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

FORM 10-Q

(Mark One)

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2018

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ____________ **to** ____________

Commission file number: 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 **1097 JB Amsterdam, The Netherlands** (Address of principal executive offices)	**None** (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)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☑ Yes ☐ 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 ☑	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☐
	Emerging growth company ☐

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

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

As of November 2, 2018, there were 125,081,610 ordinary shares outstanding.

WRIGHT MEDICAL GROUP N.V.

QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2018

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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 27, 2018). By way of example and without implied limitation, such risks and uncertainties include:

- inability to achieve or sustain profitability;
- failure to realize the anticipated benefits from previous acquisitions and dispositions, including our recent acquisition of Cartiva, Inc. (Cartiva);
- failure to obtain anticipated commercial sales of our AUGMENT® Bone Graft products in the United States;
- failure to realize the anticipated benefits of the 2017 additions to our direct U.S. lower extremities and biologics sales force;
- 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 our metal-on-metal master settlement agreements and the settlement agreements with certain of our insurance companies, including without limitation, 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;
- adverse outcomes in existing product liability litigation;
- 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;
- new product liability claims;
- pending and future other litigation, which could have an adverse effect on our business, financial condition, or operating results;
- challenges to our intellectual property rights or inability to defend our products against the intellectual property rights of others;
- the possibility of private securities litigation or shareholder derivative suits;
- inadequate insurance coverage;
- 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 and term loan facility;
- inability to raise additional financing when needed and on favorable terms;
- 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;
- our inability to timely manufacture products or instrument sets to meet demand;
- our private label manufacturers failing to provide us with sufficient supply of their products, or failing to meet appropriate quality requirements;
- 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;
- inventory reductions or fluctuations in buying patterns by wholesalers or distributors;
- not successfully competing against our existing or potential competitors and the effect of significant recent consolidations amongst our competitors;
- not successfully developing and marketing new products and technologies and implementing our business strategy;
- insufficient demand for and market acceptance of our new and existing products;
- the reliance of our business plan on certain market assumptions;

- lack of suitable business development opportunities;
- inability to capitalize on business development opportunities;
- 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;
- failure or delay in obtaining FDA or other regulatory approvals for our products;
- 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;
- recently enacted healthcare laws and changes in product reimbursements, which could generate downward pressure on our product pricing;
- 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;
- failures of, interruptions to, or unauthorized tampering with, our information technology systems;
- our inability to maintain effective internal controls;
- product quality or patient safety issues;
- geographic and product mix impact on our sales;
- 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;
- the negative impact of the commercial and credit environment on us, our customers, and our suppliers;
- inability to retain key sales representatives, independent distributors, and other personnel or to attract new talent;
- 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;
- 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;
- adverse effects of diverting resources and attention to transition services provided to the purchaser of our Large Joints business;
- potentially burdensome tax measures; and
- fluctuations in foreign currency exchange rates.

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 and "*Part II. Item 1A. Risk Factors*" of this report. The risks and uncertainties described above and in *"Part I. Item 1A. Risk Factors"* of our most recent Annual Report on Form 10-K and "*Part II. Item 1A. Risk Factors*" of this report 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.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (unaudited).

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

	September 30, 2018	December 31, 2017
Assets:		
Current assets:		
Cash and cash equivalents	$ 694,903	$ 167,740
Accounts receivable, net	122,595	130,610
Inventories	179,494	168,144
Prepaid expenses	14,935	13,555
Other current assets [1]	311,808	86,845
Total current assets	1,323,735	566,894
Property, plant and equipment, net	221,175	212,379
Goodwill	921,376	933,662
Intangible assets, net	209,590	231,001
Deferred income taxes	905	937
Other assets [1]	162,514	183,851
Total assets	$ 2,839,295	$ 2,128,724
Liabilities and Shareholders' Equity:		
Current liabilities:		
Accounts payable	$ 45,057	$ 41,831
Accrued expenses and other current liabilities [1]	506,322	314,558
Current portion of long-term obligations [1]	514,930	58,906
Total current liabilities	1,066,309	415,295
Long-term debt and capital lease obligations [1]	586,582	836,208
Deferred income taxes	12,312	15,780
Other liabilities [1]	215,594	272,745
Total liabilities	1,880,797	1,540,028
Commitments and contingencies (Note 13)		
Shareholders' equity:		
Ordinary shares, €0.03 par value, authorized: 320,000,000 shares; issued and outstanding: 125,065,240 shares at September 30, 2018 and 105,807,424 shares at December 31, 2017	4,573	3,896
Additional paid-in capital	2,495,851	1,971,347
Accumulated other comprehensive income	2,648	22,290
Accumulated deficit	(1,544,574)	(1,408,837)
Total shareholders' equity	958,498	588,696
Total liabilities and shareholders' equity	$ 2,839,295	$ 2,128,724

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1 As of September 30, 2018, 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 may 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 September 30, 2018. The respective balances were classified as long-term as of December 31, 2017. Additionally, the holders of the 2020 Notes will have the ability to begin converting their 2020 Notes beginning August 15, 2019 through their maturity. Due to the ability of the holders of the 2020 Notes to convert within the next year, the carrying value of the 2020 Notes and the fair value of the 2020 Notes Conversion Derivative were classified as current liabilities, and the fair value of the 2020 Notes Hedges were classified as current assets as of September 30, 2018. The respective balances were classified as long-term as of December 31, 2017. See Note 6 and Note 9.

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

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

	Three months ended		Nine months ended	
	September 30, 2018	September 24, 2017	September 30, 2018	September 24, 2017
Net sales	$ 194,106	$ 170,503	$ 598,043	$ 527,387
Cost of sales [1]	44,307	38,421	131,004	113,669
Gross profit	149,799	132,082	467,039	413,718
Operating expenses:				
Selling, general and administrative [1]	139,223	131,421	417,297	392,073
Research and development [1]	13,829	11,992	42,393	36,971
Amortization of intangible assets	5,881	7,178	19,031	21,574
Total operating expenses	158,933	150,591	478,721	450,618
Operating loss	(9,134)	(18,509)	(11,682)	(36,900)
Interest expense, net	19,753	18,978	60,243	55,512
Other expense, net	3,902	5,457	75,649	6,875
Loss from continuing operations before income taxes	(32,789)	(42,944)	(147,574)	(99,287)
Provision (benefit) for income taxes	3,040	(8,822)	(1,217)	(7,498)
Net loss from continuing operations	(35,829)	(34,122)	(146,357)	(91,789)
(Loss) income from discontinued operations, net of tax	(6,696)	(97,748)	10,620	(139,942)
Net loss	$ (42,525)	$ (131,870)	$ (135,737)	$ (231,731)
Net loss from continuing operations per share-basic and diluted (Note 12):	$ (0.32)	$ (0.33)	$ (1.35)	$ (0.88)
Net (loss) income from discontinued operations per share-basic and diluted (Note 12):	$ (0.06)	$ (0.93)	$ 0.10	$ (1.34)
Net loss per share-basic and diluted (Note 12):	$ (0.38)	$ (1.26)	$ (1.25)	$ (2.22)
Weighted-average number of ordinary shares outstanding-basic and diluted:	113,043	104,836	108,348	104,292

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

	Three months ended		Nine months ended	
	September 30, 2018	September 24, 2017	September 30, 2018	September 24, 2017
Cost of sales	$ 141	$ 152	$ 452	$ 403
Selling, general and administrative	6,537	4,960	16,496	12,939
Research and development	579	333	1,388	789

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

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

	Three months ended		Nine months ended	
	September 30, 2018	September 24, 2017	September 30, 2018	September 24, 2017
Net loss	$ (42,525)	$ (131,870)	$ (135,737)	$ (231,731)
Other comprehensive (loss) income:				
Changes in foreign currency translation	(2,773)	25,132	(19,642)	44,362
Other comprehensive (loss) income	(2,773)	25,132	(19,642)	44,362
Comprehensive loss	$ (45,298)	$ (106,738)	$ (155,379)	$ (187,369)

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

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

	Nine months ended	
	September 30, 2018	**September 24, 2017**
Operating activities:		
Net loss	$ (135,737)	$ (231,731)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	42,986	42,124
Share-based compensation expense	18,336	14,131
Amortization of intangible assets	19,031	21,574
Amortization of deferred financing costs and debt discount	40,641	37,373
Deferred income taxes	(2,976)	(2,059)
Provision for excess and obsolete inventory	17,358	13,770
Non-cash loss on extinguishment of debt	39,935	—
Non-cash adjustment to derivative fair values	34,343	(4,163)
Mark-to-market adjustment for CVRs (Note 6)	(3,084)	6,721
Other	617	2,093
Changes in assets and liabilities:		
Accounts receivable	6,029	18,807
Inventories	(32,738)	(28,210)
Prepaid expenses and other current assets	34,847	5,851
Accounts payable	3,731	8,260
Accrued expenses and other liabilities	(23,905)	(21,343)
Metal-on-metal product liabilities (Note 13)	(71,963)	(12,506)
Net cash used in operating activities	(12,549)	(129,308)
Investing activities:		
Capital expenditures	(49,920)	(49,476)
Purchase of intangible assets	(2,288)	(1,408)
Other investing	(500)	—
Net cash used in investing activities	(52,708)	(50,884)
Financing activities:		
Issuance of ordinary shares	10,975	24,828
Proceeds from equity offering	448,924	—
Payment of equity offering costs	(25,566)	—
Issuance of warrants	102,137	—
Payment of notes premium	(55,643)	—
Payment of notes hedge options	(141,278)	—
Repurchase of stock warrants	(23,972)	—
Payment of equity issuance costs	(1,870)	—
Proceeds from notes hedge options	34,553	—
Proceeds from exchangeable senior notes	675,000	—
Proceeds from other debt	23,434	32,000
Payments of debt	(34,067)	(10,722)
Redemption of convertible senior notes	(400,911)	—
Payments of deferred financing costs	(14,092)	—

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

	Nine months ended	
	September 30, 2018	September 24, 2017
Payment of contingent consideration	(919)	(1,429)
Payments of capital lease obligations	(3,905)	(1,863)
Net cash provided by financing activities	592,800	42,814
Effect of exchange rates on cash and cash equivalents	(380)	2,902
Net increase (decrease) in cash and cash equivalents	527,163	(134,476)
Cash, cash equivalents, and restricted cash, beginning of period [1]	167,740	412,265
Cash, cash equivalents, and restricted cash, end of period [1]	$ 694,903	$ 277,789

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[1] As of September 24, 2017 and December 25, 2016, we had cash and cash equivalents of $238.9 million and $262.3 million, respectively. As of September 24, 2017 and December 25, 2016, we had $38.9 million and $150.0 million, respectively, in restricted cash to secure our obligations under a Master Settlement Agreement (MSA) that WMT entered into in connection with the metal-on-metal hip litigation as described in Note 13.

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

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 approximately 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); Warsaw, Indiana (research and development); Alpharetta, Georgia (manufacturing and warehousing operations); Montbonnot, France (manufacturing and warehousing operations); Plouzané, France (research and development); 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. The fiscal year ended December 31, 2017 was a 53-week period.

The condensed consolidated financial statements and accompanying notes present our consolidated results for each of the three and nine months ended September 30, 2018 and September 24, 2017. The three and nine months ended September 30, 2018 and September 24, 2017 each consisted of thirteen and thirty-nine 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 the condensed consolidated financial statements to "we," "our" and "us" refer to Wright Medical Group N.V. and its subsidiaries after the merger with Tornier N.V. (legacy Tornier) (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 U.S. generally accepted accounting principles (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 31, 2017, as filed with the SEC on February 27, 2018.

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 controlled 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.

Revenue recognition. Our revenues are primarily generated through two types of customers, hospitals and surgery centers and stocking distributors, with the majority of our revenue derived from sales to hospitals and surgery centers. Our products are sold 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. We record revenues from sales to hospitals and surgery centers upon transfer of control of promised products in an amount that reflects the consideration we expect to receive in exchange for those products, which is generally when the product is surgically implanted in a patient.

