appealed.

On November 1, 2016, WMT entered into a Master Settlement Agreement (MSA) with Court-appointed attorneys representing plaintiffs in the MDL and JCCP. Under the terms of the MSA, the parties agreed to settle 1,292 specifically identified claims associated with CONSERVE®, DYNASTY® and LINEAGE® products that meet the eligibility requirements of the MSA and are either pending in the MDL or JCCP, or subject to court-approved tolling agreements in the MDL or JCCP, for a settlement amount of $240 million.

The $240 million settlement amount is a maximum settlement based on the pool of 1,292 specific, existing claims comprised of an identified mix of CONSERVE®, DYNASTY® and LINEAGE® products (Initial Settlement Pool), with a value assigned to each product type, resulting in a total settlement of $240 million for the 1,292 claims in the Initial Settlement Pool. The actual settlement may be less, depending on several factors including the mix of products and claimants in the final settlement pool (Final Settlement Pool) and the number of claimants electing to “opt-out” of the settlement.

Actual settlements paid to individual claimants will be determined under the claims administration procedures contained in the MSA and may be more or less than the amounts used to calculate the $240 million settlement for the 1,292 claims in the Initial Settlement Pool. However in no event will variations in actual settlement amounts payable to individual claimants affect WMT’s maximum settlement obligation of $240 million or the manner in which it may be reduced due to opt outs, final product mix, or elimination of ineligible claims.

If it is determined a claim in the Initial Settlement Pool is ineligible due to failure to meet the eligibility criteria of the MSA, such claim will be removed and, where possible, replaced with a new eligible claim involving the same product, with the goal of having the number and mix of claims in the Final Settlement Pool (before opt-outs) equal, as

nearly as possible, the number and mix of claims in the Initial Settlement Pool. Additionally, if any DYNASTY® or LINEAGE® claims in the Final Settlement Pool are determined to have been misidentified as CONSERVE® claims, or vice versa, the total settlement amount will be adjusted based on the value for each product type (not to exceed $240 million).

The MSA contains specific eligibility requirements and establishes procedures for proof and administration of claims, negotiation and execution of individual settlement agreements, determination of the final total settlement amount, and funding of individual settlement amounts by WMT. Eligibility requirements include, without limitation, that the claimant has a claim pending or tolled in the MDL or JCCP, that the claimant has undergone a revision surgery within eight years of the original implantation surgery,

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and that the claim has not been identified by WMT as having possible statute of limitation issues. Claimants who have had bilateral revision surgeries will be counted as two claims but only to the extent both claims separately satisfy all eligibility criteria.

The MSA includes a 95% opt-in requirement, meaning the MSA could have been terminated by WMT prior to any settlement disbursement if claimants holding greater than 5% of eligible claims in the Final Settlement Pool elected to "opt-out" of the settlement. WMT has confirmed that of the 1,292 eligible claims, 1,279 opted to participate in the settlement and 13 opted out, resulting in a final opt-in percentage of approximately 99%, well in excess of the required 95% threshold. On March 2, 2017, WMT agreed to replace the 13 opt-out claims with 13 additional claims that would have been eligible to participate in the MSA but for the 1,292 claim limit, bringing the total MSA settlement to the maximum limit of $240 million to settle 1,292 claims. Due to apparent demand from additional claimants excluded from settlement because of the 1,292 claim ceiling, but otherwise eligible for participation, on May 15, 2017 WMT agreed to settle an additional 53 such claims, on terms substantially identical to the MSA settlement terms, for a maximum additional settlement amount of $9.4 million.

WMT has escrowed $150 million to secure its obligations under the MSA. As additional security, Wright Medical Group N.V., the indirect parent company of WMT, agreed to guarantee WMT's obligations under the MSA.

The MSA (which reference includes the supplemental settlements described above) was entered into solely as a compromise of the disputed claims being settled and is not evidence that any claim has merit nor is it an admission of wrongdoing or liability by WMT. WMT will continue to vigorously defend metal-on-metal hip claims not settled pursuant to the MSA, although mediation efforts continue. As of June 25, 2017, we estimate there were approximately 800 outstanding metal-on-metal hip revision claims that would not be included in the MSA settlement, including approximately 250 claims with an implant duration of more than eight years, approximately 300 claims subject to possible statute of limitations preclusion, approximately 50 claims pending in U.S courts other than the MDL and JCCP, approximately 50 claims pending in non-U.S. courts, and approximately 150 claims (inclusive of the 53 claims referred to above) that would be eligible for inclusion in the settlement but for the participation limitations contained in the MSA. We also estimate that there were approximately 650 outstanding metal-on-metal hip non-revision claims as of June 25, 2017. These non-revision cases are excluded from the MSA.

As of June 25, 2017, our accrual for metal-on-metal claims totaled $271.4 million, of which $252.5 million is included in our condensed consolidated balance sheet within "Accrued expenses and other current liabilities" and $18.9 million is included within "Other liabilities." Our accrual is based on (i) case by case accruals for specific cases where facts and circumstances warrant, including the $2.1 million accrual associated with the MDL bellwether verdict (which has since been paid), and (ii) the implied settlement values for eligible claims under the MSA. We are unable to reasonably estimate the high-end of a possible range of loss for claims which elected to opt-out of the MSA settlement. Claims we can confirm would meet MSA eligibility criteria but are excluded from settlement due to the $240 million maximum settlement cap, or because they are state cases not part of the MDL or JCCP, have been accrued as though included in the settlement. Due to the general uncertainties surrounding all metal-on metal claims as noted above, as well as insufficient information about individual claims, we are presently unable to reasonably estimate a range of loss for revision claims that (i) do not meet MSA eligibility criteria, or (ii) are future claims; hence we have not accrued for these claims at the present time.

The parties continue to mediate unresolved claims, which include claims that do not meet MSA eligibility criteria. In connection with these efforts, we have discussed with the Court-appointed attorneys representing the remaining plaintiffs in the MDL and JCCP a proposed resolution of substantially all remaining revision claims, subject to timely receipt of insurance proceeds and other contingencies. Although negotiations continue, a resolution of such revision claims, including the timely receipt of insurance proceeds, as well as the satisfaction of other contingencies, is not probable as of the date of this filing. We continue to believe the high-end of a possible range of loss for existing revision claims that do not meet MSA eligibility criteria will not, on an average per case basis, exceed the average per

case accrual we take for revision claims we can confirm do meet MSA eligibility criteria. Future claims will be evaluated for accrual on a case by case basis using the accrual methodologies described above (which could change if future facts and circumstances warrant).

We have maintained product liability insurance coverage on a claims-made basis. During the quarter ended September 30, 2012, we received a customary reservation of rights from our primary product liability insurance carrier asserting that certain present and future claims which allege certain types of injury related to our CONSERVE® metal-on-metal hip products (CONSERVE® Claims) would be covered as a single occurrence under the policy year the first such claim was asserted. The effect of this coverage position would be to place CONSERVE® Claims into a single prior policy year in which applicable claims-made coverage was available, subject to the overall policy limits then in effect. Management agrees that there is insurance coverage for the CONSERVE® Claims, but has notified the carrier that it disputes the carrier's characterization of the CONSERVE® Claims as a single occurrence.

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(UNAUDITED)

In June 2014, St. Paul Surplus Lines Insurance Company (Travelers), which was an excess carrier in our coverage towers across multiple policy years, filed a declaratory judgment action in Tennessee state court naming us and certain of our other insurance carriers as defendants and asking the court to rule on the rights and responsibilities of the parties with regard to the CONSERVE® Claims. Among other things, Travelers appeared to dispute our contention that the CONSERVE® Claims arise out of more than a single occurrence thereby triggering multiple policy periods of coverage. Travelers further sought a determination as to the applicable policy period triggered by the alleged single occurrence. We filed a separate lawsuit in state court in California for declaratory judgment against certain carriers and breach of contract against the primary carrier, and moved to dismiss or stay the Tennessee action on a number of grounds, including that California is the most appropriate jurisdiction. During the third quarter of 2014, the California Court granted Travelers' motion to stay our California action. On April 29, 2016, we filed a dispositive motion seeking partial judgment in our favor in the Tennessee action. That motion is pending and is scheduled for oral argument on June 23, 2017, after the parties complete discovery regarding certain issues relating to the pending motion. On June 10, 2016, Travelers withdrew its motion for summary judgment in the Tennessee action. One of the other insurance companies in the Tennessee action has stated that it will re-file a similar motion in the future.

On October 28, 2016, WMT and Wright Medical Group, Inc. (Wright Entities), entered into a Settlement Agreement, Indemnity and Hold Harmless Agreement and Policy Buyback Agreement (Insurance Settlement Agreement) with a subgroup of three insurance carriers, namely Columbia Casualty Company, Travelers and AXIS Surplus Lines Insurance Company (collectively, the Three Settling Insurers), pursuant to which the Three Settling Insurers paid WMT an aggregate of $60 million (in addition to $10 million previously paid by Columbia) in a lump sum. This amount is in full satisfaction of all potential liability of the Three Settling Insurers relating to metal-on-metal hip and similar metal ion release claims, including but not limited to all claims in the MDL and the JCCP, and all claims asserted by WMT against the Three Settling Insurers in the Tennessee action described above.

On December 13, 2016, we filed a motion in the Tennessee action described above to include allegations of bad faith against the primary insurance carrier. The motion was subsequently amended on February 8, 2017 to add similar bad faith claims against the remaining excess carriers. On April 13, 2017, the court denied our motion, without prejudice to our right to re-assert the motion at a later time. As part of the settlement, the Three Settling Insurers bought back from WMT their policies in the five policy years beginning with the August 15, 2007- August 15, 2008 policy year (Repurchased Policy Years). Consequently, the Wright Entities have no further coverage from the Three Settling Insurers for any present or future claims falling in the Repurchased Policy Years, or any other period in which a released claim is asserted. Additionally, the Insurance Settlement Agreement contains a so-called most favored nation provision which could require us to refund a pro rata portion of the settlement amount if we voluntarily enter into a settlement with the remaining carriers in the Repurchased Policy Years on certain terms more favorable than analogous terms in the Insurance Settlement Agreement. The Tennessee action will continue as to the remaining defendant insurers other than the Three Settling Insurers. The amount due to the Wright Entities under the Insurance Settlement Agreement was paid in the fourth quarter of 2016 and the Three Settling Insurers have been dismissed from the Tennessee action.

Management has recorded an insurance receivable of $7.4 million for the probable recovery of spending from the remaining carriers (other than the Three Settling Carriers) in excess of our retention for a single occurrence. As of June 25, 2017, we have received $71.7 million of insurance proceeds, and our insurance carriers have paid a total of $5.9 million directly to claimants in connection with various settlements, which represents amounts undisputed by the carriers. Our acceptance of these proceeds was not a waiver of any other claim we may have against the insurance carriers. However, the amount we ultimately receive will depend on the outcome of our dispute with the remaining carriers (other than the Three Settling Carriers) concerning the number of policy years available. We believe our contracts with the insurance carriers are enforceable for these claims; and, therefore, we believe it is probable we will receive additional recoveries from the remaining carriers. Settlement discussions with the remaining insurance carriers

continue.

Given the substantial or indeterminate amounts sought in these matters, and the inherent unpredictability of such matters, an adverse outcome in these matters in excess of the amounts included in our accrual for contingencies could have a material adverse effect on our financial condition, results of operations and cash flow. Future revisions to our estimates of these provisions could materially impact our results of operations and financial position. We use the best information available to determine the level of accrued product liabilities, and believe our accruals are adequate.

In June 2015, a jury returned a $4.4 million verdict against us in a case involving a fractured hip implant stem sold prior to the MicroPort closing. This was a one-of-a-kind case unrelated to the modular neck fracture cases we have been reporting. There are no other cases pending related to this component, nor are we aware of other instances where this component has fractured. In September 2015, the trial judge reduced the jury verdict to $1.025 million and indicated that if the plaintiff did not accept the reduced award he would schedule a new trial solely on the issue of damages. The plaintiff elected not to accept the reduced damage award, and both parties have appealed. The Court has not set a date for a new trial on the issue of damages and we do not expect it will do so until the appeals are adjudicated. We will maintain our current $4.4 million accrual as a probable liability until the

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matter is resolved. The $4.4 million probable liability associated with this matter is reflected within “Accrued expenses and other current liabilities,” and a $4 million receivable associated with the probable recovery from product liability insurance is reflected within “Other current assets.”

Other

In addition to those noted above, we are subject to various other legal proceedings, product liability claims, corporate governance, and other matters which arise in the ordinary course of business.

13. Restricted Cash

During the fourth quarter of 2016, WMT deposited $150.0 million into a restricted escrow account to secure its obligations under the MSA that WMT entered into in connection with the metal-on-metal hip litigation, as described in Note 12 to the condensed consolidated financial statements. All individual settlements under the MSA will be funded first from the escrow account and then, if all funds held in the escrow account have been exhausted, directly by WMT. Within 30 days of each funding request, unless WMT in good faith objects to the accuracy of any payment request, WMT will instruct the escrow agent to transfer funds from the restricted escrow account to a master account designated by plaintiffs’ counsel, who will then arrange for disbursements of individual settlement amounts. As of June 25, 2017, $150.0 million was in the restricted escrow account, and therefore, considered restricted cash under US GAAP. WMT expects to fund the majority of these settlements during the second half of 2017. See Note 12 to the condensed consolidated financial statements for further discussion regarding the MSA and the metal-on-metal hip litigation.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within our condensed consolidated balance sheets that sum to the totals of the same such amounts shown in the condensed consolidated statements of cash flows (in thousands):

| | June 25, 2017 | December 25, 2016 |
|---|---|---|
| Cash and cash equivalents | $228,877 | $ 262,265 |
| Restricted cash | 150,018 | 150,000 |
| Total cash, cash equivalents, and restricted cash shown in the condensed consolidated statements of cash flows | $378,895 | $ 412,265 |

14. Segment Information

Our management, including our Chief Executive Officer, who is our chief operating decision maker, manages our operations as three operating business segments: U.S. Lower Extremities & Biologics, U.S. Upper Extremities, and International Extremities & Biologics. We determined that each of these operating segments represented a reportable segment. Our Chief Executive Officer reviews financial information at the operating segment level to allocate resources and to assess the operating results and performance of each segment.

Our U.S. Lower Extremities & Biologics segment consists of our operations focused on the sale in the United States of our lower extremities products, such as joint implants and bone fixation devices for the foot and ankle, and our biologics products used to support treatment of damaged or diseased bone, tendons, and soft tissues or to stimulate bone growth. Our U.S. Upper Extremities segment consists of our operations focused on the sale in the United States of our upper extremities products, such as joint implants and bone fixation devices for the shoulder, elbow, wrist, and hand, and products used across several anatomic sites to mechanically repair tissue-to-tissue or tissue-to-bone injuries and other ancillary products. Our International Extremities and Biologics segment consists of our operations focused on the sale outside the United States of all lower and upper extremities products, including associated biologics products.

Management measures segment profitability using an internal operating performance measure that excludes the impact of inventory step-up amortization and transaction and transition costs associated with acquisitions, as such

items are not considered representative of segment results. We have determined that each reportable segment represents a reporting unit and, in accordance with ASC 350, requires an allocation of goodwill to each reporting unit.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(UNAUDITED)

Selected financial information related to our segments is presented below for the three months ended June 25, 2017 and June 26, 2016 (in thousands):

| | Three months ended June 25, 2017 | | | | |
|---|---|---|---|---|---|
| | U.S. Lower Extremities & Biologics | U.S. Upper Extremities | International Extremities & Biologics | Corporate [1] | Total |
| Net sales from external customers | $74,319 | $ 58,616 | $ 46,758 | $— | $179,693 |
| Depreciation expense | 3,014 | 2,534 | 2,710 | 5,420 | 13,678 |
| Amortization expense | — | — | — | 6,999 | 6,999 |
| Segment operating income (loss) | $17,657 | $ 18,879 | $ 886 | $(43,014) | $(5,592) |
| Other: | | | | | |
| Transaction and transition expenses | | | | | 3,201 |
| Operating loss | | | | | (8,793) |
| Interest expense, net | | | | | 18,339 |
| Other income, net | | | | | (6,557) |
| Loss before income taxes | | | | | $(20,575) |

| | Three months ended June 26, 2016 | | | | |
|---|---|---|---|---|---|
| | U.S. Lower Extremities & Biologics | U.S. Upper Extremities | International Extremities & Biologics | Corporate [1] | Total |
| Net sales from external customers | $70,645 | $ 51,228 | $ 48,843 | $— | $170,716 |
| Depreciation expense | 2,874 | 2,671 | 2,634 | 5,091 | 13,270 |
| Amortization expense | — | — | — | 7,484 | 7,484 |
| Segment operating income (loss) | $18,968 | $ 16,849 | $ 2,208 | $(49,610) | $(11,585) |
| Other: | | | | | |
| Inventory step-up amortization | | | | | 10,387 |
| Transaction and transition expenses | | | | | 9,014 |
| Legal settlement | | | | | 1,800 |
| Management changes | | | | | 1,348 |
| Costs associated with new convertible debt | | | | | 234 |
| Operating loss | | | | | (34,368) |
| Interest expense, net | | | | | 13,024 |
| Other income, net | | | | | (2,061) |
| Loss before income taxes | | | | | $(45,331) |

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(UNAUDITED)

Selected financial information related to our segments is presented below for the six months ended June 25, 2017 and June 26, 2016 (in thousands):

| | Six months ended June 25, 2017 | | | | |
|---|---|---|---|---|---|
| | U.S. Lower Extremities & Biologics | U.S. Upper Extremities | International Extremities & Biologics | Corporate [1] | Total |
| Net sales from external customers | $149,313 | $ 115,777 | $ 91,794 | $— | $356,884 |
| Depreciation expense | 6,209 | 4,949 | 5,241 | 10,725 | 27,124 |
| Amortization expense | — | — | — | 14,396 | 14,396 |
| Segment operating income (loss) | $38,482 | $ 36,367 | $ 3,204 | $(90,271) | $(12,218) |
| Other: | | | | | |
| Transaction and transition expenses | | | | | 6,173 |
| Operating loss | | | | | (18,391) |
| Interest expense, net | | | | | 36,534 |
| Other expense, net | | | | | 1,418 |
| Loss before income taxes | | | | | $(56,343) |

| | Six months ended June 26, 2016 | | | | |
|---|---|---|---|---|---|
| | U.S. Lower Extremities & Biologics | U.S. Upper Extremities | International Extremities & Biologics | Corporate [1] | Total |
| Net sales from external customers | $143,905 | $ 102,512 | $ 93,590 | $— | $340,007 |
| Depreciation expense | 5,689 | 5,219 | 5,455 | 9,757 | 26,120 |
| Amortization expense | — | — | — | 13,941 | 13,941 |
| Segment operating income (loss) | $39,833 | $ 34,135 | $ 3,785 | $(98,970) | $(21,217) |
| Other: | | | | | |
| Inventory step-up amortization | | | | | 20,616 |
| Transaction and transition expenses | | | | | 19,847 |
| Legal settlement | | | | | 1,800 |
| Management changes | | | | | 1,348 |
| Costs associated with new convertible debt | | | | | 234 |
| Operating loss | | | | | (65,062) |
| Interest expense, net | | | | | 24,878 |
| Other income, net | | | | | (3,129) |
| Loss before income taxes | | | | | $(86,811) |

[1] The Corporate category primarily reflects general and administrative expenses not specifically associated with the U.S. Lower Extremities & Biologics, U.S. Upper Extremities, and International Extremities & Biologics segments. These non-allocated corporate expenses relate to global administrative expenses that support all segments, including salaries and benefits of certain executive officers and expenses such as: information technology administration and support; corporate headquarters; legal, compliance, and corporate finance functions; insurance; and all share-based compensation.

Our principal geographic regions consist of the United States, EMEA (which includes Europe, the Middle East and Africa), and Other (which principally represents Asia, Australia, Canada, and Latin America). Net sales attributed to each geographic region are based on the location in which the products were sold.

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(UNAUDITED)

Net sales by geographic region are as follows (in thousands):

| Net sales by geographic region: | Three months ended June 25, 2017 | June 26, 2016 |
|---|---|---|
| United States | $132,936 | $121,873 |
| EMEA | 29,599 | 32,192 |
| Other | 17,158 | 16,651 |
| Total | $179,693 | $170,716 |

| Net sales by geographic region: | Six months ended June 25, 2017 | June 26, 2016 |
|---|---|---|
| United States | $265,090 | $246,417 |
| EMEA | 59,810 | 63,347 |
| Other | 31,984 | 30,243 |
| Total | $356,884 | $340,007 |

Assets in the U.S. Upper Extremities, U.S. Lower Extremities & Biologics, and International Extremities & Biologics segments are those assets used exclusively in the operations of each business segment or allocated when used jointly. Assets in the Corporate category are principally cash and cash equivalents, derivative assets, property, plant and equipment associated with our corporate headquarters, assets associated with discontinued operations, product liability insurance receivables, and assets associated with income taxes. Total assets by business segment as of June 25, 2017 and December 25, 2016 are as follows (in thousands):

| | June 25, 2017 | | | | |
|---|---|---|---|---|---|
| | U.S. Lower Extremities & Biologics | U.S. Upper Extremities | International Extremities & Biologics | Corporate | Total |
| Total assets | $469,260 | $ 840,008 | $ 288,261 | $693,942 | $2,291,471 |

| | December 25, 2016 | | | | |
|---|---|---|---|---|---|
| | U.S. Lower Extremities & Biologics | U.S. Upper Extremities | International Extremities & Biologics | Corporate | Total |
| Total assets | $491,531 | $ 845,102 | $ 264,680 | $689,273 | $2,290,586 |

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following management's discussion and analysis of financial condition and results of operations describes the principal factors affecting the results of our operations, financial condition, and changes in financial condition for the three and six months ended June 25, 2017. This discussion should be read in conjunction with the accompanying unaudited condensed consolidated financial statements, our Annual Report on Form 10-K for the year ended December 25, 2016, which includes additional information about our critical accounting policies and practices and risk factors, and "Special Note Regarding Forward-Looking Statements."

Background

On October 1, 2015, we became Wright Medical Group N.V. following the merger of Wright Medical Group, Inc. with Tornier N.V. Because of the structure of the merger and the governance of the combined company immediately post-merger, the merger was accounted for as a "reverse acquisition" under US GAAP, and as such, legacy Wright was considered the acquiring entity for accounting purposes.

On October 21, 2016, pursuant to a binding offer letter dated as of July 8, 2016, we, Corin Orthopaedics Holdings Limited (Corin), and certain other entities related to us entered into a business sale agreement and simultaneously completed and closed the sale of our Large Joints business. The financial results of our Large Joints business, including costs associated with corporate employees and infrastructure transferred as a part of the sale and services we are providing Corin under a transitional services agreement and supply agreement, are reflected within discontinued operations for all periods presented, unless otherwise noted. Further, all assets and associated liabilities transferred to Corin were classified as assets and liabilities held for sale in our consolidated balance sheets for the periods prior to the divestiture.

On January 9, 2014, legacy Wright completed the sale of its hip and knee (OrthoRecon) business to MicroPort Scientific Corporation (MicroPort). The financial results of the OrthoRecon business are reflected within discontinued operations for all periods presented, unless otherwise noted.

All current and historical operating results for the Large Joints and OrthoRecon businesses are reflected within discontinued operations in the condensed consolidated financial statements.

Other than the discontinued operations discussed above, unless otherwise stated, all discussion of assets and liabilities in the notes to the condensed consolidated financial statements and in this section reflects the assets and liabilities held and used in our continuing operations, and all discussion of revenues and expenses reflects those associated with our continuing operations.

References in this section to "we," "our" and "us" refer to Wright Medical Group N.V. and its subsidiaries after the Wright/Tornier merger and Wright Medical Group, Inc. and its subsidiaries before the merger. Our fiscal year runs from the first Monday after the last Sunday of December of a year and ends on the last Sunday of December of the following year. The three and six months ended June 25, 2017 and June 26, 2016 each consisted of thirteen and twenty-six weeks, respectively.

Executive Overview

Company Description. We are a global medical device company focused on extremities and biologics products. We are committed to delivering innovative, value-added solutions improving quality of life for patients worldwide, and are a recognized leader of surgical solutions for the upper extremities (shoulder, elbow, wrist and hand), lower extremities (foot and ankle) and biologics markets, three of the fastest growing segments in orthopaedics. Our product portfolio consists of the following product categories:

- Upper extremities, which include joint implants and bone fixation devices for the shoulder, elbow, wrist, and hand;
- Lower extremities, which include joint implants and bone fixation devices for the foot and ankle;
- Biologics, which include products used to support treatment of damaged or diseased bone, tendons, and soft tissues or to stimulate bone growth; and
- Sports medicine and other, which include products used across several anatomic sites to mechanically repair tissue-to-tissue or tissue-to-bone injuries and other ancillary products

Our global corporate headquarters are located in Amsterdam, the Netherlands. We also have significant operations located in Memphis, Tennessee (U.S. headquarters, research and development, sales and marketing administration,

and administrative activities); Bloomington, Minnesota (upper extremities sales and marketing and warehousing operations); Arlington, Tennessee (manufacturing and warehousing operations); Franklin, Tennessee (manufacturing and warehousing operations); Montbonnot, France (manufacturing and warehousing operations); and Macroom, Ireland (manufacturing). In addition, we have local sales and distribution offices in Canada, Australia, Asia, Latin America, and throughout Europe.

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We promote our products in over 50 countries with principal markets in the United States, Europe, Asia, Canada, Australia, and Latin America. Our products are sold primarily through a network of employee and independent sales representatives in the United States and by a combination of employee sales representatives, independent sales representatives, and stocking distributors outside the United States.