We record revenues from sales to our stocking distributors at a point in time upon transfer of control of promised products to the distributor. Our stocking distributors, who sell the products to their customers, take control of the products and assume all risks

WRIGHT MEDICAL GROUP N.V.

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

of ownership upon transfer. Our stocking distributors are obligated to pay us within specified terms regardless of when, if ever, they sell the products. In general, our stocking distributors do not have any rights of return or exchange; however, in limited situations, we have repurchase agreements with certain stocking distributors. Those certain agreements require us to repurchase a specified percentage of the inventory purchased by the distributor within a specified period of time prior to the expiration of the contract. During those specified periods, we defer the applicable percentage of the sales. An insignificant amount of sales related to these types of agreements was deferred and not yet recognized as revenue as of September 30, 2018 and December 31, 2017.

We must make estimates of potential future product returns related to current period product sales. We base our estimate for sales returns on historical sales and product return information, including historical experience and trend information. Our reserve for sales returns has historically been immaterial. We incur shipping and handling costs associated with the shipment of goods to customers, independent distributors, and our subsidiaries. Amounts billed to customers for shipping and handling of products are included in net sales. Costs incurred related to shipping and handling of products to customers are included in selling, general and administrative expenses. We also record depreciation on surgical instruments used by our hospital and surgery center customers within selling, general and administrative expense as these costs are considered to be similar to shipping and handling costs, necessary to deliver the implant products to the end customer.

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 former Large Joints business. Pursuant to the terms of the agreement, we sold substantially all of our 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 were on arm's length terms and were not material to our consolidated financial statements.

On January 9, 2014, pursuant to an Asset Purchase Agreement, dated as of June 18, 2013 (the MicroPort Agreement), by and among us and MicroPort Scientific Corporation (MicroPort), we completed the divesture and sale of our business operations operating under our prior OrthoRecon operating segment to MicroPort.

All historical operating results for the Large Joints and OrthoRecon businesses are reflected within discontinued operations in the condensed consolidated financial statements. See Note 4 for further discussion of discontinued operations. Other than Note 4, 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 US 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. We adopted ASC 606 during the quarter ended April 1, 2018. Revenue is recognized at a point in time, generally upon surgical implantation or shipment of products to distributors. Therefore, adoption of ASC 606 did not have a material effect on our consolidated financial statements except for the additional disclosures included within Note 14.

On February 25, 2016, the FASB issued ASU 2016-02, *Leases,* and has subsequently issued ASU 2018-10 and ASU 2018-11 which clarifies this guidance (collectively ASC 842). ASC 842 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, ASC 842 addresses other concerns related to the current leases model. ASC 842 will be effective for us beginning in fiscal year 2019. We have evaluated the practical expedients and plan to adopt the hindsight practical expedient, the practical expedient for short-term leases, the practical expedient package which primarily limits the need for reassessing lease classification on existing leases, and to issue our financial statements showing comparative lease disclosures under current GAAP. We do not anticipate adoption of these updates will have a material impact on net earnings or cash flows and continue to assess the impact on our consolidated balance sheets.

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. 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. Acquisitions

IMASCAP

On December 14, 2017, we completed the acquisition of IMASCAP SAS (IMASCAP), a leader in the development of software-based solutions for preoperative planning of shoulder replacement surgery. The intent of this transaction is to ensure exclusive access to breakthrough software enabling technology and patents to further differentiate our product portfolio and to further accelerate growth opportunities in our global extremities business. Under the terms of the agreement with IMASCAP, we acquired 100% of IMASCAP's outstanding equity on a fully diluted basis for an initial payment of €52.9 million, or approximately $62.3 million, consisting of approximately €39.7 million, or approximately $46.7 million, in cash and approximately €13.2 million, or approximately $15.6 million, representing 661,753 Wright ordinary shares, payable at closing. Additionally, the purchase price included an estimated €15.1 million, or approximately $17.8 million, of contingent consideration related to the achievement of certain technical milestones and sales earnouts. The technical milestones involve the development and approval of a next generation reverse shoulder implant system and new software modules. The sales earnouts relate to certain guides and the next generation reverse shoulder implant system.

Purchase Consideration and Net Assets Acquired

The following presents the preliminary allocation of the purchase consideration to the assets acquired and liabilities assumed on December 14, 2017 (in thousands):

Cash and cash equivalents	$	2,559
Accounts receivable		102
Other current assets		925
Property, plant and equipment		20
Intangible assets		10,865
Total assets acquired		14,471
Current liabilities		(2,173)
Long-term debt		(886)
Deferred income taxes		(2,343)
Total liabilities assumed		(5,402)
Net assets acquired	$	9,069
Goodwill		71,064
Total preliminary purchase consideration	$	80,133

The purchase consideration was allocated to the net assets acquired based on their estimated fair values at the acquisition date. The fair values were based on management's analysis, including work performed by third-party valuation specialists.

Operating assets and liabilities were valued at their existing carrying values as they represented the fair value of those items at the acquisition date, based on management's judgments and estimates.

In determining the fair value of intangibles, we used an income method which is based on forecasts of the expected future cash flows attributable to the respective assets. Significant estimates and assumptions inherent in the valuations reflect a consideration of other marketplace participants and include the amount and timing of future cash flows (including expected growth rates and profitability), technology life cycles, and the discount rate applied to the cash flows.

Of the $10.9 million of acquired intangible assets, $5.6 million was assigned to developed technology (6-year life) and $5.3 million was assigned to in-process research and development.

The excess of the cost of the acquisition over the fair value of the net assets acquired is recorded as goodwill. The goodwill is primarily attributable to strategic opportunities that arose from the acquisition of IMASCAP. The goodwill is not expected to be deductible for tax purposes.

During the nine months ended September 30, 2018, we revised opening balances acquired as a result of the IMASCAP acquisition, primarily for accounts receivable; other current assets; accrued expenses and other current liabilities; and deferred tax liabilities which resulted in a $0.9 million decrease in the preliminary value of goodwill determined as of December 14, 2017.

4. Discontinued Operations

For the three months ended September 30, 2018, our loss from discontinued operations, net of tax, totaled $6.7 million. For the nine months ended September 30, 2018, our income from discontinued operations, net of tax, totaled $10.6 million. For the three and nine months ended September 24, 2017, our loss from discontinued operations, net of tax, totaled $97.7 million and $139.9 million, respectively. Our operating results from discontinued operations during 2018 and 2017 were attributable primarily to expenses, net of insurance recoveries, associated with legacy Wright's former OrthoRecon business as described in Note 13 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 nine months ended September 30, 2018, our loss from discontinued operations for the Large Joints business, net of tax, totaled $0.3 million and $0.7 million, respectively, and are primarily attributable to costs associated with transition services. For the three and nine months ended September 24, 2017, our loss from discontinued operations for the Large Joints business, net of tax, totaled $0.9 million and $2.4 million, respectively, and are primarily attributable to professional fees and internal costs to support transition activities, costs associated with transition services and working capital adjustments.

Cash provided by operating activities from the Large Joints business totaled $2.7 million for the nine months ended September 30, 2018. Cash used in operating activities by the Large Joints business totaled $3.5 million for the nine months ended September 24, 2017.

OrthoRecon Business

On January 9, 2014, legacy Wright completed the divestiture and sale of its OrthoRecon business to MicroPort Scientific Corporation. 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.

As described within Note 13, in September 2015, the third insurance carrier in the policy year applicable to titanium modular neck fracture claims denied coverage under its $25 million excess liability policy despite full payout by the other carriers in that policy year. We strongly disputed the carrier's position and, in accordance with the dispute resolution provisions of the policy, initiated an arbitration proceeding in London, England seeking payment of these funds. The arbitration proceeding was completed on February 15, 2018 and, on April 11, 2018, the arbitration tribunal issued its ruling. Thereafter, we and the insurance carrier agreed to resolve the entire matter in exchange for a single lump sum payment by the carrier to us in the amount of $30.75 million, representing the full policy limits of $25 million plus an additional $5.75 million for legal costs and interest. We received payment of this sum from the carrier on May 8, 2018. This insurance recovery is reflected within our results of discontinued operations for the quarter ended July 1, 2018.

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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):

	Three months ended		Nine months ended	
	September 30, 2018	September 24, 2017	September 30, 2018	September 24, 2017
Net sales	$ —	$ —	$ —	$ —
Selling, general and administrative	8,553	96,917	(15,309)	137,578
(Loss) income from discontinued operations before income taxes	(8,553)	(96,917)	15,309	(137,578)
(Benefit) provision for income taxes	(2,188)	—	3,995	—
Total (loss) income from discontinued operations, net of tax	$ (6,365)	$ (96,917)	$ 11,314	$ (137,578)

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 $46.8 million and $142.7 million for the nine months ended September 30, 2018 and September 24, 2017, respectively.

5. Inventories

Inventories consist of the following (in thousands):

	September 30, 2018	December 31, 2017
Raw materials	$ 10,517	$ 10,816
Work-in-process	36,029	28,581
Finished goods	132,948	128,747
	$ 179,494	$ 168,144

6. 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 Measurement* 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.

2023 Notes Conversion Derivative and Notes Hedges

On June 28, 2018, we issued $675 million aggregate principal amount of 1.625% cash exchangeable senior notes due 2023 (2023 Notes). The 2023 Notes are referred to as "exchangeable" in the 2023 Notes Indenture (as defined in Note 9) because they were issued by WMG, not us. See Note 9 of the condensed consolidated financial statements for additional information regarding the 2023 Notes. The 2023 Notes have a conversion derivative feature (2023 Notes Conversion Derivative) that requires bifurcation from the 2023 Notes in accordance with ASC Topic 815 and is accounted for as a derivative liability. The fair value of the 2023 Notes Conversion Derivative at the time of issuance of the 2023 Notes was $124.6 million.

In connection with the issuance of the 2023 Notes, we entered into hedges (2023 Notes Hedges) with two option counterparties. The 2023 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 2023 Notes in excess of the principal amount of converted notes if our ordinary share price exceeds the conversion price. The aggregate cost of the 2023 Notes Hedges was $141.3 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 2023 Note Hedges, which may reduce the effectiveness of the 2023 Note Hedges.

The following table summarizes the fair value and the presentation in our condensed consolidated balance sheets (in thousands) of the 2023 Notes Hedges and 2023 Notes Conversion Derivative:

	Location on condensed consolidated balance sheet		September 30, 2018
2023 Notes Hedges	Other assets	$	150,853
2023 Notes Conversion Derivative	Other liabilities	$	151,107

The 2023 Notes Hedges and the 2023 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 2023 Notes Conversion Derivative nor the 2023 Notes Hedges qualify for hedge accounting; thus, any changes in the fair value of the derivatives are 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 2023 Notes Hedges and 2023 Notes Conversion Derivative:

	Three months ended		Nine months ended	
	September 30, 2018		September 30, 2018	
2023 Notes Hedges	$	25,880	$	9,575
2023 Notes Conversion Derivative		(25,244)		(26,482)
Net gain (loss) on changes in fair value	$	636	$	(16,907)

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 9 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 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:

	September 30, 2018			December 31, 2017		
	Location on condensed consolidated balance sheet	Amount		Location on condensed consolidated balance sheet	Amount	
2021 Notes Hedges	Other current assets	$	222,919	Other assets	$	127,063
2021 Notes Conversion Derivative	Accrued expenses and other current liabilities	$	221,356	Other liabilities	$	126,148

As of September 30, 2018, 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 may 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 September 30, 2018. The respective balances were classified as long-term as of December 31, 2017. We currently do not expect significant conversions because the 2021 Notes currently trade at a premium to the as-converted value, and a converting holder would forego future interest payments. However, any conversions would reduce our cash resources. We believe that, in the event that holders elect to exercise the conversion option, our cash resources and access to additional borrowings would provide the necessary liquidity.