Principal Products. We have focused our efforts into growing our position in the high-growth extremities and biologics markets. We believe a more active and aging patient population with higher expectations regarding "quality of life," an increasing global awareness of extremities and biologics solutions, improved clinical outcomes as a result of the use of such products, and technological advances resulting in specific designs for such products that simplify procedures and address unmet needs for early interventions, and the growing need for revisions and revision related solutions will drive the market for extremities and biologics products.

Our principal upper extremities products include the AEQUALIS ASCEND® and SIMPLICITI® total shoulder replacement systems, the AEQUALIS® REVERSED II™ reversed shoulder system, and the AEQUALIS ASCEND® FLEX™ convertible shoulder system. SIMPLICITI® is the first minimally invasive, ultra-short stem total shoulder available in the United States. In December 2016, we received FDA 510(k) clearance of our AEQUALIS® PERFORM™ REVERSED Glenoid System, our first reverse augmented glenoid, and we commercially launched it during the first quarter of 2017. We continue to release new options for our BluePrint 3D Planning software.

Our principal lower extremities products include the INBONE® and INFINITY® Total Ankle Replacement Systems. In July 2017, we commercially launched our most recent total ankle replacement product, the INVISION™ Total Ankle Revision System, the ORTHOLOC 3Di Ankle Fracture Low Profile System and the MICA™ Minimally-Invasive Foot and Ankle System. We also plan to launch line extensions for our SALVATION Limb Salvage System in the second half of 2017.

Our biologic products include AUGMENT® Bone Graft, which is based on recombinant human platelet-derived growth factor (rhPDGF-BB), a synthetic copy of one of the body's principal healing agents. FDA approval of AUGMENT® Bone Graft in the United States for ankle and/or hindfoot fusion indications occurred during the third quarter of 2015, and we continue to roll out this product and work through Value Analysis Committee approvals. We are currently pursuing FDA approval of AUGMENT® Injectable Bone Graft with a Pre-Market Application (PMA) Panel Track Supplement. This does not necessarily result in a panel meeting, but it affords the FDA additional time to review the submission beyond 180 days.

Significant Quarterly Business Developments. During the first half of 2017, we selectively expanded our U.S. sales force by adding additional direct quota-carrying representatives, primarily weighted towards the lower extremities business. Of these new direct quota-carrying representatives, most of them were current associate sales representatives that moved up to be quota-carrying representatives.

During 2017, we intend to transfer our U.S. upper extremities inventory into a hub network, similar to how we operate our U.S. lower extremities inventory. We believe this will enable us to have more control and visibility over the performance of our field inventory and instrument sets, resulting in an increase in our set turns and a reduction in our field inventory days on hand and improve sales representative productivity. We made progress on this key initiative during the first half of 2017 and as of the end of the second quarter of 2017, we have moved approximately half of the U.S. upper extremities direct sales districts into the hubs. We also made progress during second quarter of 2017 on our key initiative to reduce the amount of inventory delivered for surgery.

Financial Highlights. Net sales increased 5.3% totaling $179.7 million in the second quarter of 2017, compared to $170.7 million in the second quarter of 2016, driven primarily by 9% growth in our U.S. net sales.

Our U.S. net sales increased $11.1 million, or 9%, in the second quarter of 2017 as compared to the second quarter of 2016, driven primarily by the continued success of the SIMPLICITI® shoulder system, our AUGMENT® Bone Graft product, and our INFINITY® total ankle replacement system.

Our international net sales decreased $2.1 million, or 4%, in the second quarter of 2017 as compared to the second quarter of 2016, as 9% growth in our direct markets was offset by a $1.8 million unfavorable impact from foreign currency exchange rates.

In the second quarter of 2017, our net loss from continuing operations totaled $21.0 million, compared to a net loss from continuing operations of $42.0 million for the second quarter of 2016. This decrease in net loss from continuing

operations was primarily driven by the following:

- $8.3 million, net of tax, decrease in non-cash amortization of inventory step-up fair value adjustment associated with the Wright/Tornier merger;
- $5.8 million decrease in transaction and transition expenses;
- $4.5 million increase in other income, primarily driven by changes in fair value adjustments associated with derivative assets and liabilities and the CVRs issued in the BioMimetic acquisition, as well as 2016 write-offs of unamortized debt

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discount and deferred financing charges associated with the portion of the 2017 Notes and 2020 Notes that were extinguished; and

- improved profitability due to manufacturing efficiencies and leverage of fixed corporate spending

The favorable changes in net loss from continuing operations were partially offset by:

- $5.3 million of incremental interest expense, due to non-cash interest expense associated with the amortization of the discount on the 2021 Notes that were issued in the second quarter of 2016 and cash interest expense associated with the borrowings under our asset-based line of credit facility (ABL Facility) established in the fourth quarter of 2016.

Opportunities and Challenges. We intend to continue to leverage the global strengths of both our legacy Wright and legacy Tornier product brands as a pure-play extremities and biologics business. We believe our leadership has been and will continue to be further enhanced by the FDA approval of AUGMENT® Bone Graft, a biologic solution that adds additional depth to one of the most comprehensive extremities product portfolios in the industry, as well as provides a platform technology for future new product development. We believe the highly complementary nature of legacy Wright's and legacy Tornier's businesses gives significant diversity and scale across a range of geographies and product categories. We believe we are differentiated in the marketplace by our strategic focus on extremities and biologics, our full portfolio of upper and lower extremities and biologics products, and our specialized and focused sales organization.

We are highly focused on ensuring that no business momentum is lost as we continue to integrate legacy Wright and legacy Tornier. Since the merger, we have completed the integration of our global sales force, co-located and consolidated into one enterprise resource planning (ERP) system in three of our top five international markets and completed a substantial number of other integration activities, while incurring more cost synergies earlier and less sales dis-synergies than we originally anticipated. Although we recognize that we will continue to have revenue dis-synergies during the remaining integration period, we believe we have an excellent opportunity to improve efficiency and leverage fixed costs in our business going forward and capture cost synergies. We also believe we have significant opportunity at the same time to advance certain balance sheet initiatives, such as improving our inventory, instrument set utilization, and days sales outstanding (DSO).

While our ultimate financial goal is to achieve sustained profitability, we anticipate continuing operating losses until we are able to grow our sales to a sufficient level to support our cost structure, including the inherent infrastructure costs of our industry. In the short term, we remain keenly focused on our revenue and cash initiatives.

Significant Industry Factors. Our industry is affected by numerous competitive, regulatory, and other significant factors. The growth of our business relies on our ability to continue to develop new products and innovative technologies, obtain regulatory clearance and maintain compliance for our products, protect the proprietary technology of our products and our manufacturing processes, manufacture our products cost-effectively, respond to competitive pressures specific to each of our geographic markets, including our ability to enforce non-compete agreements, and successfully market and distribute our products in a profitable manner. We, and the entire industry, are subject to extensive governmental regulation, primarily by the FDA. Failure to comply with regulatory requirements could have a material adverse effect on our business, operating results, and financial condition. We, as well as other participants in our industry, are subject to product liability claims, which could have a material adverse effect on our business, operating results, and financial condition.

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Results of Operations

Comparison of the three months ended June 25, 2017 to the three months ended June 26, 2016

The following table sets forth, for the periods indicated, our results of operations expressed as dollar amounts (in thousands) and as percentages of net sales:

| | Three months ended | | | |
|---|---|---|---|---|
| | June 25, 2017 | | June 26, 2016 | |
| | Amount | % of net sales | Amount | % of net sales |
| Net sales | $179,693 | 100.0 % | $170,716 | 100.0 % |
| Cost of sales [1,2] | 38,122 | 21.2 % | 49,009 | 28.7 % |
| Gross profit | 141,571 | 78.8 % | 121,707 | 71.3 % |
| Operating expenses: | | | | |
| Selling, general and administrative [1] | 130,818 | 72.8 % | 136,483 | 79.9 % |
| Research and development [1] | 12,547 | 7.0 % | 12,108 | 7.1 % |
| Amortization of intangible assets | 6,999 | 3.9 % | 7,484 | 4.4 % |
| Total operating expenses | 150,364 | 83.7 % | 156,075 | 91.4 % |
| Operating loss | (8,793) | (4.9)% | (34,368) | (20.1)% |
| Interest expense, net | 18,339 | 10.2 % | 13,024 | 7.6 % |
| Other income, net | (6,557) | (3.6)% | (2,061) | (1.2)% |
| Loss from continuing operations before income taxes | (20,575) | (11.5)% | (45,331) | (26.6)% |
| Provision (benefit) for income taxes | 385 | 0.2 % | (3,300) | (1.9)% |
| Net loss from continuing operations | $(20,960) | (11.7)% | $(42,031) | (24.6)% |
| Loss from discontinued operations, net of tax | (20,202) | | (187,329) | |
| Net loss | $(41,162) | | $(229,360) | |

[1] These line items include the following amounts of non-cash, share-based compensation expense for the periods indicated:

| | Three months ended | | | |
|---|---|---|---|---|
| | June 25, 2017 | % of net sales | June 26, 2016 | % of net sales |
| Cost of sales | $132 | 0.1% | $ 42 | — % |
| Selling, general and administrative | 4,323 | 2.4% | 2,852 | 1.7% |
| Research and development | 277 | 0.2% | 162 | 0.1% |

[2] Cost of sales includes amortization of inventory step-up adjustment of $10.4 million for the three months ended June 26, 2016.

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The following tables set forth our net sales by product line for the U.S. and International for the periods indicated (in thousands) and the percentage of year-over-year change:

| | Three months ended | | |
|---|---|---|---|
| | June 25, 2017 | June 26, 2016 | % change |
| U.S. | | | |
| Lower extremities | $54,348 | $52,008 | 4.5 % |
| Upper extremities | 57,535 | 49,909 | 15.3 % |
| Biologics | 19,273 | 17,792 | 8.3 % |
| Sports med & other | 1,780 | 2,164 | (17.7)% |
| Total U.S. | $132,936 | $121,873 | 9.1 % |
| | | | |
| International | | | |
| Lower extremities | $14,767 | $16,241 | (9.1 )% |
| Upper extremities | 22,987 | 23,940 | (4.0 )% |
| Biologics | 5,129 | 4,867 | 5.4 % |
| Sports med & other | 3,874 | 3,795 | 2.1 % |
| Total International | $46,757 | $48,843 | (4.3 )% |
| | | | |
| Total net sales | $179,693 | $170,716 | 5.3 % |

Net sales

U.S. Sales. U.S. net sales totaled $132.9 million in the second quarter of 2017, a 9% increase from $121.9 million in the second quarter of 2016, primarily due to continued growth in our U.S. upper extremities business. U.S. sales represented approximately 74.0% of total net sales in the second quarter of 2017, compared to 71.4% of total net sales in the second quarter of 2016.

Our U.S. lower extremities net sales increased to $54.3 million in the second quarter of 2017 from $52.0 million in the second quarter of 2016, representing growth of 4.5%, driven by continued growth in our total ankle replacement products, as well as sales from the recent launch of our SALVATION® limb salvage system for treating Charcot foot and limb salvage cases, partially offset by anticipated continued declines in sales of legacy Tornier foot and ankle systems due to merger-related sales dis-synergies and distraction caused by the addition of new direct quota-carrying representatives.

Our U.S. upper extremities net sales increased to $57.5 million in the second quarter of 2017 from $49.9 million in the second quarter of 2016, representing growth of 15%. This growth was driven by our innovative shoulder product portfolio, including continued success of the SIMPLICITI® shoulder system and the recent launch of our PERFORM™ Reversed Glenoid System.

Our U.S. biologics net sales totaled $19.3 million in the second quarter of 2017, representing an 8% increase over the second quarter of 2016, driven primarily by continued sales volume growth of AUGMENT® Bone Graft, partially offset by declines in our other biologic products.

International Sales. Net sales in our international regions totaled $46.8 million in the second quarter of 2017, compared to $48.8 million in the second quarter of 2016. This 4% decrease was due to a $1.8 million unfavorable impact from foreign currency exchange rates (a 4 percentage point unfavorable impact to international sales growth rate).

Our international lower extremities net sales decreased 9% to $14.8 million in the second quarter of 2017 from $16.2 million in the second quarter of 2016. This decrease was primarily due to a $0.7 million unfavorable impact from foreign currency exchange rates (a 4 percentage point unfavorable impact to international lower extremities sales growth rate). Sales also decreased due to lower sales volumes to stocking distributors and timing of stocking orders. These decreases were partially offset by a 7% increase in sales in our direct markets in Europe.

Our international upper extremities net sales decreased 4% to $23.0 million in the second quarter of 2017 from $23.9 million in the second quarter of 2016, driven primarily by a $0.8 million unfavorable impact from foreign currency

exchange rates (a 3 percentage point unfavorable impact to international upper extremities sales growth rate). Sales also decreased due to timing of stocking orders to our stocking distributors. These decreases were mostly offset by a 10% increase in sales in our direct markets in Europe and a combined 23% increase in our Japan and Australia direct markets.