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 changes in the fair value of the derivatives are 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 2021 Notes Hedges and 2021 Notes Conversion Derivative:

	Three months ended		Nine months ended	
	September 30, 2018	September 24, 2017	September 30, 2018	September 24, 2017
2021 Notes Hedges	$ 46,591	$ (9,074)	$ 95,856	$ 18,723
2021 Notes Conversion Derivative	(45,715)	9,321	(95,208)	(16,269)
Net gain on changes in fair value	$ 876	$ 247	$ 648	$ 2,454

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 9 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 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 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.

Concurrently with the issuance and sale of the 2023 Notes, certain holders of the 2020 Notes exchanged approximately $400.9 million aggregate principal amount of their 2020 Notes for the 2023 Notes. For each $1,000 principal amount of 2020 Notes validly submitted for exchange, we delivered $1,138.70 principal amount of the 2023 Notes (subject to rounding down to the nearest $1,000 principal amount of the 2023 Notes for each exchanging investor, the difference being referred as the rounded amount) to the investor. As part of this exchange we settled a pro rata portion of the 2020 Notes Conversion Derivative for $55.6 million.

During the second quarter of 2018, we agreed to settle a pro rata portion of the 2020 Notes Hedges. We also agreed to repurchase a pro rata portion of the warrants associated with the 2020 Notes (2020 Warrants Derivative) and recorded a derivative liability which had a fair value of $27.3 million as of June 28, 2018. Prior to this agreement, the warrants were recorded within shareholders' equity as, at that time, the warrants were expected to be net-share settled. The pricing of the settled portion of the 2020 Notes Hedges and 2020 Warrants Derivative was based on the volume-weighted average price of our stock price during July 9, 2018 and July 27, 2018, the unwind period. On July 30, 2018, we received proceeds of approximately $34.6 million related to the 2020 Notes Hedges and paid $24.0 million related to the 2020 Warrants Derivative, generating net proceeds of $10.6 million.

As of September 30, 2018, we had warrants on the 2020 Notes which were exercisable for 6.2 million ordinary shares with a strike price of $38.8010 per ordinary share.

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:

	September 30, 2018		December 31, 2017	
	Location on condensed consolidated balance sheet	Amount	Location on condensed consolidated balance sheet	Amount
2020 Notes Hedges	Other current assets	$ 27,327	Other assets	$ 45,033
2020 Notes Conversion Derivative	Accrued expenses and other current liabilities	$ 26,757	Other liabilities	$ 44,132

The holders of the 2020 Notes may convert their notes at any time prior to August 15, 2019 solely into cash upon satisfaction of certain circumstances as described in Note 9. On or after August 15, 2019, holders may convert their 2020 Notes solely into cash, regardless of the foregoing circumstances. Due to the ability of the holders of the 2020 Notes to convert within the next year, the carrying value of the 2020 Notes and the fair value of the 2020 Notes Conversion Derivatives were classified as current liabilities and the fair value of the 2020 Notes Hedges was classified as current assets as of September 30, 2018. The respective balances were all classified as long-term as of December 31, 2017.

The 2020 Notes Hedges, 2020 Notes Conversion Derivative, and the 2020 Warrants 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, 2020 Notes Hedges nor the 2020 Warrants Derivative qualify for hedge accounting; thus, any change in the fair value of the derivatives is recognized immediately in our condensed consolidated statements of operations. Changes in the fair value of the 2020 Warrants Derivative and the portion of the 2020 Notes Hedges which were settled between June 28, 2018 and the cash settlement date are included within our condensed consolidated statements of operations.

The following table summarizes the net (loss) gain on changes in fair value (in thousands) related to the 2020 Notes Hedges, 2020 Warrants Derivative and 2020 Notes Conversion Derivative:

	Three months ended		Nine months ended	
	September 30, 2018	September 24, 2017	September 30, 2018	September 24, 2017
2020 Notes Hedges	$ 3,317	$ (10,340)	$ 16,847	$ (3,538)
2020 Warrants Derivative	3,586	—	3,336	—
2020 Notes Conversion Derivative	(8,186)	10,292	(38,268)	5,298
Net (loss) gain on changes in fair value	$ (1,283)	$ (48)	$ (18,085)	$ 1,760

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). The 2017 Notes matured, and the remaining $2 million principal amount was repaid on August 15, 2017. See Note 9 of the condensed consolidated financial statements for additional information regarding the 2017 Notes. The 2017 Notes had a conversion derivative feature (2017 Notes Conversion Derivative) that required bifurcation from the 2017 Notes in accordance with ASC Topic 815 and was 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 $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 remainder of the 2017 Notes Conversion Derivative was settled at a cost of approximately $0.2 million in conjunction with the maturity of the 2017 Notes on August 15, 2017.

The 2017 Notes Conversion Derivative was measured at fair value using Level 3 inputs. This instrument was not actively traded and was valued using an option pricing model that used observable and unobservable market data for inputs.

Neither the 2017 Notes Conversion Derivative nor the 2017 Notes Hedges qualified for hedge accounting; thus, any change in the fair value of the derivatives was 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		Nine months ended	
	September 30, 2018	September 24, 2017	September 30, 2018	September 24, 2017
2017 Notes Conversion Derivative	$ —	$ 15	$ —	$ (51)
Net gain (loss) on changes in fair value	$ —	$ 15	$ —	$ (51)

To determine the fair value of the embedded conversion option in the 2020, 2021, and 2023 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 2020, 2021, and 2023 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 2020, 2021, and 2023 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 2020, 2021, or 2023 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 2020, 2021, and 2023 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 2020, 2021, or 2023 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, 2021 and 2023 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 as of September 30, 2018:

	2020 Notes Conversion Derivative	2020 Notes Hedge	2021 Notes Conversion Derivative	2021 Notes Hedge	2023 Notes Conversion Derivative	2023 Notes Hedge
Stock Price Volatility (1)	31.92%	31.92%	37.55%	37.55%	30.64%	30.64%
Credit Spread for Wright (2)	2.62%	N/A	3.13%	N/A	2.55%	N/A
Credit Spread for Deutsche Bank AG (3)	N/A	1.27%	N/A	N/A	N/A	N/A
Credit Spread for Wells Fargo Securities, LLC (3)	N/A	0.15%	N/A	N/A	N/A	N/A
Credit Spread for JPMorgan Chase Bank (3)	N/A	0.17%	N/A	0.27%	N/A	0.4%
Credit Spread for Bank of America (3)	N/A	N/A	N/A	0.28%	N/A	0.46%

(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

During 2017, we employed 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 were expected to offset the transactional gains and losses on the related intercompany balances. These forward contracts were not designated as hedging instruments under FASB ASC Topic 815. Accordingly, the changes in the fair value and the settlement of the contracts were recognized in the period incurred in the accompanying condensed consolidated statements of operations. During the quarter ended April 1, 2018, we discontinued our foreign currency forward contracts derivative program. At September 30, 2018 and December 31, 2017, we had no foreign currency contracts outstanding.

As a result of the acquired sales and distribution business of Surgical Specialties Australia Pty. Ltd in 2015, we had recorded the estimated fair value of future contingent consideration of approximately $0.9 million as of December 31, 2017 which was paid during the quarter ended April 1, 2018.

As a result of the acquired business of IMASCAP in 2017, we have recorded the estimated fair value of future contingent consideration of approximately €16.1 million, or approximately $18.6 million, related to the achievement of certain technical milestones and sales earnouts as of September 30, 2018. The estimated fair value of contingent consideration related to technical milestones totaled $12.4 million and $11.9 million as of September 30, 2018 and December 31, 2017, respectively, and is contingent upon the development and approval of a next generation reverse shoulder implant system and new software modules. The estimated fair value of contingent consideration related to sales earnouts totaled $6.3 million and $5.9 million as of September 30, 2018 and December 31, 2017, respectively, and is contingent upon the sale of certain guides and the next generation reverse shoulder implant system.

The fair values of the sales earn out contingent consideration as of September 30, 2018 and December 31, 2017 were determined using a discounted cash flow model and probability adjusted estimates of the future earnings and is classified in Level 3. The discount rate is 12% for IMASCAP and was 14% for Surgical Specialties Australia Pty. Ltd.

The contingent consideration from the IMASCAP acquisition related to technical milestones is based on meeting certain developmental milestones for new software modules and for the FDA and CE approval for the next generation reverse shoulder implant system. The fair value of this contingent consideration as of September 30, 2018 and December 31, 2017 was determined using probability adjusted estimates of the future payments and is classified in Level 3. The discount rate is approximately 6% for IMASCAP. A change in the discount rate would have limited impact on our profits or the fair value of this contingent consideration.

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.

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(UNAUDITED)

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 September 30, 2018 and December 31, 2017 was $39.2 million and $42.3 million, respectively, and was determined using the closing price of the security in the active market (Level 1), and is reflected within "Accrued expenses and other current liabilities" on our condensed consolidated balance sheet. For the three months ended September 30, 2018 and September 24, 2017, the change in the fair value of the CVRs resulted in expense of $3.4 million and $4.5 million, respectively. For the nine months ended September 30, 2018 and September 24, 2017, the change in the fair value of the CVRs resulted in income of $3.1 million and expense of $6.7 million, respectively. The income or expense related to the change in the value of the CVRs is recorded in “Other 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. Sales for AUGMENT® Bone Graft reached $40 million for the 12 months ended October 28, 2018 which will result in the $42 million payment during the fourth quarter of 2018. 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.

The carrying value of cash and cash equivalents, accounts receivable, and accounts payable approximates the fair value of these financial instruments at September 30, 2018 and December 31, 2017 due to their short maturities and variable rates.

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 September 30, 2018				
Assets				
Cash and cash equivalents	$ 694,903	$ 694,903	$ —	$ —
2020 Notes Hedges	27,327	—	—	27,327
2021 Notes Hedges	222,919	—	—	222,919
2023 Notes Hedges	150,853	—	—	150,853
Total	$ 1,096,002	$ 694,903	$ —	$ 401,099
Liabilities				
2020 Notes Conversion Derivative	$ 26,757	$ —	$ —	$ 26,757
2021 Notes Conversion Derivative	221,356	—	—	221,356
2023 Notes Conversion Derivative	151,107	—	—	151,107
Contingent consideration	18,765	—	—	18,765
Contingent consideration (CVRs)	39,241	39,241	—	—
Total	$ 457,226	$ 39,241	$ —	$ 417,985

WRIGHT MEDICAL GROUP N.V.

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

	Total	Quoted prices in active markets (Level 1)	Prices with other observable inputs (Level 2)	Prices with unobservable inputs (Level 3)
At December 31, 2017				
Assets				
Cash and cash equivalents	$ 167,740	$ 167,740	$ —	$ —
2020 Notes Hedges	45,033	—	—	45,033
2021 Notes Hedges	127,063	—	—	127,063
Total	$ 339,836	$ 167,740	$ —	$ 172,096
Liabilities				
2020 Notes Conversion Derivative	$ 44,132	$ —	$ —	$ 44,132
2021 Notes Conversion Derivative	126,148	—	—	126,148
Contingent consideration	19,188	—	—	19,188
Contingent consideration (CVRs)	42,325	42,325	—	—
Total	$ 231,793	$ 42,325	$ —	$ 189,468

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 31, 2017	Additions	Transfers into Level 3	Gain/(loss) included in earnings	Settlements	Currency	Balance at September 30, 2018
2020 Notes Hedges	$ 45,033	—	—	16,847	(34,553)	—	$ 27,327
2020 Notes Conversion Derivative	$ (44,132)	—	—	(38,268)	55,643	—	$ (26,757)
2020 Warrants Derivative	$ —	(27,308)	—	3,336	23,972	—	$ —
2021 Notes Hedges	$ 127,063	—	—	95,856	—	—	$ 222,919
2021 Notes Conversion Derivative	$ (126,148)	—	—	(95,208)	—	—	$ (221,356)
2023 Notes Hedges	$ —	141,278	—	9,575	—	—	$ 150,853
2023 Notes Conversion Derivative	$ —	(124,625)	—	(26,482)	—	—	$ (151,107)
Contingent consideration	$ (19,188)	—	—	(1,280)	919	784	$ (18,765)

7. Property, Plant and Equipment

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

	September 30, 2018	December 31, 2017
Property, plant and equipment, at cost	$ 519,226	$ 448,921
Less: Accumulated depreciation	(298,051)	(236,542)
	$ 221,175	$ 212,379

8. Goodwill and Intangible Assets

Changes in the carrying amount of goodwill occurring during the nine months ended September 30, 2018 are as follows (in thousands):

	U.S. Lower Extremities & Biologics	U.S. Upper Extremities	International Extremities & Biologics	Total
Goodwill at December 31, 2017	$ 218,525	$ 630,650	$ 84,487	$ 933,662
Goodwill adjustment associated with IMASCAP acquisition	—	(917)	—	(917)
Foreign currency translation	—	(1,111)	(10,258)	(11,369)
Goodwill at September 30, 2018	$ 218,525	$ 628,622	$ 74,229	$ 921,376

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.