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Our international biologics net sales increased 5% to $5.1 million in the second quarter of 2017 from $4.9 million in the second quarter of 2016. This increase was attributable to increased volumes to our stocking distributors, and was partially offset by a $0.1 million unfavorable impact from foreign currency exchange rates (a 2 percentage point unfavorable impact to international biologics sales growth rate).

Cost of sales

Our cost of sales totaled $38.1 million, or 21.2% of net sales, in the second quarter of 2017, compared to $49.0 million, or 28.7% of net sales, in the second quarter of 2016, representing a decrease of 7.5 percentage points as a percentage of net sales. This decrease was primarily driven by $10.4 million (6.1% of net sales) of inventory step-up amortization and a $2.0 million (1.1% of net sales) provision for excess and obsolete inventory associated product rationalization initiatives in the second quarter of 2016 associated with inventory acquired from the Wright/Tornier merger. The remaining decrease in cost of sales as a percentage of net sales was driven by manufacturing efficiencies as compared to the prior year period.

Selling, general and administrative

Our selling, general and administrative expenses totaled $130.8 million, or 72.8% of net sales, in the second quarter of 2017, compared to $136.5 million, or 79.9% of net sales, in the second quarter of 2016. These decreases were driven primarily by the decrease in spending on transition and transaction costs which totaled $3.1 million (1.7% of net sales) and $7.0 million (4.1% of net sales) for the second quarter of 2017 and 2016, respectively. The remaining decrease as a percentage of net sales was primarily driven by leverage of relatively flat general and administrative expenses over increased net sales.

Research and development

Our research and development expense totaled $12.5 million in the second quarter of 2017 compared to $12.1 million in the second quarter of 2016. Research and development costs remained constant at approximately 7% of net sales. Our research and development expenses are estimated to range from 7% to 8% as a percentage of net sales in 2017.

Amortization of intangible assets

Charges associated with amortization of intangible assets totaled $7.0 million in the second quarter of 2017, compared to $7.5 million in the second quarter of 2016. Based on intangible assets held at June 25, 2017, we expect amortization expense to be approximately $28.3 million for the full year of 2017, $23.2 million in 2018, $21.1 million in 2019, $20.5 million in 2020, and $20.3 million in 2021.

Interest expense, net

Interest expense, net, totaled $18.3 million in the second quarter of 2017 and $13.0 million in the second quarter of 2016. Increased interest expense was driven by the increase in debt outstanding following the issuance of the 2021 Notes late in the second quarter of 2016 and borrowings under our ABL Facility established in the fourth quarter of 2016. Our interest expense in the second quarter of 2017 related primarily to non-cash interest expense associated with the amortization of the discount on the 2021 Notes and 2020 Notes of $4.5 million and $6.8 million, respectively; amortization of deferred financing charges on the 2021 Notes, 2020 Notes, 2017 Notes, and our ABL Facility totaling $1.2 million; and cash interest expense primarily associated with the coupon on the 2021 Notes, 2020 Notes, and 2017 Notes, and our ABL Facility totaling $5.7 million. Our interest expense in the second quarter of 2016 related primarily to non-cash interest expense associated with the amortization of the discount on the 2021 Notes and 2020 Notes of $1.4 million and $6.6 million, respectively, non-cash interest expense associated with the amortization of deferred financing charges on the 2021 Notes, 2020 Notes, and 2017 Notes totaling $0.9 million; and cash interest expense primarily associated with the coupon on the 2021 Notes, 2020 Notes, and 2017 Notes totaling $4.2 million.

Other income, net

Other income, net totaled $6.6 million in the second quarter of 2017, compared to $2.1 million of other income, net in the second quarter of 2016.

In the second quarter of 2017, other income, net, primarily consisted of:

- an unrealized gain of $3.9 million for the mark-to-market adjustment on CVRs issued in connection with the BioMimetic acquisition, and
- an unrealized gain of $4.3 million for the net mark-to-market adjustments on our derivative assets and liabilities.

In the second quarter of 2016, other income, net primarily consisted of:

- an unrealized gain of $16.6 million for the net mark-to-market adjustments on and settlements of our derivative assets and liabilities; partially offset by

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- a $12.3 million charge for the write-off of unamortized deferred financing fees and debt discount associated with the extinguishment of $45 million of the 2020 Notes and $58 million of the 2017 Notes, and
- an unrealized loss of $1.4 million for the mark-to-market adjustment on CVRs issued in connection with the acquisition of BioMimetic.

Provision/(benefit) for income taxes

We recorded a tax provision of $0.4 million in the second quarter of 2017, compared to a tax benefit of $3.3 million in the second quarter of 2016. Our income tax expense during the second quarter of 2017 is the result of net earnings in jurisdictions for which we do not have a valuation allowance. We are unable to recognize a tax benefit in jurisdictions where we are incurring losses (primarily the U.S.) due to the valuation allowance on our net deferred tax assets. During the second quarter of 2016, we recognized a $2.3 million tax benefit relating to the resolution of an IRS audit. The remaining tax benefit primarily related to losses in jurisdictions where we do not have a valuation allowance.

Loss from discontinued operations, net of tax

Loss from discontinued operations, net of tax, consists primarily of the costs associated with legal defense, income/loss associated with product liability insurance recoveries/denials, and changes to any contingent liabilities associated with the OrthoRecon business that was sold to MicroPort and, to a lesser degree, costs associated with the Large Joints business that was sold to Corin. During the second quarter of 2017, we recognized a $6.0 million charge for certain retained metal-on-metal product liability claims associated with the OrthoRecon business. During the second quarter of 2016, we recognized a $150 million charge for certain retained metal-on-metal product liability claims associated with the OrthoRecon business and a $21.9 million loss on impairment related to the Large Joints business. See Note 3 and Note 12 to our condensed consolidated financial statements for further discussion regarding our discontinued operations and our retained contingent liabilities associated with the OrthoRecon business.

Comparison of the six months ended June 25, 2017 to the six months ended June 26, 2016

The following table sets forth, for the periods indicated, our results of operations expressed as dollar amounts (in thousands) and as percentages of net sales:

| | Six months ended | | | | | |
|---|---|---|---|---|---|---|
| | June 25, 2017 | | | June 26, 2016 | | |
| | Amount | % of net sales | | Amount | % of net sales | |
| Net sales | $356,884 | 100.0 | % | $340,007 | 100.0 | % |
| Cost of sales [1,2] | 75,248 | 21.1 | % | 95,675 | 28.1 | % |
| Gross profit | 281,636 | 78.9 | % | 244,332 | 71.9 | % |
| Operating expenses: | | | | | | |
| Selling, general and administrative [1] | 260,652 | 73.0 | % | 271,229 | 79.8 | % |
| Research and development [1] | 24,979 | 7.0 | % | 24,224 | 7.1 | % |
| Amortization of intangible assets | 14,396 | 4.0 | % | 13,941 | 4.1 | % |
| Total operating expenses | 300,027 | 84.1 | % | 309,394 | 91.0 | % |
| Operating loss | (18,391) | (5.2) | % | (65,062) | (19.1) | % |
| Interest expense, net | 36,534 | 10.2 | % | 24,878 | 7.3 | % |
| Other expense (income), net | 1,418 | 0.4 | % | (3,129) | (0.9) | % |
| Loss from continuing operations before income taxes | (56,343) | (15.8) | % | (86,811) | (25.5) | % |
| Provision (benefit) for income taxes | 1,324 | 0.4 | % | (4,588) | (1.3) | % |
| Net loss from continuing operations | $(57,667) | (16.2) | % | $(82,223) | (24.2) | % |
| Loss from discontinued operations, net of tax | (42,194) | | | (195,135) | | |
| Net loss | $(99,861) | | | $(277,358) | | |

[1] These line items include the following amounts of non-cash, share-based compensation expense for the periods indicated:

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| | Six months ended | | | |
|---|---|---|---|---|
| | June 25, 2017 | % of net sales | June 26, 2016 | % of net sales |
| Cost of sales | $251 | 0.1% | $175 | 0.1% |
| Selling, general and administrative | 7,979 | 2.2% | 5,902 | 1.7% |
| Research and development | 456 | 0.1% | 296 | 0.1% |

[2] Cost of sales includes amortization of inventory step-up adjustment of $20.6 million for the six months ended June 26, 2016.

The following tables set forth our net sales by product line for the U.S. and International for the periods indicated (in thousands) and the percentage of year-over-year change:

| | Six months ended | | |
|---|---|---|---|
| | June 25, 2017 | June 26, 2016 | % change |
| U.S. | | | |
| Lower extremities | $109,809 | $107,286 | 2.4% |
| Upper extremities | 113,493 | 99,910 | 13.6% |
| Biologics | 37,907 | 34,920 | 8.6% |
| Sports med & other | 3,881 | 4,301 | (9.8)% |
| Total U.S. | $265,090 | $246,417 | 7.6% |
| | | | |
| International | | | |
| Lower extremities | $28,409 | $31,783 | (10.6)% |
| Upper extremities | 45,409 | 44,915 | 1.1% |
| Biologics | 10,300 | 9,065 | 13.6% |
| Sports med & other | 7,676 | 7,827 | (1.9)% |
| Total International | $91,794 | $93,590 | (1.9)% |
| | | | |
| Total net sales | $356,884 | $340,007 | 5.0% |

Net sales

U.S. Sales. U.S. net sales totaled $265.1 million in the first six months of 2017, an 8% increase from $246.4 million in the first six months of 2016, primarily due to continued growth in our U.S. upper extremities business. U.S. sales represented approximately 74.3% of total net sales in the first six months of 2017, compared to 72.5% of total net sales in the first six months of 2016.

International Sales. International net sales totaled $91.8 million in the first six months of 2017 compared to $93.6 million in the first six months of 2016. This 2% decrease was due to a $3.4 million unfavorable impact from foreign currency exchange rates (a 4 percentage point unfavorable impact to sales growth rate), as a 6% increase in our direct markets was mostly offset by unfavorable timing of stocking distributor orders.

Cost of sales

Our cost of sales as a percentage of net sales decreased to 21.1% in the first six months of 2017, as compared to 28.1% in the first six months of 2016. This decrease was primarily driven by $20.6 million (6.0% of net sales) of inventory step-up amortization and a $2.0 million (0.6% of net sales) provision for excess and obsolete inventory associated product rationalization initiatives in the first six months of 2016 associated with inventory acquired from the Wright/Tornier merger. The remaining decrease in cost of sales as a percentage of net sales was driven by manufacturing efficiencies as compared to the prior year period.

Operating expenses

As a percentage of net sales, operating expenses decreased to 84.1% in the first six months of 2017, compared to 91.0% in the first six months of 2016. This decrease was driven primarily by the decrease in spending on transition and transaction costs, as well as leverage of relatively flat general and administrative expenses over increased net

sales.

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Provision/(benefit) for income taxes

We recorded an income tax provision of $1.3 million in the first six months of 2017, compared to a tax benefit of $4.6 million in the first six months of 2016. The 2017 tax expense is the result of net earnings in jurisdictions for which we do not have a valuation allowance. Our 2016 tax benefit includes a $2.3 million tax benefit related to the resolution of an IRS tax audit as well as the recognition of net losses in jurisdictions we do not have a valuation allowance.

Loss from discontinued operations, net of tax

Loss from discontinued operations, net of tax, consists primarily of the costs associated with legal defense, income/loss associated with product liability insurance recoveries/denials, and changes to any contingent liabilities associated with the OrthoRecon business that was sold to MicroPort and, to a lesser degree, costs associated with the Large Joints business that was sold to Corin. During the second quarter of 2016, we recognized a $150 million charge for certain retained metal-on-metal product liability claims associated with the OrthoRecon business and a $21.9 million loss on impairment related to the Large Joints business. See Note 3 and Note 12 to our condensed consolidated financial statements for further discussion regarding our discontinued operations and our retained contingent liabilities associated with the OrthoRecon business.