During the nine months ended September 30, 2018, we revised opening balances acquired as a result of the IMASCAP acquisition, primarily for accounts receivable; other current assets; accrued expenses and other current liabilities; and deferred tax liabilities which resulted in a $0.9 million decrease in the preliminary value of goodwill determined as of December 14, 2017. See Note 3 for additional discussion of these adjustments.

Following the December 2017 IMASCAP acquisition, foreign currency translation will be reported within the U.S. Upper Extremities segment. While the IMASCAP offices are located in France and the majority of their operations have a functional currency of the Euro, the results of the IMASCAP business are managed by U.S. Upper Extremities segment.

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

	September 30, 2018		December 31, 2017	
	Cost	Accumulated amortization	Cost	Accumulated amortization
Indefinite life intangibles:				
In-process research and development (IPRD) technology	$ 5,178		$ 6,422	
Finite life intangibles:				
Distribution channels	900	$ 835	900	$ 640
Completed technology	147,619	50,901	149,645	40,810
Licenses	6,547	1,706	5,268	1,530
Customer relationships	127,807	28,414	129,693	23,268
Trademarks	14,135	11,536	14,368	10,487
Non-compete agreements	3,111	2,315	3,964	2,603
Other	525	525	569	490
Total finite life intangibles	300,644	$ 96,232	304,407	$ 79,828
Total intangibles	305,822		310,829	
Less: Accumulated amortization	(96,232)		(79,828)	
Intangible assets, net	$ 209,590		$ 231,001	

During September 2018, we received FDA clearance of AEQUALIS® Adjustable Reversed Ext (AARE) (re-branded in 2016 to AEQUALIS® Flex Revive), which resulted in a $1.0 million reclassification from IPRD technology to completed technology.

Based on the total finite life intangible assets held at September 30, 2018, we expect amortization expense of approximately $24.6 million in 2018, $22.8 million in 2019, $22.1 million in 2020, $21.9 million in 2021, and $21.9 million in 2022.

9. Debt and Capital Lease Obligations

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

	September 30, 2018	December 31, 2017
Capital lease obligations	$ 22,875	$ 20,401
2023 Notes	542,575	—
2021 Notes [1]	315,793	300,051
2020 Notes [1]	170,798	513,014
Term Loan Facility	18,903	—
Asset-based line of credit	21,549	53,645
Other debt	9,019	8,003
	1,101,512	895,114
Less: Current portion [1]	(514,930)	(58,906)
	$ 586,582	$ 836,208

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1 As of September 30, 2018, 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 may 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 were classified as current liabilities as of September 30, 2018. The holders of the 2020 Notes may convert their notes at any time prior to August 15, 2019 solely into cash upon satisfaction of certain circumstances as described below. On or after August 15, 2019, holders may convert their 2020 Notes solely into cash, regardless of the foregoing circumstances. Due to the ability of the holders of the 2020 Notes to convert within the next year, the carrying value of the 2020 Notes were classified as current liabilities as of September 30, 2018. The respective balances were classified as long-term as of December 31, 2017.

2023 Notes

On June 28, 2018, WMG issued $675 million aggregate principal amount of the 2023 Notes pursuant to an indenture (2023 Notes Indenture), dated as of June 28, 2018, with The Bank of New York Mellon Trust Company, N.A., as trustee. The 2023 Notes are fully and unconditionally guaranteed by us on a senior unsecured basis. The 2023 Notes are referred to as "exchangeable" in the 2023 Notes Indenture because they were issued by WMG, not us. The 2023 Notes require interest to be paid at an annual rate of 1.625% semi-annually in arrears on each June 15 and December 15 and will mature on June 15, 2023 unless earlier converted or repurchased. The 2023 Notes are convertible, subject to certain conditions, solely into cash. The initial conversion rate for the 2023 Notes is 29.9679 ordinary shares (subject to adjustment as provided in the 2023 Notes Indenture) per $1,000 principal amount of the 2023 Notes (subject to, and in accordance with, the settlement provisions of the 2023 Notes Indenture), which is equal to an initial conversion price of approximately $33.37 per ordinary share. WMG may not redeem the 2023 Notes prior to the maturity date, and no “sinking fund” is available for the 2023 Notes, which means that WMG is not required to redeem or retire the 2023 Notes periodically.

The holders of the 2023 Notes may convert their 2023 Notes at any time prior to the close of business on the business day immediately preceding December 15, 2022 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 September 30, 2018 (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 2023 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 December 15, 2022 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their 2023 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 2023 Notes, equal to the settlement amount as calculated under the 2023 Notes Indenture. If a fundamental change, as defined in the 2023 Notes Indenture, occurs, subject to certain conditions, holders of the 2023 Notes will have the option to require WMG to repurchase for cash all or a portion of their 2023 Notes at a repurchase price equal to 100% of the principal amount of the 2023 Notes to be repurchased, plus any accrued and unpaid interest to, but excluding, the fundamental change repurchase date, as defined in the 2023 Notes Indenture. In addition, following a make-whole fundamental change, as defined in the 2023 Notes Indenture, that occurs prior to the maturity date, WMG, under certain circumstances, will increase the applicable conversion rate for a holder that elects to convert its 2023 Notes in connection with such make-whole fundamental change. Our guarantee of the 2023 Notes is our senior unsecured obligation that ranks: (i) senior in right of payment to any of our indebtedness that is expressly subordinated in right of payment to the guarantee; (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 2023 Notes, we recorded deferred financing charges of approximately $12.4 million, which are being amortized over the term of the 2023 Notes using the effective interest method.

The 2023 Notes Exchange Derivative requires bifurcation from the 2023 Notes in accordance with ASC Topic 815, *Derivatives and Hedging*, and is accounted for as a derivative liability. See Note 6 for additional information regarding the 2023 Notes Exchange Derivative. The fair value of the 2023 Notes Exchange Derivative at the time of issuance of the 2023 Notes was $124.6 million and was recorded as original debt discount for purposes of accounting for the debt component of the 2023 Notes. This discount is amortized as interest expense using the effective interest method over the term of the 2023 Notes using an effective interest rate of 6.06%. For the three and nine months ended September 30, 2018, we recorded $4.9 million and $5.1 million of interest expense related to the amortization of the debt discount, respectively.

The components of the 2023 Notes were as follows (in thousands):

	September 30, 2018
Principal amount of 2023 Notes	$ 675,000
Unamortized debt discount	(119,519)
Unamortized debt issuance costs	(12,906)
Net carrying amount of 2023 Notes	$ 542,575

The estimated fair value of the 2023 Notes was approximately $715.8 million at September 30, 2018, based on a quoted price in an active market (Level 1).

We and WMG entered into 2023 Notes Hedges in connection with the issuance of the 2023 Notes with two counterparties. The 2023 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 2023 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; (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 2023 Note Hedges; (iii) our or WMG's failure to perform certain obligations under the 2023 Notes Indenture or under the 2023 Notes Hedges; (iv) certain defaults on our, WMG's or any our other subsidiary's indebtedness in excess of $25 million; or (v) if we, WMG or any of our significant subsidiaries become insolvent or otherwise becomes subject to bankruptcy proceedings, the option counterparties have the discretion to terminate the 2023 Notes Hedges, which may reduce the effectiveness of the 2023 Notes Hedges. In addition, the option counterparties have broad discretion to make certain adjustments to the 2023 Notes Hedges and warrant transactions upon the occurrence of certain other events, including, among others, (i) any adjustment to the conversion rate of the 2023 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 2023 Note Hedges. The aggregate cost of the 2023 Notes Hedges was $141.3 million and is accounted for as a derivative asset in accordance with ASC Topic 815. See Note 6 of the condensed consolidated financial statements for additional information regarding the 2023 Notes Hedges and the 2023 Notes Exchange Derivative.

We also entered into warrant transactions in which we sold warrants that are initially exercisable into 20.2 million ordinary shares to the two option counterparties, subject to adjustment upon the occurrence of certain events, for an aggregate of $102.1 million. The strike price of the warrants is $40.86 per share, which was 50% above the last reported sale price of our ordinary shares on June 20, 2018. The warrants are expected to be net-share settled and exercisable over the 120 trading day period beginning on September 15, 2023. 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 $141.3 million premium in the aggregate to the two option counterparties and subject to the right of the option counterparties to terminate the 2023 Notes Hedges in certain circumstances, we do not expect to be required to make any cash payments to the option counterparties under the 2023 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 2023 Notes Hedges is initially equal to the conversion price of the 2023 Notes. However, in connection with certain events, these option counterparties have the discretion to make certain adjustments to the 2023 Note Hedges, which may reduce the effectiveness of the 2023 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 2023 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 2023 Notes, certain holders of the 2020 Notes exchanged their 2020 Notes for the 2023 Notes.

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.

As of September 30, 2018, 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 may 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 September 30, 2018. The respective balances were classified as long-term as of December 25, 2016. We currently do not expect significant conversions because the 2021 Notes currently trade at a premium to the as-converted value, and a converting holder would forego future interest payments. However, any conversions would reduce our cash resources. We believe that, in the event that holders elect to exercise the conversion option, our cash resources and access to additional borrowings would provide the necessary liquidity.

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 6 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 using an effective rate of 9.72%. For the three and nine months ended September 30, 2018, we recorded $5.0 million and $14.8 million of interest expense, respectively, related to the amortization of the debt discount. For the three and nine months ended September 24, 2017, we recorded $4.6 million and $13.4 million of interest expense, respectively, related to the amortization of the debt discount.

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

	September 30, 2018	December 31, 2017
Principal amount of 2021 Notes	$ 395,000	$ 395,000
Unamortized debt discount	(74,552)	(89,332)
Unamortized debt issuance costs	(4,655)	(5,617)
Net carrying amount of 2021 Notes	$ 315,793	$ 300,051

The estimated fair value of the 2021 Notes was approximately $572.8 million at September 30, 2018, 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 6 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 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.

Due to the ability of the holders of the 2020 Notes to convert within the next year, the carrying value of the 2020 Notes and the fair value of the 2020 Notes Conversion Derivatives were classified as current liabilities and the fair value of the 2020 Notes Hedges was classified as current assets as of September 30, 2018. The respective balances were all classified as long-term as of December 31, 2017.

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 6 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 based upon an effective rate of 8.54%. For the three and nine months ended September 30, 2018, we recorded $2.4 million and $16.7 million of interest expense, respectively, related to the amortization of the debt discount. For the three and nine months ended September 24, 2017, we recorded $6.9 million and $20.3 million of interest expense, respectively, related to the amortization of the debt discount.

Concurrently with the issuance and sale of the 2021 Notes, certain holders of the 2020 Notes exchanged approximately $45 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 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.

Concurrently with the issuance and sale of the 2023 Notes, certain holders of the 2020 Notes exchanged approximately $400.9 million aggregate principal amount of their 2020 Notes for the 2023 Notes. For each $1,000 principal amount of 2020 Notes validly submitted for exchange, we delivered $1,138.70 principal amount of the 2023 Notes (subject to rounding down to the nearest $1,000 principal amount of the 2023 Notes for each exchanging investor, the difference being referred as the rounded amount) to the investor. As a result of this note exchange and retirement of $400.9 million aggregate principal amount of the 2020 Notes, we recognized approximately $39.9 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 July 1, 2018.

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

	September 30, 2018	December 31, 2017
Principal amount of 2020 Notes	$ 186,589	$ 587,500
Unamortized debt discount	(14,081)	(66,418)
Unamortized debt issuance costs	(1,710)	(8,068)
Net carrying amount of 2020 Notes	$ 170,798	$ 513,014

The estimated fair value of the 2020 Notes was approximately $204.7 million at September 30, 2018, 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 6 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 6 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 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.

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. During the second quarter of 2018, we agreed to settle a pro rata portion of the 2020 Notes Hedges and agreed to repurchase a pro rata portion of the warrants associated with the 2020 Notes. The pricing of these 2020 Notes Hedges and warrants associated with the 2020 Notes were based on pricing between July 9, 2018 and July 27, 2018 and were settled on July 30, 2018. As a result of these settlements, we received net proceeds of approximately $10.6 million on July 30, 2018. As we had agreed to settle a portion of the warrants in cash prior to July 1, 2018, we had warrants which were exercisable for 6.2 million ordinary shares with a strike price of $38.8010 per ordinary share as of July 1, 2018. The warrants which we had agreed to settle as of July 1, 2018 are recorded as a current derivative liability as of July 1, 2018 as described within Note 6.

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 matured on August 15, 2017. Prior to maturity, we paid interest on the 2017 Notes semi-annually on each February 15 and August 15 at an annual rate of 2.00%. WMG could not redeem the 2017 Notes prior to the maturity date, and no “sinking fund” was available for the 2017 Notes, which means that WMG was not required to redeem or retire the 2017 Notes periodically. The 2017 Notes were 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 represented 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 could convert their 2017 Notes solely into cash, regardless of the foregoing circumstances. The 2017 Notes were senior unsecured obligations that ranked: (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 were amortized over the term of the 2017 Notes using the effective interest method.

The 2017 Notes Conversion Derivative required bifurcation from the 2017 Notes in accordance with ASC Topic 815, *Derivatives and Hedging,* and was accounted for as a derivative liability. See Note 6 of the condensed consolidated financial statements for additional information regarding the 2017 Notes Conversion Derivative. The fair value of the 2017 Notes Conversion Derivative at the time of issuance of the 2017 Notes was $48.1 million and was recorded as original debt discount for purposes of accounting for the debt component of the 2017 Notes. This discount was amortized as interest expense using the effective interest method over the term of the 2017 Notes. For the three and nine months ended September 24, 2017, interest expense related to the amortization of the debt discount based upon an effective rate of 6.47% was negligible.

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 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.

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 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 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 September 30, 2018 and December 31, 2017, we had $21.5 million and $53.6 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 September 30, 2018 and December 31, 2017, 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 September 30, 2018 and December 31, 2017, we had $1.8 million and $2.2 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% 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.

On May 7, 2018, we amended and restated the ABL Credit Agreement to add a $40 million term loan facility (Term Loan Facility). The initial $20 million term loan tranche was funded at closing. The Borrowers may at any time borrow the second $20 million term loan tranche, but will be required to do so no later than May 7, 2019 unless certain adjusted EBITDA targets are met; in which case, the Borrowers will be permitted to extend the borrowing requirement for up to an additional two years. All borrowings under the Term Loan Facility are subject to the satisfaction of customary conditions, including the absence of default and the accuracy of representations and warranties in all material respects. As of September 30, 2018, we had $20 million outstanding under the term loan facility.

The interest rate applicable to borrowings under the Term Loan Facility will be equal to one-month LIBOR plus 7.85%, subject to a 1.00% LIBOR floor. Amortization payments under the Term Loan Facility are due in equal monthly installments beginning on May 1, 2019 unless we meet certain adjusted EBITDA targets; in which case, the amortization payments would not commence until May 1, 2021. In addition to paying interest on the outstanding loans under the Term Loan Facility, the Borrowers will also be required to pay certain other customary fees related to Agent's administration of the Term Loan Facility.

The Term Loan Facility requires mandatory prepayments, subject to the right of reinvestment and certain other exceptions, in amounts equal to 100% of the net cash proceeds from certain asset sales and casualty and condemnation events in excess of $10 million in any fiscal year. Any voluntary or mandatory prepayment under the Term Loan Facility, subject to certain exceptions, is subject to a 1.00% prepayment premium. The advances under the Term Loan Facility will be due and payable in full at the same time as the outstanding loans under the ABL Facility.

As a result of the Term Loan Facility, we recognized deferred financing charges of approximately $1.2 million, which will be amortized over the three-year term using the effective interest method.

All of the obligations under the Term Loan Facility and the ABL Facility are guaranteed jointly and severally by us and each of the Borrowers and are secured by a senior first priority security interest in substantially all existing and after-acquired assets of us and each Borrower on the terms set forth in the Credit Agreement.

In addition to financial and liquidity covenants consistent with those in the ABL Credit Agreement, while the Term Loan Facility is outstanding, the Company is required to maintain a minimum adjusted EBITDA, as described in the ABL Credit Agreement. The ABL Credit Agreement will not affect our ability to meet our existing contractual obligations, including payments under the Borrower Representative's contingent value rights agreement, except in circumstances where an event of default (subject to certain exceptions) has occurred and is continuing.

The ABL Credit Agreement also contains negative covenants, representations and warranties, affirmative covenants and events of default, in each case subject to grace periods, thresholds, and materiality qualifiers consistent with the ABL Credit Agreement.

Other Debt

Other debt primarily includes mortgages, shareholder debt, and loans acquired as a result of the IMASCAP acquisition. We have mortgages that had an outstanding balance of $0.5 million and $1.0 million at September 30, 2018 and December 31, 2017, respectively. These mortgages are secured by an office building in Montbonnot, France and bear fixed annual interest rates of 2.55%-4.9%. As a result of the IMASCAP acquisition, we have two zero interest loans with a state investment company that had an outstanding balance of $1.0 million and $1.2 million at September 30, 2018 and December 31, 2017, respectively. We also had shareholder debt outstanding of $1.5 million and $1.6 million as of September 30, 2018 and December 31, 2017, respectively. The remainder of other debt totaled approximately $6.0 million and $4.2 million as of September 30, 2018 and December 31, 2017, respectively.

The shareholder debt was acquired in conjunction with the Wright/Tornier merger. This debt 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.

10. Accumulated Other Comprehensive Income (AOCI)

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

For the nine months ended September 30, 2018 and September 24, 2017, OCI was comprised solely of foreign currency translation adjustments.

Changes in AOCI for the nine months ended September 30, 2018 and September 24, 2017 were as follows (in thousands):

	Nine months ended September 30, 2018
	Currency translation adjustment
Balance at December 31, 2017	$ 22,290
Other comprehensive loss	(19,642)
Balance at September 30, 2018	$ 2,648

	Nine months ended September 24, 2017
	Currency translation adjustment
Balance at December 25, 2016	$ (19,461)
Other comprehensive income	44,362
Balance at September 24, 2017	$ 24,901

11. Changes in Shareholders' Equity

The following table provides an analysis of changes in each balance sheet caption of shareholders' equity for the nine months ended September 30, 2018 and September 24, 2017 (in thousands, except share data):

	Nine months ended September 30, 2018					
	Ordinary shares		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Total shareholders' equity
	Number of shares	Amount				
Balance at December 31, 2017	105,807,424	$ 3,896	$ 1,971,347	$ (1,408,837)	$ 22,290	$ 588,696
2018 Activity:						
Net loss	—	—	—	(135,737)	—	(135,737)
Foreign currency translation	—	—	—	—	(19,642)	(19,642)
Issuances of ordinary shares	556,827	20	10,955	—	—	10,975
Shares issued for public offering (Note 12)	18,248,932	641	422,371	—	—	423,012
Vesting of restricted stock units	452,057	16	(16)	—	—	—
Share-based compensation	—	—	18,238	—	—	18,238
Issuance of stock warrants, net of repurchases and equity issuance costs	—	—	72,956	—	—	72,956
Balance at September 30, 2018	125,065,240	$ 4,573	$ 2,495,851	$ (1,544,574)	$ 2,648	$ 958,498

	Nine months ended September 24, 2017					
	Ordinary shares		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive (loss) income	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	—	—	—	(231,731)	—	(231,731)
Foreign currency translation	—	—	—	—	44,362	44,362
Issuances of ordinary shares	1,217,088	40	24,788	—	—	24,828
Vesting of restricted stock units	393,595	13	(13)	—	—	—
Share-based compensation	—	—	14,193	—	—	14,193
Balance at September 24, 2017	105,011,678	$ 3,868	$ 1,947,717	$ (1,437,970)	$ 24,901	$ 538,516

12. 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 125.1 million and 105.8 million ordinary shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively.

On August 27, 2018, we entered into an underwriting agreement with J.P. Morgan, relating to the registered public offering of 18,248,932 ordinary shares, at an initial price to the public of $24.60 per share, for a total price of $448.9 million. The net proceeds to us were $423.0 million, after deducting underwriting discounts and commissions of $25.4 million and offering costs of $0.5 million. The offering closed on August 30, 2018. The proceeds were used to fund the purchase price of the Cartiva acquisition which closed on October 10, 2018, as well as costs and expenses related thereto. See Note 15 for additional details related to the Cartiva acquisition.

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 nine months ended September 30, 2018 and September 24, 2017, our ordinary share equivalents consisted of stock options, restricted stock units, performance share units, and warrants. The dilutive effect of the stock options, restricted stock units, performance share units, and warrants is calculated using the treasury-stock method.

WRIGHT MEDICAL GROUP N.V.

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

We had outstanding options to purchase 10.4 million ordinary shares, 1.3 million restricted stock units, and 0.2 million performance stock units, assuming target performance, at September 30, 2018 and outstanding options to purchase 10.4 million ordinary shares, 1.4 million restricted stock units, and 0.1 million performance stock units, assuming target performance, at September 24, 2017. We had outstanding net-share settled warrants on the 2020 Notes of 6.2 million and 19.6 million ordinary shares at September 30, 2018 and September 24, 2017, respectively. We also had net-share settled warrants on the 2021 Notes of 18.5 million ordinary shares at September 30, 2018 and September 24, 2017. Finally, we had net-share settled warrants on the 2023 Notes of 20.2 million ordinary shares at September 30, 2018.

None of the options, restricted stock units, performance share units, or warrants were included in the calculation of diluted net loss from continuing operations per share, diluted net (loss) income from discontinued operations per share, and diluted net loss per share for the three and nine months ended September 30, 2018 or September 24, 2017, because we recorded a net loss from continuing operations for all periods. Including these instruments would be anti-dilutive as the net loss from continuing operations is the control number in determining whether those potential common shares are dilutive or 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		Nine months ended	
	September 30, 2018	September 24, 2017	September 30, 2018	September 24, 2017
Weighted-average number of ordinary shares outstanding-basic and diluted	113,043	104,836	108,348	104,292

13. Commitments and Contingencies

Legal Contingencies

The legal contingencies described in this footnote relate primarily to 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 will continue to cooperate as required.

Patent Litigation

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 completed fact and expert discovery with respect to the remaining asserted method claims. We 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 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. Spineology appealed the judgment to the U.S. Court of Appeals for the Federal Circuit and on July 6, 2018, the Court of Appeals affirmed the judgment of non-infringement in our favor and directed the District Court to enter judgment of non-infringement as to all of Spineology's asserted patent claims. On September 6, 2018, the Court of Appeals denied Spineology's petition for rehearing and, on September 18, 2018, the District Court entered final judgment of non-infringement.