Reportable segments

The following tables set forth, for the periods indicated, net sales and operating income of our reportable segments expressed as dollar amounts (in thousands) and as a percentage of net sales:

| | Three months ended June 25, 2017 | | |
|---|---|---|---|
| | U.S. Lower Extremities & Biologics | U.S. Upper Extremities | International Extremities & Biologics |
| Net sales | $74,319 | $58,616 | $46,758 |
| Operating income | $17,657 | $18,879 | $886 |
| Operating income as a percent of net sales | 23.8 % | 32.2 % | 1.9 % |

| | Three months ended June 26, 2016 | | |
|---|---|---|---|
| | U.S. Lower Extremities & Biologics | U.S. Upper Extremities | International Extremities & Biologics |
| Net sales | $70,645 | $51,228 | $48,843 |
| Operating income | $18,968 | $16,849 | $2,208 |
| Operating income as a percent of net sales | 26.8 % | 32.9 % | 4.5 % |

| | Six months ended June 25, 2017 | | |
|---|---|---|---|
| | U.S. Lower Extremities & Biologics | U.S. Upper Extremities | International Extremities & Biologics |
| Net sales | $149,313 | $115,777 | $91,794 |
| Operating income | $38,482 | $36,367 | $3,204 |
| Operating income as a percent of net sales | 25.8 % | 31.4 % | 3.5 % |

| | Six months ended June 26, 2016 | | |
|---|---|---|---|
| | U.S. Lower Extremities & Biologics | U.S. Upper Extremities | International Extremities & Biologics |
| Net sales | $143,905 | $102,512 | $93,590 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Operating income | $39,833 | | $34,135 | | $3,785 | |
| Operating income as a percent of net sales | 27.7 | % | 33.3 | % | 4.0 | % |

Net sales of our U.S. lower extremities and biologics segment increased $3.7 million and $5.4 million in the three and six months ended June 25, 2017, respectively, as compared to the three and six months ended June 26, 2016. These increases were driven by net sales growth in our total ankle replacement products, as well as sales from the recent launch of our SALVATION® limb salvage system for treating Charcot foot and limb salvage cases and sales of AUGMENT® Bone Graft, which was commercially launched in the fourth quarter of 2015. Operating income of our U.S. lower extremities and biologics segment decreased for the three and six months ended June 25, 2017, compared to the three and six months ended June 26, 2016 primarily due to investments in research

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and development for product development and clinical studies, as well as higher levels of selling, general and administrative expenses to support certain growth initiatives.

Net sales of our U.S. upper extremities segment increased $7.4 million and $13.3 million in the three and six months ended June 25, 2017, respectively, as compared to the three and six months ended June 26, 2016. Operating income of our U.S. upper extremities segment increased $2.0 million and $2.2 million in the three and six months ended June 25, 2017, respectively, as compared to the three and six months ended June 26, 2016. These increases were driven by our innovative shoulder product portfolio, including continued success of the SIMPLICITI® shoulder system.

Net sales of our International extremities and biologics segment decreased $2.1 million and $1.8 million in the three and six months ended June 25, 2017, respectively, as compared to the three and six months ended June 26, 2016, primarily due to unfavorable impact from foreign currency exchange rates, offset by continued growth in our international upper extremities business. Operating income of our International extremities and biologics segment decreased $1.3 million and $0.6 million in the three and six months ended June 25, 2017, respectively, as compared to the three and six months ended June 26, 2016, primarily driven by timing of sales to our stocking distributors.

Liquidity and Capital Resources

The following table sets forth, for the periods indicated, certain liquidity measures (in thousands):

| | June 25, 2017 | December 25, 2016 |
|---|---|---|
| Cash and cash equivalents | $228,877 | $262,265 |
| Restricted cash | 150,018 | 150,000 |
| Working capital | 223,282 | 285,107 |

Operating Activities. Cash used in operating activities totaled $10.8 million and $23.3 million in the first six months of 2017 and 2016, respectively. The decrease in cash used in operating activities in the first six months of 2017 compared to the first six months of 2016 was due primarily to improved cash profitability, driven by lower levels of transaction and transition expenses and leverage of relatively flat general and administrative expenses over increased net sales.

Investing Activities. Our capital expenditures totaled $31.4 million and $24.8 million in the first six months of 2017 and 2016, respectively. Historically, our capital expenditures have consisted principally of surgical instrumentation, purchased manufacturing equipment, research and testing equipment, and computer systems. We expect to incur capital expenditures of approximately $50 million in 2017.

Financing Activities. During the first six months of 2017, cash provided by financing activities totaled $8.2 million, compared to $238.0 million in the first six months of 2016. Cash provided by financing activities in the first six months of 2017 was primarily attributable to $19.7 million cash received from the issuance of ordinary shares in connection with option exercises, offset by $9.4 million of net payments due to timing of the weekly lockbox repayment/re-borrowing arrangement underlying the ABL Facility. During the first six months of 2016, cash provided by financing was primarily attributable to the proceeds received from the issuance of the 2021 cash convertible notes, partially offset by the partial settlement of previously outstanding convertible notes.

Repatriation. We provide for tax liabilities in our condensed consolidated financial statements with respect to amounts that we expect to repatriate from subsidiaries (to the extent the repatriation would be subject to tax); however, no tax liabilities are recorded for amounts that we consider to be permanently reinvested. Our current plans do not foresee a need to repatriate funds that are designated as permanently reinvested in order to fund our operations or meet currently anticipated liquidity and capital investment needs.

Discontinued Operations. Cash flows from discontinued operations are combined with cash flows from continuing operations in the condensed consolidated statements of cash flows. Cash flows from discontinued operations include those related to both the Large Joints and OrthoRecon businesses.

During the first six months of 2017 and 2016, cash used in the former OrthoRecon business was approximately $17.7 million and $15.8 million, respectively, for legal defense costs and settlement of product liability claims. Cash used in operating activities from the Large Joints business totaled $1.3 million for the six months ended June 25, 2017. Cash provided by operating activities from the Large Joints business totaled $4.1 million for the six months ended June 26, 2016.

We do not expect that the future cash outflows from discontinued operations, including the payment of retained liabilities of the OrthoRecon business, will have an impact on our ability to meet contractual cash obligations and fund our working capital requirements, operations, and anticipated capital expenditures.

Contractual Cash Obligations. There have been no material changes to our contractual cash obligations and commercial commitments as disclosed in in "Part II. Item 7. Management's Discussion and Analysis of Financial Condition and Results of

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Operations-Liquidity and Capital Resources-Contractual Cash Obligations " of our Annual Report on Form 10-K for the year ended December 25, 2016.

Other Liquidity Information. We have historically funded our cash needs through various equity and debt issuances, more recently borrowings under our ABL Facility, and through cash flow from operations.

On December 23, 2016, we, together with WMG and certain of our other wholly-owned U.S. subsidiaries, entered into a Credit, Security and Guaranty Agreement (ABL Credit Agreement) with Midcap Financial Trust, as administrative agent (Agent) and a lender and the additional lenders from time to time party thereto. The ABL Credit Agreement provides for a $150 million senior secured asset-based line of credit, subject to the satisfaction of a borrowing base requirement (ABL Facility). The ABL Facility may be increased by up to $100 million upon our request, subject to the consent of the Agent and each of the other lenders providing such increase and the satisfaction of customary conditions. We are required to maintain net revenue at or above specified minimum levels, to maintain liquidity in the United States above a specified level and to comply with other covenants under the ABL Credit Agreement. We are in compliance with all covenants as of June 25, 2017. As of June 25, 2017, we had $21.1 million in borrowings outstanding under the ABL Facility and $128.9 million in unused availability under the ABL Facility.

On November 1, 2016, Wright Medical Technology, Inc. (WMT) entered into a Master Settlement Agreement (MSA) with Court-appointed attorneys representing plaintiffs in the metal-on-metal hip replacement product liability litigation pending before the United States District Court for the Northern District of Georgia (the MDL) and the California State Judicial Counsel Coordinated Proceedings (the JCCP). Under the terms of the MSA, the parties agreed to settle 1,292 specifically identified claims associated with CONSERVE®, DYNASTY® and LINEAGE® products that meet the eligibility requirements of the MSA and are either pending in the MDL or JCCP, or subject to court-approved tolling agreements in the MDL or JCCP, for a settlement amount of $240 million. As of June 25, 2017, our accrual for metal-on-metal claims totaled $271.4 million, of which $252.5 million is included in our condensed consolidated balance sheet within “Accrued expenses and other current liabilities” and $18.9 million is included within “Other liabilities.” As of December 25, 2016, our accrual for metal-on-metal claims totaled $256.7 million, of which $242.8 million is included in our condensed consolidated balance sheet within “Accrued expenses and other current liabilities” and $13.9 million is included within “Other liabilities.” See Note 12 to our condensed consolidated financial statements for additional discussion regarding the MSA and our accrual methodologies for the metal-on-metal hip replacement product liability claims.

During the fourth quarter of 2016, WMT deposited $150 million into a restricted escrow account to secure its obligations under the MSA. All individual settlements under the MSA will be funded first from the escrow account and then, if all funds held in the escrow account have been exhausted, directly by WMT. As of both June 25, 2017 and December 25, 2016, $150 million was in the restricted escrow account, and therefore, considered restricted cash under U.S. GAAP. WMT expects to fund the majority of these settlements during the second half of 2017. See Note 12 and Note 13 to our condensed consolidated financial statements for further discussion regarding the MSA, the metal-on-metal hip litigation and the funding for such claims.

In May 2016, we issued $395 million aggregate principal amount of the 2021 Notes, which, after consideration of the exchange of approximately $54 million principal amount of the 2017 Notes and $45 million principal amount of the 2020 Notes, generated net proceeds of approximately $237.5 million. In connection with the offering of the 2021 Notes, we entered into convertible note hedging transactions with two counterparties. We also entered into warrant transactions in which we sold stock warrants for an aggregate of 18.5 million ordinary shares to these two counterparties. We used approximately $45 million of the net proceeds from the offering to pay the cost of the convertible note hedging transactions (after such cost was partially offset by the proceeds we received from the sale of the warrants).

Although it is difficult for us to predict our future liquidity requirements, we believe that our cash, cash equivalents and restricted cash balance of approximately $378.9 million, together with $128.9 million in availability under the ABL Facility, as of June 25, 2017 will be sufficient for at least the next 12 months to fund our working capital requirements and operations, permit anticipated capital expenditures during the remainder of 2017, pay retained metal-on-metal product and other liabilities of the OrthoRecon business, including without limitation amounts under the MSA, fund contingent considerations including without limitation the up to $42 million CVR milestone payment,

and meet our anticipated contractual cash obligations in 2017. We may face liquidity challenges during the next few years in light of anticipated significant contingent liabilities and financial obligations and commitments, including among others, acquisition-related contingent consideration payments, payments related to our outstanding indebtedness, and costs and payments related to pending litigation.

In the event that we would require additional working capital to fund future operations, we could seek to acquire that through borrowings under the additional $100.0 million that may be available under the ABL Facility or additional equity or debt financing arrangements which may or may not be available on favorable terms at such time. If we raise additional funds by issuing equity securities, our shareholders may experience dilution. Additional debt financing, if available, may involve additional covenants restricting our operations or our ability to incur additional debt, in addition to those under our existing indentures and the ABL Credit Agreement. Any additional debt financing or additional equity that we raise may contain terms that are not favorable to us or our shareholders. If we do not have, or are not able to obtain, sufficient funds, we may not be able to develop or enhance our

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products, execute our business plan, take advantage of future opportunities, or respond to competitive pressures or unanticipated customer requirements or we may have to delay development or commercialization of our products or scale back our operations.

In-Process Research and Development. In connection with the BioMimetic acquisition, we acquired in-process research and development (IPRD) technology related to projects that had not yet reached technological feasibility as of the acquisition date, which included AUGMENT® Injectable Bone Graft. The acquisition-date fair value of the IPRD technology was $27.1 million for AUGMENT® Injectable Bone Graft. The fair value of the IPRD technology was reduced to $0 as of December 31, 2014, which reflected the impairment charges recognized in 2013 after receipt of the not approvable letter from the FDA in response to a pre-market approval (PMA) application for AUGMENT® Bone Graft for use as an alternative to autograft in hindfoot and ankle fusion procedures.

In connection with the Wright/Tornier merger, we acquired IPRD technology related to three projects that had not yet reached technological feasibility as of the merger date. These projects included PerFORM Rev/Rev+, AEQUALIS® Adjustable Reversed Ext (AARE) (re-branded in 2016 to AEQUALIS® Flex Revive), and PerFORM+ that were assigned fair values of $14.5 million, $2.1 million, and $0.4 million, respectively, on the acquisition date. During 2016, we received FDA clearance of PerFORM Rev/Rev+ and PerFORM+.

The current IPRD projects we acquired in our BioMimetic acquisition and the Wright/Tornier merger are as follows:

- AUGMENT® Injectable Bone Graft (Augment Injectable) combines rhPDGF-BB with an injectable bone matrix, and is targeted to be used in either open (surgical) treatment of fusions and fractures or closed (non-surgical) or minimally invasive treatment of fractures. AUGMENT® Injectable can be injected into a fusion or fracture site during an open surgical procedure, or it can be injected through the skin into a fracture site, in either case locally delivering rhPDGF-BB to promote fusion or fracture repair. Our initial clinical development program for AUGMENT® Injectable has focused on securing regulatory approval for open indications in the United States and in several markets outside the United States. We currently estimate it could take one to three years to complete this project. We have incurred expenses of approximately $5.4 million for AUGMENT® Injectable since the date of acquisition and $0.2 million in the three months ended June 25, 2017. We are currently pursuing approval with a PMA Panel Track Supplement. This does not necessarily result in a panel meeting, but it affords the FDA additional time to review the submission beyond 180 days.
- AEQUALIS® Adjustable Reversed Ext (AARE) will ultimately be our second-generation revision product, with an improved implant that is convertible and addresses more indications, and a revamped instrument set that includes universal extraction instrumentation. The implants in this system are complete from a design standpoint, have regulatory approval, and are being sold using a previous generation of instrumentation in a limited capacity. The instruments for the new revision system are currently in design phase. We have an anticipated completion date in 2018 and project cost to complete is estimated to be less than $1 million. However, the risks and uncertainties associated with completion are dependent upon testing validations and FDA clearance.

Critical Accounting Policies and Estimates

Information on judgments related to our most critical accounting policies and estimates is discussed in "Part II. Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Critical Accounting Estimates" of our Annual Report on Form 10-K for the year ended December 25, 2016 filed with the SEC on February 23, 2017. Certain of our more critical accounting estimates require the application of significant judgment by management in selecting the appropriate assumptions in determining the estimate. By their nature, these judgments are subject to an inherent degree of uncertainty. We develop these judgments based on our historical experience, terms of existing contracts, our observance of trends in the industry, information provided by our customers, and information available from other outside sources, as appropriate. Actual results may differ from these judgments under different assumptions or conditions. Different, reasonable estimates could have been used for the current period. Additionally, changes in accounting estimates are reasonably likely to occur from period to period. Both of these factors could have a material impact on the presentation of our financial condition, changes in financial condition or results of operations. There have been no material changes to our critical accounting policies and estimates discussed in "Part II. Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Critical Accounting Estimates" of our Annual Report on Form 10-K for the year ended December 25, 2016.

Recent Accounting Pronouncements

Information regarding recent accounting pronouncements is included in Note 2 to our condensed consolidated financial statements.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Interest Rate Risk

Our exposure to interest rate risk arises principally from variable interest rates applicable to borrowings under our ABL Facility and the interest rates associated with our invested cash balances.

Borrowings under our ABL Facility bear interest at variable rates. The interest rate margin applicable to borrowings under the ABL Facility is, at the option of the Borrowers, equal to either (a) 3.25% for base rate loans or (b) 4.25% for LIBOR rate loans, subject to a 0.75% LIBOR floor. As of June 25, 2017, we had $21.1 million of borrowings under our ABL Facility. Based upon this debt level, and the LIBOR floor on our interest rate, a 100 basis point increase in the annual interest rate on such borrowings would have an immaterial impact on our interest expense on an annual basis.

On June 25, 2017, we had invested cash, cash equivalents, and restricted cash of approximately $378.9 million. We believe that a 10 basis point change in interest rates is reasonably possible in the near term. Based on our current level of investment, an increase or decrease of 10 basis points in interest rates would have an annual impact of approximately $0.4 million to our interest income.

As of June 25, 2017, we had outstanding $2.0 million, $587.5 million, and $395 million principal amount of our 2017 Notes, 2020 Notes, and 2021 Notes, respectively. We carry these instruments at face value less unamortized discount and unamortized debt issuance costs on our condensed consolidated balance sheets. Since these instruments bear interest at a fixed rate, we have no financial statement risk associated with changes in interest rates. However, the fair value of these instruments fluctuates when interest rates change, and when the market price of our ordinary shares fluctuates. We do not carry the 2017 Notes, 2020 Notes, and 2021 Notes at fair value, but present the fair value of the principal amount of our 2017 Notes, 2020 Notes, and 2021 Notes for disclosure purposes.

Equity Price Risk

The 2017 Notes include conversion and settlement provisions that are based on the price of our ordinary shares and prior to the Wright/Tornier merger, WMG common stock, at conversion or at maturity of the notes. On February 13, 2015, WMG issued $632.5 million of the 2020 Notes, which generated net proceeds of approximately $613 million. Approximately $292 million of the net proceeds from the 2020 Notes offering were used to repurchase approximately $240 million aggregate principal amount of the 2017 Notes in privately negotiated transactions. In addition, all of the 2017 Notes Hedges were settled and all of the warrants associated with the 2017 Notes were repurchased, generating net proceeds of approximately $10 million. On May 20, 2016, we issued $395 million aggregate principal amount of the 2021 Notes. Concurrently with the issuance and sale of the 2021 Notes, certain holders of $54.4 million aggregate principal amount of the 2017 Notes exchanged their 2017 Notes for the 2021 Notes. Approximately $3.7 million of the net proceeds from the 2021 Notes offering were subsequently used to repurchase approximately $3.6 million aggregate principal amount of the 2017 Notes in privately negotiated transactions. As of June 25, 2017, we had approximately $2.0 million in outstanding debt under the 2017 Notes. The following table shows the amount of cash that we would be required to provide holders of the 2017 Notes upon maturity assuming various closing prices of our ordinary shares at the date of maturity:

| Share price | | Cash payment in excess of principal (in thousands) |
|---|---|---|
| $27.98 | (10% greater than conversion price) | $ 203 |
| $30.52 | (20% greater than conversion price) | $ 405 |
| $33.07 | (30% greater than conversion price) | $ 608 |
| $35.61 | (40% greater than conversion price) | $ 811 |
| $38.15 | (50% greater than conversion price) | $ 1,013 |

The fair value of our 2017 Notes Conversion Derivative is directly impacted by the price of our ordinary shares and prior to the Wright/Tornier merger, WMG common stock. The following table presents the fair values of our 2017

Notes Conversion Derivative as a result of a hypothetical 10% increase and decrease in the price of our ordinary shares. We believe that a 10% change in our share price is reasonably possible in the near term:

(in thousands)

| | Fair value of security given a 10% decrease in share price | Fair value of security as of June 25, 2017 | Fair value of security given a 10% increase in share price |
|---|---|---|---|
| 2017 Notes Conversion Derivative (Liability) | $75 | $215 | $409 |

The holders of the 2020 Notes may convert their 2020 Notes into cash upon the satisfaction of certain circumstances as described in Note 8. The conversion and settlement provisions of the 2020 Notes are based on the price of our ordinary shares at conversion

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or at maturity of the notes. In addition, the hedges and warrants associated with these convertible notes also include settlement provisions that are based on the price of our ordinary shares. The amount of cash we may be required to pay, or the number of shares we may be required to provide to note holders at conversion or maturity of these notes, is determined by the price of our ordinary shares. The amount of cash that we may receive from hedge counterparties in connection with the related hedges and the number of shares that we may be required to provide warrant counterparties in connection with the related warrants are also determined by the price of our ordinary shares.

Upon the expiration of our warrants issued in connection with the 2020 Notes, we will issue ordinary shares to the purchasers of the warrants to the extent the price of our ordinary shares exceeds the warrant strike price at that time. On November 24, 2015, Wright Medical Group N.V. assumed WMG's obligations pursuant to the warrants, and the strike price of the warrants was adjusted from $40.00 to $38.8010 per ordinary share. The following table shows the number of shares that we would issue to warrant counterparties at expiration of the warrants assuming various closing prices of our ordinary shares on the date of warrant expiration:

| Share price | | Shares (in thousands) |
|---|---|---|
| $42.68 | (10% greater than strike price) | 1,784 |
| $46.56 | (20% greater than strike price) | 3,270 |
| $50.44 | (30% greater than strike price) | 4,528 |
| $54.32 | (40% greater than strike price) | 5,606 |
| $58.20 | (50% greater than strike price) | 6,540 |

The fair value of the 2020 Notes Conversion Derivative and the 2020 Notes Hedge is directly impacted by the price of our ordinary shares. We entered into the 2020 Notes Hedges in connection with the issuance of the 2020 Notes with the option counterparties. The 2020 Notes Hedges, which are cash-settled, are intended to reduce our exposure to potential cash payments that we are required to make upon conversion of the 2020 Notes in excess of the principal amount of converted notes if our ordinary share price exceeds the conversion price. The following table presents the fair values of the 2020 Notes Conversion Derivative and 2020 Notes Hedge as a result of a hypothetical 10% increase and decrease in the price of our ordinary shares. We believe that a 10% change in our share price is reasonably possible in the near term:

(in thousands)

| | Fair value of security given a 10% decrease in share price | Fair value of security as of June 25, 2017 | Fair value of security given a 10% increase in share price |
|---|---|---|---|
| 2020 Notes Hedges (Asset) | $58,081 | $84,034 | $114,413 |
| 2020 Notes Conversion Derivative (Liability) | $55,589 | $82,752 | $114,908 |

The holders of the 2021 Notes may convert their 2021 Notes into cash upon the satisfaction of certain circumstances as described in Note 8. The conversion and settlement provisions of the 2021 Notes are based on the price of our ordinary shares at conversion or at maturity of the notes. In addition, the hedges and warrants associated with these convertible notes also include settlement provisions that are based on the price of our ordinary shares. The amount of cash we may be required to pay, or the number of shares we may be required to provide to note holders at conversion or maturity of these notes, is determined by the price of our ordinary shares. The amount of cash that we may receive from hedge counterparties in connection with the related hedges and the number of shares that we may be required to provide warrant counterparties in connection with the related warrants are also determined by the price of our ordinary shares.

Upon the expiration of our warrants issued in connection with the 2021 Notes, we will issue ordinary shares to the purchasers of the warrants to the extent the price of our ordinary shares exceeds the warrant strike price of $30.00 at that time. The following table shows the number of shares that we would issue to warrant counterparties at expiration of the warrants assuming various closing prices of our ordinary shares on the date of warrant expiration:

| Share price | | Shares (in thousands) |
|---|---|---|
| $33.00 | (10% greater than strike price) | 1,681 |
| $36.00 | (20% greater than strike price) | 3,082 |
| $39.00 | (30% greater than strike price) | 4,268 |

| | | |
|---|---|---|
| $42.00 | (40% greater than strike price) | 5,284 |
| $45.00 | (50% greater than strike price) | 6,164 |

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The fair value of the 2021 Notes Conversion Derivative and the 2021 Notes Hedge is directly impacted by the price of our ordinary shares. We entered into the 2021 Notes Hedges in connection with the issuance of the 2021 Notes with the option counterparties. The 2021 Notes Hedges, which are cash-settled, are intended to reduce our exposure to potential cash payments that we are required to make upon conversion of the 2021 Notes in excess of the principal amount of converted notes if our ordinary share price exceeds the conversion price. The following table presents the fair values of the 2021 Notes Conversion Derivative and 2021 Notes Hedge as a result of a hypothetical 10% increase and decrease in the price of our ordinary shares. We believe that a 10% change in our share price is reasonably possible in the near term:

(in thousands)

| | Fair value of security given a 10% decrease in share price | Fair value of security as of June 25, 2017 | Fair value of security given a 10% increase in share price |
|---|---|---|---|
| 2021 Notes Hedges (Asset) | $149,517 | $186,892 | $226,407 |
| 2021 Notes Conversion Derivative (Liability) | $145,099 | $187,191 | $231,585 |

Foreign Currency Exchange Rate Fluctuations

Fluctuations in the rate of exchange between the U.S. dollar and foreign currencies could adversely affect our financial results. Approximately 26.0% and 28.6% of our net sales were from international sales for the three months ended June 25, 2017 and June 26, 2016, respectively. Approximately 25.7% and 27.5% of our net sales were from international sales for the six months ended June 25, 2017 and June 26, 2016, respectively. We expect that foreign sales will continue to represent a similarly significant percentage of our net sales in the future. The cost of sales related to these sales is primarily denominated in U.S. dollars; however, operating costs related to these sales are largely denominated in the same respective currencies, thereby partially limiting our transaction risk exposure. For sales not denominated in U.S. dollars, an increase in the rate at which a foreign currency is exchanged for U.S. dollars will require more of the foreign currency to equal a specified amount of U.S. dollars than before the rate increase. In such cases, if we price our products in the foreign currency, we will receive less in U.S. dollars than we did before the rate increase went into effect. If we price our products in U.S. dollars and our competitors price their products in local currency, an increase in the relative strength of the U.S. dollar could result in our prices not being competitive in a market where business is transacted in the local currency.

As discussed in Note 5 to the condensed consolidated financial statements, we enter into certain short-term derivative financial instruments in the form of foreign currency forward contracts. These forward contracts are designed to mitigate our exposure to currency fluctuations in our intercompany balances denominated currently in Euros, British pounds, and Canadian dollars. Any change in the fair value of these forward contracts as a result of a fluctuation in a currency exchange rate is expected to be offset by a change in the value of the intercompany balance.

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ITEM 4. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

Our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and to ensure that information required to be disclosed is accumulated and communicated to management, including our principal executive officer and principal financial officer, to allow timely decisions regarding disclosure. The Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), with assistance from other members of management, have reviewed the design and effectiveness of our disclosure controls and procedures as of June 25, 2017 and, based on their evaluation, have concluded that our disclosure controls and procedures were not effective as of such date, due to the material weakness in our internal control over financial reporting that was disclosed in our Annual Report on Form 10-K for the fiscal year ended December 25, 2016.