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 opposed that motion. On January 27, 2017, we filed a motion for summary judgment on certain issues pertaining to our indemnification claims. Spineology opposed that motion. On July 7, 2017, the Court extended the deadlines for completing discovery until after it ruled on those pending motions. On August 29, 2017, the Court ruled on the motions to dismiss and for summary judgment. In view of that decision, on September 22, 2017, the parties stipulated to, and the Court entered, a judgment that effectively ended the case in a draw. We appealed the judgment as to our claims against Spineology to the U.S. Court of Appeals for the Sixth Circuit and oral argument occurred on August 2, 2018. On August 24, 2018, the Court of Appeals ruled in our favor on our breach of contract claim and remanded the case to the District Court for further proceedings. Spineology did not appeal the District Court's dismissal of its contract counterclaim.

Product Liability

We have received claims for personal injury against us associated with fractures of our PROFEMUR® titanium modular neck product (PROFEMUR® Claims). As of September 30, 2018, there were approximately 18 unresolved pending U.S. lawsuits and approximately 57 unresolved 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 fiscal 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® titanium modular neck, or who may require a revision in the future. Management has estimated that this aggregate liability is \$18.2 million. We have classified \$11.7 million of this liability in "Accrued expenses and other current liabilities," as we expect to pay such claims within the next twelve months, and \$6.5 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. 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.

We have maintained product liability insurance coverage on a claims-made basis. During the fiscal 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 agreed 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 fiscal quarter ended March 31, 2013, within results of discontinued operations. In the fiscal quarter ended June

30, 2013, we received payment from the primary insurance carrier of $5 million. In the fiscal quarter ended September 30, 2013, we received payment of $10 million from the next insurance carrier in the tower. We requested, but did not receive, 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 believed 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 would preclude coverage for the Titanium Modular Neck Claims. 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 fiscal year ended December 27, 2015. We strongly disputed the carrier's position and, in accordance with the dispute resolution provisions of the policy, initiated an arbitration proceeding in London, England seeking payment of these funds. The arbitration proceeding was completed on February 15, 2018 and, on April 11, 2018, the arbitration tribunal issued its ruling. Thereafter, we and the insurance carrier agreed to resolve the entire matter in exchange for a single lump sum payment by the carrier to us in the amount of $30.75 million, representing the full policy limits of $25 million plus an additional $5.75 million for legal costs and interest. We received payment of this sum from the carrier on May 8, 2018. This insurance recovery is reflected within our results of discontinued operations for the quarter ended July 1, 2018.

We are aware that MicroPort has recalled a certain size of its cobalt chrome modular neck product as a result of alleged fractures. As of September 30, 2018, there were seven pending U.S. lawsuits and five 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.

Claims for personal injury have also been made against us associated with our metal-on-metal hip products (primarily the CONSERVE® product line). The pre-trial management of certain of these claims was 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 in state court in Los Angeles County, California (JCCP) in state court in Los Angeles County, California (collectively the Consolidated Metal-on-Metal Claims). Pursuant to previously disclosed settlement agreements with the Court-appointed attorneys representing plaintiffs in the MDL and JCCP described below, the MDL and JCCP were closed to new cases effective October 18, 2017 and October 31, 2017, respectively.

Excluding claims resolved in the settlement agreements described below, as of September 30, 2018, there were approximately 129 unresolved metal-on-metal hip cases pending in the U.S. This number includes cases ineligible for settlement, cases which opted out of settlement, post-settlement cases, tolled cases, and existing state court cases that were not part of the MDL or JCCP. As of September 30, 2018, we estimate there also were pending approximately 34 non-U.S. metal-on metal cases and 34 unresolved modular neck U.S. cases and no non-U.S. cases alleging claims related to the release of metal ions. We also estimate that as of September 30, 2018 there were approximately 535 non-revision claims either dismissed or awaiting dismissal from the MDL and JCCP pursuant to the terms of the settlement agreements. Although there is a limited time period during which dismissed non-revision claims may be refiled, it is presently unclear how many non-revision claimants will elect to do so. As of September 30, 2018, no dismissed non-revision cases have been refiled.

We believe we have data that supports the efficacy and safety of our hip products. Every hip implant case, including metal-on-metal hip cases, 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.

On November 1, 2016, WMT entered into the 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.

Actual settlements paid to individual claimants are 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.

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Claims in the Initial Settlement Pool that were ineligible due to failure to meet the eligibility criteria of the MSA were replaced with new eligible claims involving the same product, so that the number and mix of claims in the final settlement pool (before opt-outs) (Final Settlement Pool) equaled the number and mix of claims in the Initial Settlement Pool. Additionally, where DYNASTY® or LINEAGE® claims in the Final Settlement Pool were determined to have been misidentified as CONSERVE® claims, or vice versa, the total settlement amount was 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, 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 claims ceiling, but otherwise eligible for participation, on May 5, 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.

During 2016, WMT escrowed $150 million to secure its obligations under the MSA, all of which had been disbursed as of December 31, 2017. As additional security, Wright Medical Group N.V., the indirect parent company of WMT, agreed to guarantee WMT's obligations under the MSA.

On October 3, 2017, WMT entered into the Second Settlement Agreements with the Court-appointed attorneys representing plaintiffs in the MDL and JCCP. Under the terms of the Second Settlement Agreements, the parties agreed to settle 629 specifically identified CONSERVE®, DYNASTY® and LINEAGE® claims that meet the eligibility requirements of the Second Settlement Agreements and are either pending in the MDL or JCCP, or subject to court-approved tolling agreements in the MDL or JCCP, for a maximum settlement amount of $89.75 million. The comprehensive settlement amount was contingent on WMT's recovery of new insurance proceeds totaling at least $35 million from applicable insurance carriers by December 31, 2017. On December 29, 2017, WMT entered into a First Amendment to the Third Settlement Agreement pursuant to which the deadline for the recovery of new insurance proceeds totaling at least $35 million from applicable insurance carriers was extended through February 28, 2018 and, on February 23, 2018, WMT entered into a Second Amendment to the Third Settlement Agreement pursuant to which the deadline was extended through March 30, 2018. On March 29, 2018, WMT entered into a Third Amendment to the Third Settlement Agreement which eliminated the contingency and gave WMT the option, by September 30, 2018, to either pay or make available for payment the then outstanding deficit on the insurance contingency or transfer to eligible claimants WMT's claims against the insurance carriers with whom WMT has not settled, and pay or make available for payment such insurance deficit in March 2019, subject to the right to recover these funds from any plaintiff recoveries from carriers plus ten percent interest, plus an additional $5 million in costs, in each case after recovery by plaintiffs' counsel of costs and fees. In connection with such transfer agreement, WMT would also enter into a stipulated judgment in the amount of $541 million, which judgment would not be recoverable against WMT or its affiliates. On September 27, 2018, WMT elected not to transfer WMT's claims against the insurance carriers with whom WMT has not settled. As of September 30, 2018, certain of the insurance carriers have contributed $21.9 million of funds applicable against the $35 million contingency, leaving a $13.1 million deficit.

The $89.75 million settlement amount is a maximum settlement based on the pool of 629 specific, existing claims comprised of an identified mix of CONSERVE®, DYNASTY® and LINEAGE® products (Second Settlement Initial Settlement Pool), with a value assigned to each product type. Actual settlements paid to individual claimants will be determined under the claims administration procedures contained in the Second Settlement Agreements and may be more or less than the amounts used to calculate the $89.75 million settlement for the 629 claims in the Second Settlement Initial Settlement Pool. However in no event will variations in actual settlement amounts payable to individual claimants affect WMT's maximum settlement obligation of $89.75 million or the manner in which it may be reduced due to opt outs, final product mix, or elimination of ineligible claims.

The total maximum settlement amount of $89.75 million is allocated among the following three tranches: (1) Tranche 1: $7.9 million to settle 49 additional claims that would have been eligible to participate in the MSA but for the claim limit contained therein, which amount will be funded as such claims are settled; (2) Tranche 2: $5.1 million to settle 39 eligible claims of the oldest claimants (by age), which amount will be funded as such claims are settled; and (3) Tranche 3: $76.75 million to settle 511 eligible claims pending or tolled in the MDL and JCCP existing as of June 30, 2017, and 30 new eligible claims which were presented between July 1, 2017 and October 1, 2017. Settlement funds for Tranche 3 were or will be made available for payment as follows: $45 million (less the remaining insurance deficit, which was $13.1 million) on June 30, 2018, the remaining insurance deficit ($13.1 million) by September 30, 2018, and the balance by September 30, 2019. Actual funding has not yet occurred as claims are still in the administration process.

The Second Settlement Agreements contain specific eligibility requirements and establish 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 and that, with limited exceptions, the claimant has undergone a revision surgery. 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.

Each of the Second Settlement Agreements includes a 95% opt-in requirement, meaning WMT could have terminated either Settlement Agreement prior to any settlement disbursement if claimants holding greater than 5% of eligible claims in Tranches 1 and 2, collectively, or claimants holding greater than 5% of eligible claims in Tranche 3, elected to “opt-out” of the settlement. On January 2, 2018, WMT received notification that 100% of the claimants in Tranches 1 and 2 opted-in. WMT reviewed proof of claim documentation for these claimants and confirmed a final opt-in percentage of 100%. On or about May 1, 2018, WMT received notice from plaintiffs that the 95% opt-in threshold had also been met for Tranche 3. WMT reviewed proof of claim documentation for Tranche 3 claimants and confirmed that the 95% opt-in threshold had been met. On July 31, 2018, WMT confirmed a final opt-in percentage of 100% for Tranche 3.

While the Second Settlement Agreements did not require WMT to escrow any amount to secure its obligations thereunder, as additional security, Wright Medical Group N.V., the indirect parent company of WMT, agreed to guarantee WMT’s obligations under the Second Settlement Agreements.

The MSA (which reference includes the supplemental settlements described above) and the Second Settlement Agreements were entered into solely as a compromise of the disputed claims being settled and are not evidence that any claim has merit nor are they an admission of wrongdoing or liability by WMT. WMT will continue to vigorously defend metal-on-metal hip claims not settled pursuant to the above agreements. The Second Settlement Agreements are contingent upon the dismissal without prejudice of pending and tolled claims in the MDL and JCCP that do not meet the inclusion criteria of the MDL or JCCP. Additionally, the Second Settlement Agreements are contingent upon the dismissal without prejudice of all remaining non-revision claims in the MDL and JCCP (presently estimated to number approximately 535 claims either dismissed or awaiting dismissal), pursuant to a tolling agreement that tolls applicable statutes of limitation and repose for three months from a revision of the products or determination that a revision of the products is necessary. The MDL and JCCP courts have both entered orders closing these proceedings to new claims.

As a result of entering into the Second Settlement Agreements during the third quarter of 2017, we recorded an additional accrual of $82.7 million for the 629 matters included within the settlement and for matters that have the same eligibility criteria.

As of September 30, 2018, our accrual for metal-on-metal claims totaled $105.6 million, of which $88.8 million is included in our consolidated balance sheet within “Accrued expenses and other current liabilities” and $16.8 million is included within “Other liabilities.” Our accrual is based on (i) case by case accruals for specific cases where facts and circumstances warrant, and (ii) the implied settlement values for eligible claims under the MSA or Second Settlement Agreements. 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 or Second Settlement Agreements. Claims we can confirm would meet MSA or Second Settlement Agreements eligibility criteria but are excluded from the settlements due to the maximum settlement cap, or because they are cases not part of the MDL or JCCP, have been accrued as of the respective settlement rates. 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 future claims; hence we have not accrued for these claims at the present time.

We continue to believe the high-end of a possible range of loss for existing revision claims that do not meet eligibility criteria of the MSA or Second Settlement Agreements will not, on an average per case basis, exceed the average per case accrual we take for revision claims we can confirm do meet eligibility criteria of the MSA or Second Settlement Agreements, as applicable. 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).