Internal Control Over Financial Reporting

As disclosed in "Part II. Item 9A. Controls and Procedures" in our Annual Report on Form 10-K for the fiscal year ended December 25, 2016, during the fourth quarter of fiscal 2016, we identified a material weakness in our internal control over financial reporting related to ineffective design and operation of general information technology controls related to user access to certain information technology systems that are relevant to our financial reporting processes and that are intended to ensure that access to financial applications and data is adequately restricted to appropriate personnel and monitored to ensure adherence to Company policies. As of June 25, 2017, management is continuing to implement the remediation plan as disclosed in "Part II. Item 9A. Controls and Procedures" in our Annual Report on Form 10-K for the fiscal year ended December 25, 2016, which is described below.

Management believes that our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q have been prepared in accordance with US GAAP. Our CEO and CFO have certified that, based on such officer's knowledge, the condensed consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) during the fiscal quarter ended June 25, 2017, that materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting, other than the changes made in response to the material weakness as described in more detail below.

Remediation Plan

Management is continuing to implement the remediation plan as disclosed in "Part II. Item 9A. Controls and Procedures" in our Annual Report on Form 10-K for the fiscal year ended December 25, 2016, to ensure that control deficiencies contributing to the material weakness are remediated such that these controls will operate effectively. We believe that these actions, and the improvements we expect to achieve as a result, will effectively remediate the material weakness. However, the material weakness in our internal control over financial reporting will not be considered remediated until the remediated controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. We expect that the remediation of this material weakness will be completed later in fiscal 2017.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

From time to time, we or our subsidiaries are subject to various pending or threatened legal actions and proceedings, including those that arise in the ordinary course of our business and some of which involve claims for damages that are substantial in amount. These actions and proceedings may relate to, among other things, product liability, intellectual property, distributor, commercial, and other matters. These actions and proceedings could result in losses,

including damages, fines, or penalties, any of which could be substantial, as well as criminal charges. Although such matters are inherently unpredictable, and negative outcomes or verdicts can occur, we believe we have significant defenses in all of them, are vigorously defending all of them, and do not believe any of them will have a material adverse effect on our financial position. However, we could incur judgments, pay settlements, or revise our expectations regarding the outcome of any matter. Such developments, if any, could have a material adverse effect on our results of operations in the period in which applicable amounts are accrued, or on our cash flows in the period in which amounts are paid.

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The actions and proceedings described in this section relate primarily to Wright Medical Technology, Inc. (WMT), an indirect subsidiary of Wright Medical Group N.V., and are not necessarily applicable to Wright Medical Group N.V. or other affiliated entities. Maintaining separate legal entities within our corporate structure is intended to ring-fence liabilities. We believe our ring-fenced structure should preclude corporate veil-piercing efforts against entities whose assets are not associated with particular claims.

Governmental Inquiries

On August 3, 2012, we received a subpoena from the United States Attorney's Office for the Western District of Tennessee requesting records and documentation relating to our PROFEMUR® series of hip replacement devices. The subpoena covers the period from January 1, 2000 to August 2, 2012. We continue to cooperate with the investigation.

Patent Litigation

In June 2013, Anglefix, LLC filed suit in the United States District Court for the Western District of Tennessee, alleging that our ORTHOLOC® products infringe Anglefix's asserted patent. On April 14, 2014, we filed a request for Inter Partes Review (IPR) with the U.S. Patent and Trademark Office. In October 2014, the Court stayed the case pending outcome of the IPR. On June 30, 2015, the Patent Office Board entered judgment in our favor as to all patent claims at issue in the IPR. Following the conclusion of the IPR, the District Court lifted the stay, and we have been continuing with our defense as to remaining patent claims asserted by Anglefix. On June 27, 2016, the Court granted in part our motion for summary judgment on Anglefix's lack of standing and gave Anglefix 30 days to join the University of North Carolina (UNC) as a co-plaintiff in the lawsuit. On July 25, 2016, Anglefix filed a motion asking the Court to accept a waiver of claims by UNC as a substitute for joining UNC as a co-plaintiff in the lawsuit. The Court denied Anglefix's motion, but granted leave for additional time to properly join UNC as co-plaintiff. Anglefix moved to add UNC as co-plaintiff on September 15, 2016. We opposed the motion and, on November 15, 2016, the Court allowed the motion, and subsequently directed Anglefix and UNC to file an amended complaint by January 18, 2017. On February 1, 2017, we filed a motion to dismiss the amended complaint filed by Anglefix and UNC. We have also filed motions for summary judgment of non-infringement and invalidity of the remaining patent claims asserted by Anglefix and a motion to exclude testimony by Anglefix's technical expert. Anglefix has filed a motion for summary judgment of infringement of certain of the remaining asserted patent claims. The Court heard oral argument on those motions on January 31, 2017. On July 12, 2017, the Court struck opinions from plaintiffs' technical expert witness that were contrary to the Court's claim construction. On July 13, 2017, the Court denied plaintiffs' motion for summary judgment of infringement, and granted our motion for summary judgment of noninfringement as to the asserted apparatus claims. The Court denied our motion as to the asserted method claims based on the perceived possible existence of a fact issue. The Court also denied our motion to dismiss the amended complaint and our motion for summary judgment of invalidity. In the wake of the Court's rulings, on July 28, 2017, plaintiffs Anglefix and UNC stipulated to dismissal of their claims against us with prejudice. On the same date, the Court entered judgment dismissing plaintiffs' claims against us with prejudice, thereby ending the case.

On September 23, 2014, Spineology filed a patent infringement lawsuit, Case No. 0:14-cv-03767, in the U.S. District Court in Minnesota, alleging that our X-REAM® bone reamer infringes U.S. Patent No. RE42,757 entitled "EXPANDABLE REAMER." In January 2015, on the deadline for service of its complaint, Spineology dismissed its complaint without prejudice and filed a new, identical complaint. We filed an answer to the new complaint with the Court on April 27, 2015. The Court conducted a Markman hearing on March 23, 2016. Mediation was held on August 11, 2016, but no agreement could be reached. The Court issued a Markman decision on August 30, 2016, in which it found all asserted product claims invalid as indefinite under applicable patent laws and construed several additional claim terms. The parties have completed fact and expert discovery with respect to the remaining asserted method claims. We have filed a motion for summary judgment of non-infringement of the remaining asserted patent claims and motions to exclude testimony from Spineology's technical and damages experts. Spineology has filed a motion for summary judgment of infringement. On July 25, 2017, the Court granted our motion for summary judgment of non-infringement; denied Spineology's motion for summary judgment of infringement; and denied all remaining motions as moot. The Court also entered judgment in our favor and against Spineology on all issues, thereby ending that case.

On September 13, 2016, we filed a civil action, Case No. 2:16-cv-02737-JPM, against Spineology in the U.S. District Court for the Western District of Tennessee alleging breach of contract, breach of implied warranty against infringement, and seeking a judicial declaration of indemnification from Spineology for patent infringement claims brought against us stemming from our sale and/or use of certain expandable reamers purchased from Spineology. Spineology filed a motion to dismiss on October 17, 2016, but withdrew the motion on November 28, 2016. On December 7, 2016, Spineology filed an answer to our complaint and counterclaims, including counterclaims relating to a 2004 non-disclosure agreement between Spineology and WMT. On December 28, 2016, we filed a motion to dismiss the counterclaims relating to that 2004 agreement. On January 4, 2017, Spineology filed a motion for summary judgment on certain claims set forth in our complaint. We have opposed that motion. On January 27, 2017, we filed a motion for summary judgment on certain issues pertaining to our indemnification claims. Spineology has opposed that motion. On July 7, 2017, the Court extended the deadlines for completing discovery until after it rules on those pending motions.

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On March 1, 2016, Musculoskeletal Transplant Foundation (MTF) filed suit, Case No. 2:16-CV-01170-JLL-JAD, against Solana and WMT in the United States District Court for the District of New Jersey alleging that the TenFUSE PIP product infringes U.S. Patent No. 6,432,436 entitled “Partially Demineralized Cortical Bone Constructs.” The lawsuit seeks monetary damages, costs and attorneys' fees. On May 25, 2016, we agreed to waive service of MTF’s complaint. Following a series of court-ordered extensions of time, we filed our answer to MTF’s complaint and counterclaims on December 5, 2016. In the first quarter of 2017, we entered into a settlement agreement with MTF to settle the litigation for an immaterial amount. As a result, the litigation has been dismissed with prejudice.

In August 2016, we received a letter from KFx Medical Corporation (KFx) alleging that a legacy Tornier product (the Piton Suture Anchor) infringes one of KFx’s patents when used in knotless double row tissue fixation techniques. On April 6, 2017, we filed a declaratory judgment action in the United States District Court for the District of Delaware, Case No. 1:17-cv-00384, seeking declaratory judgment of non-infringement and invalidity of United States Patent Nos. 7,585,311; 8,100,942; and 8,109,969. On April 20, 2017, KFx filed an answer and counterclaim alleging we indirectly infringe, and induce infringement of, these patents.

Product Liability

We have been named as a defendant, in some cases with multiple other defendants, in lawsuits in which it is alleged that as yet unspecified defects in the design, manufacture, or labeling of certain metal-on-metal hip replacement products rendered the products defective. The lawsuits generally employ similar allegations that use of the products resulted in excessive metal ions and particulate in the patients into whom the devices were implanted, in most cases resulting in revision surgery (collectively, the CONSERVE® Claims) and generally seek monetary damages. We anticipate that additional lawsuits relating to metal-on-metal hip replacement products may be brought.

Because of the similar nature of the allegations made by several plaintiffs whose cases were pending in federal courts, upon motion of one plaintiff, Danny L. James, Sr., the United States Judicial Panel on Multidistrict Litigation on February 8, 2012 transferred certain actions pending in the federal court system related to metal-on-metal hip replacement products to the United States District Court for the Northern District of Georgia, for consolidated pre-trial management of the cases before a single United States District Court Judge (the MDL). The consolidated matter is known as In re: Wright Medical Technology, Inc. Conserve Hip Implant Products Liability Litigation.

Certain plaintiffs have elected to file their lawsuits in state courts in California. In doing so, most of those plaintiffs have named a surgeon involved in the design of the allegedly defective products as a defendant in the actions, along with his personal corporation. Pursuant to contractual obligations, we have agreed to indemnify and defend the surgeon in those actions. Similar to the MDL proceeding in federal court, because the lawsuits generally employ similar allegations, certain of those pending lawsuits in California were consolidated for pre-trial handling on May 14, 2012 pursuant to procedures of California State Judicial Counsel Coordinated Proceedings (the JCCP). The consolidated matter is known as In re: Wright Hip Systems Cases, Judicial Counsel Coordination Proceeding No. 4710.

Every metal-on-metal hip case involves fundamental issues of law, science and medicine that often are uncertain, that continue to evolve, and which present contested facts and issues that can differ significantly from case to case. Such contested facts and issues include medical causation, individual patient characteristics, surgery specific factors, statutes of limitation, and the existence of actual, provable injury.

The first bellwether trial in the MDL commenced on November 9, 2015 in Atlanta, Georgia. On November 24, 2015, the jury returned a verdict in favor of the plaintiff and awarded the plaintiff $1 million in compensatory damages and $10 million in punitive damages. We believe there were significant trial irregularities and vigorously contested the trial result. On December 28, 2015, we filed a post-trial motion for judgment as a matter of law or, in the alternative, for a new trial or a reduction of damages awarded. On April 5, 2016, the trial judge issued an order reducing the punitive damage award from $10 million to $1.1 million, but otherwise denied our motion. On May 4, 2016, we filed a notice of appeal with the United States Court of Appeals for the Eleventh Circuit. The United States Court of Appeals for the Eleventh Circuit heard oral arguments on January 26, 2017 and on March 20, 2017, the Eleventh Circuit Court of Appeals upheld the lower court’s verdict. On April 10, 2017, we filed a petition for rehearing en banc or for panel rehearing, which was denied. In light of this denial, we elected to forego a further appeal and paid the judgment in July 2017.

The first bellwether trial in the JCCP, which was scheduled to commence on October 31, 2016, and subsequently rescheduled to January 9, 2017, was settled for an immaterial amount.

The first state court metal-on-metal hip trial not part of the MDL or JCCP, Donald Deline v. Wright Medical Technology, Inc., et al, commenced on October 24, 2016 in the Circuit Court of St. Louis County, Missouri. On November 3, 2016, the jury returned a verdict in our favor. The plaintiff has appealed.

As of March 26, 2017, there were approximately 1,250 lawsuits pending in the MDL and JCCP, and an additional 50 cases pending in various state courts. As of that date, we have also entered into approximately 1,000 so called "tolling agreements" with potential claimants who have not yet filed suit. The number of lawsuits pending in the MDL and JCCP and tolling agreements disclosed

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above includes the claims that have been resolved pursuant to the Master Settlement Agreement discussed below. Based on presently available information, we believe at least 350 of these lawsuits allege claims involving bilateral implants. As of March 26, 2017, there were also approximately 50 non-U.S. lawsuits pending. We believe we have data that supports the efficacy and safety of our metal-on-metal hip products. While continuing to dispute liability, the parties continue to mediate unresolved claims.