WRIGHT MEDICAL GROUP N.V.

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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 appealed, and the appellate court heard oral argument on November 8, 2017. On February 20, 2018, the Missouri Court of Appeals, Eastern District, denied the plaintiff's appeal and upheld the verdict of the trial court. The plaintiff's time for seeking any further relief from the verdict has lapsed and this matter is closed.

We have maintained product liability insurance coverage on a claims-made basis. During the fiscal 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.

In June 2014, 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 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.

As part of the settlement with the Three Settling Insurers, the Three Settling Insurers bought back from WMT their policies in the five policy years beginning with the August 1, 2007- August 1, 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 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.

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. On August 29, 2017, we refiled the motion to add a bad faith claim against the primary and excess insurance carriers. The Court granted our motion on October 19, 2017 and, on October 23, 2017, we filed amended cross-claims alleging bad faith against all of the insurance carriers.

On February 22, 2018, we and certain of our subsidiaries entered into the Second Insurance Settlement Agreement with the primary insurance carrier, Federal, pursuant to which Federal has paid us a single lump sum payment of $15 million (in addition to $5 million previously paid by Federal). This amount is in full satisfaction of all potential liability of Federal relating to designated metal-on-metal hip claims, including but not limited to all claims asserted by our subsidiary WMT against Federal in the previously disclosed insurance coverage litigation. We recorded a $15 million receivable as a result of this agreement within "Other current assets" as of December 31, 2017. On March 20, 2018, Federal was dismissed from the Tennessee and California actions described above.

On April 19, 2018, we and certain of our subsidiaries entered into a Settlement and Release Agreement (Third Insurance Settlement Agreement) with Catlin Underwriting Agencies Limited for and on behalf of Syndicate 2003 at Lloyd's of London (Lloyd's

Syndicate 2003) pursuant to which Lloyd's Syndicate 2003 has paid us a single lump sum payment of $1.9 million (in addition to $5 million previously paid by Lloyd's Syndicate 2003). This amount is in full satisfaction of all potential liability of Lloyd's Syndicate 2003 relating to designated metal-on-metal hip claims, including but not limited to all claims asserted by our subsidiary WMT against Lloyd's Syndicate 2003 in the previously disclosed insurance coverage litigation. On May 1, 2018, Lloyd's Syndicate 2003 was dismissed from the Tennessee action described above. The Lloyd's Syndicate 2003 was dismissed from the California action on May 3, 2018.

Following the settlements with the Three Settling Insurers, Federal, and Lloyd's Syndicate 2003, the only remaining insurer in the Tennessee and California coverage litigation is Catlin Specialty Insurance Company, a high-level excess insurer that provided "follow-form" coverage during the 2011/2012 policy period. Litigation with this carrier is continuing. Trial is set for July 2019.

In March 2017, Lexington, which had been dismissed from the Tennessee action, requested arbitration under five Lexington insurance policies in connection with the CONSERVE® Claims. We subsequently engaged in discussions and correspondence with Lexington about the scope of the requested arbitration(s). On or about October 27, 2017, Lexington filed an Application for Order to Compel Arbitration in the Commonwealth of Massachusetts, Suffolk County Superior Court, naming WMT, Wright Medical Group, Inc., and Wright Medical Group N.V. We opposed the Application. On February 28, 2018, the Massachusetts Court ordered the parties to arbitrate the two Lexington insurance policies containing Massachusetts arbitration clauses but did not order arbitration under the remaining three Lexington policies at issue. We have appealed that ruling. While the appeal is pending, we are proceeding with the arbitration, but the selection of the arbitrators is still in dispute by the parties. In the arbitration, Lexington has asserted a claim for declaratory relief, and we have asserted counter-claims for breach of contract, declaratory relief, and bad faith. On September 26, 2018, Lexington sought to add a claim alleging Wright's filing of the Tennessee lawsuit referred to below was not in good faith. Wright objected to Lexington's additional claim and argued that such claim could only be added upon agreement of the arbitrators (who are yet to be selected). The American Arbitration Association agreed with Wright's position.

On May 22, 2018, Wright initiated a lawsuit against Lexington under the three policies that the court did not order into arbitration in Massachusetts. The lawsuit, filed in the Chancery Court of Tennessee, alleges breach of contract, declaratory relief, and bad faith in connection with Lexington's failure and refusal to provide coverage for the underlying metal-on-metal claims under policies issued for 2009-2012. On July 12, 2018, Lexington brought a motion to stay the litigation and compel arbitration under the 2009-2011 Lexington policies. The motion remains pending.

As of September 30, 2018, our insurance carriers have paid an aggregate of $101.9 million of insurance proceeds related to the metal-on-metal claims, including amounts received under the three above referenced settlement agreements, of which $95.2 million has been paid directly to us and $6.7 million has been paid directly to claimants. Except as provided in the Insurance Settlement Agreement, the Second Insurance Settlement Agreement and the Third Insurance Settlement Agreement, our acceptance of the insurance proceeds was not a waiver of any other claim we may have against the insurance carriers unrelated to metal-on-metal coverage and our disputes with carriers relating thereto. However, the amount we ultimately receive will depend on the outcome of our dispute with the remaining carriers (Lexington and Catlin, with remaining policy limits totaling $30 million and $5 million, respectively) 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.

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.

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. As the IMASCAP operations will be managed by the U.S. Upper Extremities management team, results of operations and assets related to IMASCAP will be included within the U.S. Upper Extremities segment. 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 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.

Selected financial information related to our segments is presented below for the three months ended September 30, 2018 and September 24, 2017 (in thousands):

	Three months ended September 30, 2018				
	U.S. Lower Extremities & Biologics	U.S. Upper Extremities	International Extremities & Biologics	Corporate [1]	Total
Net sales from external customers	$ 79,296	$ 66,269	$ 48,541	$ —	$ 194,106
Depreciation expense	2,474	2,836	3,366	5,928	14,604
Amortization expense	—	—	—	5,881	5,881
Segment operating income (loss)	$ 20,487	$ 21,192	$ (278)	$ (48,583)	$ (7,182)
Other:					
Transaction and transition expenses					1,952
Operating loss					(9,134)
Interest expense, net					19,753
Other expense, net					3,902
Loss before income taxes					$ (32,789)

	Three months ended September 24, 2017				
	U.S. Lower Extremities & Biologics	U.S. Upper Extremities	International Extremities & Biologics	Corporate [1]	Total
Net sales from external customers	$ 70,946	$ 55,918	$ 43,639	$ —	$ 170,503
Depreciation expense	3,871	2,372	3,298	5,459	15,000
Amortization expense	—	—	—	7,178	7,178
Segment operating income (loss)	$ 13,506	$ 16,575	$ (1,563)	$ (43,716)	$ (15,198)
Other:					
Transaction and transition expenses					3,311
Operating loss					(18,509)
Interest expense, net					18,978
Other expense, net					5,457
Loss before income taxes					$ (42,944)

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

Selected financial information related to our segments is presented below for the nine months ended September 30, 2018 and September 24, 2017 (in thousands):

	Nine months ended September 30, 2018				
	U.S. Lower Extremities & Biologics	U.S. Upper Extremities	International Extremities & Biologics	Corporate [1]	Total
Net sales from external customers	$ 235,595	$ 206,338	$ 156,110	$ —	$ 598,043
Depreciation expense	7,729	8,350	9,604	17,303	42,986
Amortization expense	—	—	—	19,031	19,031
Segment operating income (loss)	$ 62,211	$ 69,864	$ (1,526)	$ (138,044)	$ (7,495)
Other:					
Transaction and transition expenses					4,187
Operating loss					(11,682)
Interest expense, net					60,243
Other expense, net					75,649
Loss before income taxes					$ (147,574)

	Nine months ended September 24, 2017				
	U.S. Lower Extremities & Biologics	U.S. Upper Extremities	International Extremities & Biologics	Corporate [1]	Total
Net sales from external customers	$ 220,259	$ 171,695	$ 135,433	$ —	$ 527,387
Depreciation expense	10,080	7,321	8,539	16,184	42,124
Amortization expense	—	—	—	21,574	21,574
Segment operating income (loss)	$ 51,988	$ 52,942	$ 1,641	$ (133,987)	$ (27,416)
Other:					
Transaction and transition expenses					9,484
Operating loss					(36,900)
Interest expense, net					55,512
Other expense, net					6,875
Loss before income taxes					$ (99,287)

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, EMEAC (which includes Europe, the Middle East, Africa, and Canada), and Other (which principally represents Asia, Australia, 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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Net sales by geographic region by product line are as follows (in thousands):

	Three months ended		Nine months ended	
	September 30, 2018	September 24, 2017	September 30, 2018	September 24, 2017
United States				
Lower extremities	$ 57,602	$ 51,417	$ 173,889	$ 161,228
Upper extremities	65,334	54,788	203,163	168,280
Biologics	20,654	18,640	59,053	56,547
Sports med & other	1,975	2,019	5,828	5,899
Total United States	$ 145,565	$ 126,864	$ 441,933	$ 391,954
EMEAC				
Lower extremities	$ 9,527	$ 9,022	$ 33,761	$ 30,379
Upper extremities	18,985	15,779	64,935	51,193
Biologics	1,828	1,727	6,244	6,159
Sports med & other	2,591	2,968	8,182	10,001
Total EMEAC	$ 32,931	$ 29,496	$ 113,122	$ 97,732
Other				
Lower extremities	$ 3,974	$ 4,941	$ 10,747	$ 11,993
Upper extremities	6,696	5,418	19,477	15,413
Biologics	4,721	3,466	12,144	9,333
Sports med & other	219	318	620	962
Total other	$ 15,610	$ 14,143	$ 42,988	$ 37,701
Total net sales	$ 194,106	$ 170,503	$ 598,043	$ 527,387

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 September 30, 2018 and December 31, 2017 are as follows (in thousands):

	September 30, 2018				
	U.S. Lower Extremities & Biologics	U.S. Upper Extremities	International Extremities & Biologics	Corporate	Total
Total assets	$ 524,265	$ 922,120	$ 249,051	$ 1,143,859	$ 2,839,295

	December 31, 2017				
	U.S. Lower Extremities & Biologics	U.S. Upper Extremities	International Extremities & Biologics	Corporate	Total
Total assets	$ 490,528	$ 929,930	$ 301,985	$ 406,281	$ 2,128,724

15. Subsequent Event

During the third quarter of 2018, on August 24, 2018, we entered into a definitive agreement to acquire 100% of the outstanding equity on a fully diluted basis of Cartiva, Inc., an orthopaedic medical device company focused on treatment of osteoarthritis of the great toe, for a total price of $435 million in cash, subject to certain adjustments as set forth in the agreement. On October 10, 2018, we completed the acquisition. We funded the acquisition with the proceeds from a registered underwritten public offering of 18,248,932 ordinary shares which had net proceeds of $423.0 million. See Note 12 for additional details related to the public offering. This acquisition adds a differentiated pre-market approval (PMA) approved technology for a high-volume foot and ankle procedure and further accelerates growth opportunities in our global extremities business.

The purchase price for this acquisition will be allocated to the identifiable assets acquired and liabilities assumed based on estimates of their relative fair values at October 10, 2018, the date of the acquisition, with the excess purchase price recorded as goodwill. Because the initial accounting for the business combination is incomplete at this time, we are unable to provide the purchase price allocation for this transaction.

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 nine months ended September 30, 2018. 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 31, 2017, 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 former 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 former 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.

On August 24, 2018, we into a definitive agreement to acquire 100% of the outstanding equity on a fully diluted basis of Cartiva, an orthopaedic medical device company focused on treatment of osteoarthritis of the great toe, for a total price of $435 million in cash, subject to certain adjustments as set forth in the agreement. On October 10, 2018, we completed the acquisition, which adds a differentiated PMA approved technology for a high-volume foot and ankle procedure and further accelerates growth opportunities in our global extremities business. We funded the acquisition with the proceeds from a registered underwritten public offering of 18,248,932 ordinary shares which had net proceeds of $423.0 million. See Note 12 for additional details related to the public offering.