On November 1, 2016, WMT entered into a Master Settlement Agreement (MSA) with Court-appointed attorneys representing plaintiffs in the MDL and JCCP. Under the terms of the MSA, the parties agreed to settle 1,292 specifically identified CONSERVE, DYNASTY and LINEAGE claims that meet the eligibility requirements of the MSA and are either pending in the MDL or JCCP, or subject to court-approved tolling agreements in the MDL or JCCP, for a settlement amount of $240 million. Due to apparent demand from additional claimants excluded from settlement because of the 1,292 claim ceiling, but otherwise eligible for participation, WMT has agreed in principle to settle an additional 53 such claims, on terms substantially identical to the MSA settlement terms, for a maximum additional settlement amount of $9,410,714.

We have received claims for personal injury against us associated with fractures of our PROFEMUR® long titanium modular neck product (Titanium Modular Neck Claims). As of March 26, 2017, there were 25 pending U.S. lawsuits and 57 pending non-U.S. lawsuits alleging such claims. These lawsuits generally seek monetary damages.

We are aware that MicroPort has recalled certain sizes of its cobalt chrome modular neck products as a result of alleged fractures. As of March 26, 2017, there were four pending U.S. lawsuits and six pending non-U.S. lawsuits against us alleging personal injury resulting from the fracture of a cobalt chrome modular neck. These lawsuits generally seek monetary damages.

In June 2015, a jury returned a $4.4 million verdict against us in a case involving a fractured hip implant stem sold prior to the MicroPort closing. This was a one-of-a-kind case unrelated to the modular neck fracture cases we have previously reported. There are no other cases pending related to this component, nor are we aware of other instances where this component has fractured. The case, Alan Warner et al. vs. Wright Medical Technology, Inc. et al., case no. BC 475958, which was filed on December 27, 2011, was tried in the Superior Court of the State of California for the County of Los Angeles, Central District. In September 2015, the trial judge reduced the jury verdict to $1.025 million and indicated that if the plaintiff did not accept the reduced award he would schedule a new trial solely on the issue of damages. The plaintiff elected not to accept the reduced damage award, and both parties have appealed. The Court has not set a date for a new trial on the issue of damages and we do not expect it will do so until the appeals are adjudicated.

Insurance Litigation

On June 10, 2014, St. Paul Surplus Lines Insurance Company (Travelers), which was an excess carrier in our coverage towers across multiple policy years, filed a declaratory judgment action in the Chancery Court of Shelby County, Tennessee naming us and certain of our other insurance carriers as defendants and asking the Court to rule on the rights and responsibilities of the parties with regard to the CONSERVE® Claims. This case is known as St. Paul Surplus Lines Insurance Company v. Wright Medical Group, Inc., et al. Among other things, Travelers appeared to dispute our contention that the CONSERVE® Claims arise out of more than a single occurrence thereby triggering multiple policy periods of coverage. Travelers further sought a determination as to the applicable policy period triggered by the alleged single occurrence. On June 17, 2014, we filed a separate lawsuit in the Superior Court of the State of California, County of San Francisco for declaratory judgment against certain carriers and breach of contract against the primary carrier, and moved to dismiss or stay the Tennessee action on a number of grounds, including that California is the most appropriate jurisdiction. This case is known as Wright Medical Group, Inc. et al. v. Federal Insurance Company, et al. On September 9, 2014, the California Court granted Travelers' motion to stay our California action. On April 29, 2016, we filed a dispositive motion seeking partial judgment in our favor in the Tennessee action. That motion is pending, and is scheduled for argument on June 23, 2017, after the parties complete discovery regarding certain issues relating to the pending motion. On June 10, 2016, Travelers withdrew its motion for summary judgment in the Tennessee action. One of the other insurance companies in the Tennessee action has stated that it will re-file a similar motion in the future.

On October 28, 2016, WMT and Wright Medical Group, Inc. (WMG) entered into a Settlement Agreement, Indemnity and Hold Harmless Agreement and Policy Buyback Agreement (Insurance Settlement Agreement) with a subgroup of three insurance carriers, namely Columbia Casualty Company (Columbia), Travelers and AXIS Surplus Lines Insurance Company (collectively, the Three Settling Insurers), pursuant to which the Three Settling Insurers paid WMT an aggregate of $60 million (in addition to $10 million previously paid by Columbia) in a lump sum. This amount is in full satisfaction of all potential liability of the Three Settling Insurers relating to metal-on-metal hip and similar metal ion release claims, including but not limited to all claims in the MDL and the JCCP, and all claims asserted by WMT against the Three Settling Insurers in the Tennessee action described above. The amount due under the Insurance Settlement Agreement was paid in the fourth quarter of 2016 and the Three Settling Insurers have been dismissed from the Tennessee action.

On December 13, 2016, we filed a motion in the Tennessee action described above to include allegations of bad faith against the primary insurance carrier. The motion was subsequently amended on February 8, 2017 to add similar bad faith claims against the remaining excess carriers. On April 13, 2017, the court denied our motion, without prejudice to our right to re-assert the motion at a later time.

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On September 29, 2015, Markel International Insurance Company Ltd., as successor to Max Insurance Europe Ltd. (Max Insurance), which is the third insurance carrier in our coverage towers across multiple policy years, asserted that the terms and conditions identified in its reservation of rights will preclude coverage for the Titanium Modular Neck Claims. We strongly dispute the carrier's position, and in accordance with the dispute resolution provisions of the policy, on January 18, 2016, we filed a Notice of Arbitration against Max Insurance in London, England pursuant to the provisions of the Arbitration Act of 1996. We are seeking reimbursement, up to the policy limits of $25 million, of costs incurred in the defense and settlement of the Titanium Modular Neck Claims.

Wright/Tornier Merger Related Litigation

On November 26, 2014, a class action complaint was filed in the Circuit Court of Tennessee, for the Thirtieth Judicial District, at Memphis (Tennessee Circuit Court), by a purported shareholder of WMG under the caption City of Warwick Retirement System v. Gary D. Blackford et al., CT-005015-14. An amended complaint in the action was filed on January 5, 2015. The amended complaint names as defendants WMG, Tornier, Trooper Holdings Inc. (Holdco), Trooper Merger Sub Inc. (Merger Sub), and the members of the WMG board of directors. The amended complaint asserts various causes of action, including, among other things, that the members of the WMG board of directors breached their fiduciary duties owed to the WMG shareholders in connection with entering into the merger agreement, approving the merger, and causing WMG to issue a preliminary Form S-4 that allegedly fails to disclose material information about the merger. The amended complaint further alleges that Tornier, Holdco, and Merger Sub aided and abetted the alleged breaches of fiduciary duties by the WMG board of directors. The plaintiff is seeking, among other things, injunctive relief enjoining or rescinding the merger and an award of attorneys' fees and costs.

On December 2, 2014, a separate class action complaint was filed in the Tennessee Chancery Court by a purported shareholder of WMG under the caption Paulette Jacques v. Wright Medical Group, Inc., et al., CH-14-1736-1. An amended complaint in the action was filed on January 27, 2015. The amended complaint names as defendants WMG, Tornier, Holdco, Merger Sub, Warburg Pincus LLC and the members of the WMG board of directors. The amended complaint asserts various causes of action, including, among other things, that the members of the WMG board of directors breached their fiduciary duties owed to the WMG shareholders in connection with entering into the merger agreement, approving the merger, and causing WMG to issue a preliminary Form S-4 that allegedly fails to disclose material information about the merger. The amended complaint further alleges that WMG, Tornier, Warburg Pincus LLC, Holdco and Merger Sub aided and abetted the alleged breaches of fiduciary duties by the WMG board of directors. The plaintiff is seeking, among other things, injunctive relief enjoining or rescinding the merger and an award of attorneys' fees and costs.

In an order dated March 31, 2015, the Tennessee Circuit Court transferred City of Warwick Retirement System v. Gary D. Blackford et al., CT-005015-14 to the Tennessee Chancery Court for consolidation with Paulette Jacques v. Wright Medical Group, Inc., et al., CH-14-1736-1 (Consolidated Tennessee Action). In an order dated April 9, 2015, the Tennessee Chancery Court stayed the Consolidated Tennessee Action; that stay expired upon completion of the Wright/Tornier merger. On September 19, 2016, the Tennessee Chancery Court entered an agreed order, dismissing the Jacques case without prejudice.

Other

In addition to those noted above, we are subject to various other legal proceedings, product liability claims, corporate governance, and other matters which arise in the ordinary course of business.

ITEM 1A. RISK FACTORS.

There have been no material changes to the risk factors that were discussed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 25, 2016, as filed with the SEC on February 23, 2017.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

On July 25, 2017, our board of directors, upon recommendation of the compensation committee, approved form of award agreements, representing awards granted under the Wright Medical Group N.V. 2017 Equity and Incentive Plan. These form of award agreements are filed as Exhibits 10.2 through 10.11 to this Quarterly Report on Form 10-Q and are incorporated herein by reference.

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ITEM 6. EXHIBITS.

(a) Exhibits.

A list of exhibits is set forth on the Exhibit Index immediately following the signature page of this Quarterly Report on Form 10-Q, and is incorporated herein by reference.

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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.

August 2, 2017

WRIGHT MEDICAL GROUP N.V.

By: /s/ Robert J. Palmisano
Robert J. Palmisano
President and Chief Executive Officer
(principal executive officer)

By: /s/ Lance A. Berry
Lance A. Berry
Senior Vice President and Chief Financial Officer
(principal financial officer)

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WRIGHT MEDICAL GROUP N.V.
EXHIBIT INDEX TO QUARTERLY REPORT ON FORM 10 Q
FOR THE QUARTER ENDED JUNE 25, 2017

| Exhibit No. | Exhibit | Method of Filing |
|---|---|---|
| 10.1 | Wright Medical Group N.V. 2017 Equity and Incentive Plan | Incorporated by reference to Exhibit 10.1 to Wright's Current Report on Form 8-K as filed with the Securities and Exchange Commission on June 27, 2017 (File No. 001-35065) |
| 10.2 | Form of Option Award Agreement under the Wright Medical Group N.V. 2017 Equity and Incentive Plan Representing Stock Options Granted to Executive Officers | Filed herewith |
| 10.3 | Form of Restricted Stock Unit Award Agreement under the Wright Medical Group N.V. 2017 Equity and Incentive Plan Representing Restricted Stock Units Granted to Executive Officers | Filed herewith |
| 10.4 | Form of Restricted Stock Unit Award Agreement under the Wright Medical Group N.V. 2017 Equity and Incentive Plan Representing Restricted Stock Units Granted to New Executive Officers | Filed herewith |
| 10.5 | Form of Performance Award Agreement under the Wright Medical Group N.V. 2017 Equity and Incentive Plan Representing Performance Awards Granted to Executive Officers | Filed herewith |
| 10.6 | Form of Option Award Agreement under the Wright Medical Group N.V. 2017 Equity and Incentive Plan Representing Stock Options Granted to Robert J. Palmisano | Filed herewith |
| 10.7 | Form of Restricted Stock Unit Award Agreement under the Wright Medical Group N.V. 2017 Equity and Incentive Plan Representing Restricted Stock Units Granted to Robert J. Palmisano | Filed herewith |
| 10.8 | Form of Performance Award Agreement under the Wright Medical Group N.V. 2017 Equity and Incentive Plan Representing Performance Awards Granted to Robert J. Palmisano | Filed herewith |
| 10.9 | Form of Option Award Agreement under the Wright Medical Group N.V. 2017 Equity and Incentive Plan Representing Stock Options Granted to Non-Executive Directors | Filed herewith |
| 10.10 | Form of Restricted Stock Unit Award Agreement under the Wright Medical Group N.V. 2017 Equity and Incentive Plan Representing Restricted Stock Units Granted to Non-Executive Directors | Filed herewith |
| 10.11 | Form of Restricted Stock Unit Award Agreement under the Wright Medical Group N.V. 2017 Equity and Incentive Plan Representing Restricted Stock Units Granted to Non-Executive Directors in Lieu of Cash Retainers | Filed herewith |
| 31.1 | Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as adopted | Filed herewith |

pursuant to Section 302 of the Sarbanes Oxley Act of 2002

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| Exhibit No. | Exhibit | Method of Filing |
|---|---|---|
| 31.2 | Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002 | Filed herewith |
| 32.1 | Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 | Furnished herewith |
| 101 | The following materials from Wright Medical Group N.V.'s Quarterly Report on Form 10-Q for the fiscal quarter ended June 25, 2017, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets as of June 25, 2017 and December 25, 2016, (ii) the Consolidated Statements of Operations for the three and six months ended June 25, 2017 and June 26, 2016, (iii) the Consolidated Statements of Comprehensive Loss for the three and six months ended June 25, 2017 and June 26, 2016, (iv) the Consolidated Statements of Cash Flows for the six months ended June 25, 2017 and June 26, 2016, and (v) Notes to Consolidated Financial Statements | Filed herewith |