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-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. The fiscal year ended December 31, 2017 was a 53-week period. The three and nine months ended September 30, 2018 and September 24, 2017 each consisted of thirteen and thirty-nine 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); Warsaw, Indiana (research and development); Alpharetta, Georgia (manufacturing and warehousing operations); Montbonnot, France (manufacturing and warehousing operations); Plouzané, France (research and development); and Macroom, Ireland (manufacturing). In addition, we have local sales and distribution offices in Canada, Australia, Asia, Latin America, and throughout Europe.

We promote our products in approximately 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® FLEX™ convertible shoulder system and SIMPLICITI® total shoulder replacement system, AEQUALIS® PERFORM™ Glenoid System, and the AEQUALIS® REVERSED II™ reversed shoulder system. SIMPLICITI® is the first minimally invasive, canal sparing total shoulder available in the United States. We believe SIMPLICITI® allows us to expand the market to include younger patients that historically have deferred these procedures. Our BLUEPRINT™ 3D Planning Software can be used with our products to assist surgeons in accurately positioning the glenoid and humeral implants and replicating the pre-operative surgical plan. Other principal upper extremities products include the EVOLVE® radial head prosthesis for elbow fractures, the EVOLVE® Elbow Plating System, and the RAYHACK® osteotomy system.

Our principal lower extremities products include the INBONE®, INFINITY®, and INVISION™ Total Ankle Replacement Systems, all of which can be used with our PROPHECY® Preoperative Navigation Guides, which combine computer imaging with a patient's CT scan, and are designed to provide alignment accuracy while reducing surgical steps. As a result of our recent acquisition of Cartiva, our lower extremities products now includes Cartiva's Synthetic Cartilage Implant, the only PMA approved product for treatment of first Metatarsal Phalangeal (MTP) joint osteoarthritis. Our lower extremities products also include the Salvation external fixation system for the treatment of Charcot diabetic foot, the CLAW® II Polyaxial Compression Plating System, the ORTHOLOC® 3Di Reconstruction Plating System, the PhaLinx® System used for hammertoe indications, PRO-TOE® VO Hammertoe System, the DARCO® family of locked plating systems, the VALOR ® ankle fusion nail system, and the Swanson line of toe joint replacement products. The PROstep™ Minimally Invasive Surgery System for Foot and Ankle was launched to limited users in the third quarter of 2017, and was fully launched early in the third quarter of 2018. We also launched and plan to continue to launch during the remainder of 2018 a number of line extensions to the SALVATION™ limb salvage portfolio. We expect continued demand for these new products during the remainder of 2018.

Our biologic products use both biological tissue-based and synthetic materials to allow the body to regenerate damaged or diseased bone and to repair damaged or diseased soft tissue. The newest addition to our biologics product portfolio is 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. Prior to FDA approval, this product was available for sale in Canada for foot and ankle fusion indications and in Australia and New Zealand for hindfoot and ankle fusion indications. In June 2018, we received premarket approval (PMA) from the FDA for AUGMENT ® Injectable Bone Graft. The AUGMENT® Bone Graft product line was acquired from BioMimetic in March 2013. Our other principal biologics products include the GRAFTJACKET® line of soft tissue repair and containment membranes, the ACTISHIELD™ and VIAFLOW™ products which are derived from amniotic and placental tissues, the ALLOMATRIX® line of injectable tissue-based bone graft substitutes, the PRO-DENSE® Injectable Graft, the OSTEOSET® synthetic bone graft substitute, and the PRO-STIM® Injectable Inductive Graft.

Significant Quarterly Business Developments.

As previously disclosed, on October 1, 2015, simultaneous with the completion of the Wright/Tornier merger, we completed the divestiture of the U.S. rights to legacy Tornier's SALTO TALARIS® and SALTO TALARIS® XT™ line of ankle replacement products and line of silastic toe replacement products, among other assets, for cash. We retained the right to sell these products outside the United States for up to 20 years unless the purchaser exercises an option to purchase the ex-United States rights to the products. On October 4, 2018, the purchaser exercised its option to acquire the rights and assets associated with the international Salto ankle and silastic toe replacement products. We are currently in discussions with the purchaser over the exact terms and timing of the acquisition. Net sales of the associated products totaled $3.0 million for the nine months ended September 30, 2018.

On August 24, 2018, we entered into a definitive agreement to acquire 100% of the outstanding equity on a fully diluted basis of Cartiva, an orthopaedic medical device company focused on treatment of osteoarthritis of the great toe, for a total price of $435 million in cash, subject to certain adjustments as set forth in the agreement. On October 10, 2018, we completed the acquisition. We funded the acquisition with the proceeds from a registered underwritten public offering of 18,248,932 ordinary shares, at an initial price to the public of $24.60 per share, for a total price of $448.9 million. The net proceeds to us were $423.0 million, after deducting underwriting discounts and commissions of $25.4 million and offering costs of $0.5 million. The offering closed on August 30, 2018, and on October 10, 2018, the proceeds were used to fund the Cartiva acquisition, as well as costs and expenses related thereto. The Cartiva acquisition adds a differentiated PMA approved technology for a high-volume foot and ankle procedure and further accelerates growth opportunities in our global extremities business

In June 2018, we received premarket approval from the FDA for AUGMENT® Injectable Bone Graft for the same clinical indications as AUGMENT® Bone Graft. AUGMENT® Injectable is a combination product consisting of recombinant human platelet derived growth factor (rhPDGF-BB) and a blend of Type I collagen and Beta tri-calcium phosphate, which provides a clinically proven and safe and effective alternative to autograft for use in hindfoot and ankle fusion in an easy to use flowable formulation.

During June 2018, we issued $675 million of 2023 Notes and settled $400.9 million of 2020 Notes and received cash of $215.5 million, net of premium and interest paid on the 2020 Notes. We also paid $141.3 million for hedges associated with the 2023 Notes and received approximately $102.1 million for the issuance of warrants associated with the 2023 Notes. Finally, during June 2018, we wrote off a pro rata share of the 2020 unamortized debt discount and deferred financing fees which totaled $39.9 million.

In September 2015, the third insurance carrier in the policy year applicable to titanium modular neck fracture claims denied coverage under its $25 million excess liability policy despite full payout by the other carriers in that policy year. We strongly disputed the carrier's position and, in accordance with the dispute resolution provisions of the policy, initiated an arbitration proceeding in London, England seeking payment of these funds. The arbitration proceeding was completed on February 15, 2018 and, on April 11, 2018, the arbitration tribunal issued its ruling. Thereafter, we and the insurance carrier agreed to resolve the entire matter in exchange for a single lump sum payment by the carrier to us in the amount of $30.75 million, representing the full policy limits of $25 million plus an additional $5.75 million for legal costs and interest. We received payment of this sum from the carrier on May 8, 2018. This insurance recovery is reflected within our results of discontinued operations for the quarter ended July 1, 2018.

On May 7, 2018, we amended and restated the ABL Credit Agreement to add a $40 million Term Loan Facility. The initial $20 million term loan tranche was funded at closing. We may at any time borrow the second $20 million term loan tranche, but will be required to do so no later than May 7, 2019 unless certain adjusted EBITDA targets are met; in which case, we will be permitted to extend the borrowing requirement for up to an additional two years. All borrowings under the Term Loan Facility are subject to the satisfaction of customary conditions, including the absence of default and the accuracy of representations and warranties in all material respects.

Financial Highlights. Net sales increased 13.8% totaling $194.1 million in the third quarter of 2018, compared to $170.5 million in the third quarter of 2017, driven primarily by 14.7% growth in our U.S. net sales.

Our U.S. net sales increased $18.7 million, or 14.7%, in the third quarter of 2018 as compared to the third quarter of 2017, driven by continued success of our PERFORM™ REVERSED Glenoid System, our SIMPLICITI® shoulder system, our INFINITY® total ankle replacement system, and our AUGMENT® Bone Graft product, along with increased sales in our core lower extremities business.

Our international net sales increased $4.9 million, or 11.2%, in the third quarter of 2018 as compared to the third quarter of 2017, driven by 6.2% growth in our direct markets, partially offset by a $0.9 million unfavorable impact from foreign currency exchange rates.

In the third quarter of 2018, our net loss from continuing operations totaled $35.8 million, compared to a net loss from continuing operations of $34.1 million for the third quarter of 2017. Improved profitability in our U.S. lower extremities and U.S. upper extremities businesses due to leveraging fixed expenses over increased net sales was offset by incremental corporate expenses for cash incentive compensation expense and non-cash stock based compensation expense. Additionally, results for the third quarter of 2017 included an $8.9 million tax benefit related to a change in the realizability of certain U.S. net operating losses following the completion of a tax project.

Opportunities and Challenges. We intend to continue to leverage the global strengths of our product brands as a pure-play extremities and biologics business. Additionally, we believe the highly complementary nature of our businesses gives us significant diversity and scale across a range of geographies and product categories. We believe our December 2017 acquisition of IMASCAP, a leader in the development of software-based solutions for preoperative planning of shoulder replacement surgery, ensures exclusive access to breakthrough software enabling technology and patents, including BLUEPRINT™, to further differentiate our product portfolio and to further accelerate growth opportunities in our global extremities business. BLUEPRINT™ is proving to be integral to our ability to convert competitive surgeons, and we believe that impact will increase as we execute our plans to make the system easier to use and release additional enhancements. As of September 30, 2018, approximately 30% of our shoulder customers and shoulder cases are using BLUEPRINT™.

We are delighted to add Cartiva's Synthetic Cartilage Implant (SCI), the first and only PMA product for the treatment of great toe osteoarthritis, to our market-leading lower extremities portfolio. Supported by compelling clinical performance and backed by Level I clinical evidence, Cartiva is experiencing rapid commercial adoption and is well positioned for future growth as it addresses large markets with significant unmet needs and strong patient demand. We expect this acquisition to support our growth prospects in our core lower extremities business for the remainder of the year and throughout 2019.

Since the Wright/Tornier merger and through the end of the quarter ended September 30, 2018, we have completed the integration of our global sales force, co-located and consolidated into one ERP system in three of our top five international markets, transferred our U.S. upper extremities inventory into a hub network, and completed a substantial number of other integration activities, while incurring more cost synergies earlier and less sales dis-synergies than we originally anticipated. We believe we have excellent opportunities to continue to improve efficiency and leverage our fixed costs going forward. We also believe we have significant opportunity with the recent and anticipated launch of new products, including AUGMENT® Injectable, and through driving BLUEPRINT™ adoption, strategic service at ambulatory surgery centers, and excellent and efficient service to our customers.

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.

Results of Operations

Comparison of the three months ended September 30, 2018 to the three months ended September 24, 2017

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			
	September 30, 2018		September 24, 2017	
	Amount	% of net sales	Amount	% of net sales
Net sales	$ 194,106	100.0 %	$ 170,503	100.0 %
Cost of sales [1]	44,307	22.8 %	38,421	22.5 %
Gross profit	149,799	77.2 %	132,082	77.5 %
Operating expenses:				
Selling, general and administrative [1]	139,223	71.7 %	131,421	77.1 %
Research and development [1]	13,829	7.1 %	11,992	7.0 %
Amortization of intangible assets	5,881	3.0 %	7,178	4.2 %
Total operating expenses	158,933	81.9 %	150,591	88.3 %
Operating loss	(9,134)	(4.7)%	(18,509)	(10.9)%
Interest expense, net	19,753	10.2 %	18,978	11.1 %
Other expense, net	3,902	2.0 %	5,457	3.2 %
Loss from continuing operations before income taxes	(32,789)	(16.9)%	(42,944)	(25.2)%
Provision (benefit) for income taxes	3,040	1.6 %	(8,822)	(5.2)%
Net loss from continuing operations	$ (35,829)	(18.5)%	$ (34,122)	(20.0)%
Loss from discontinued operations, net of tax	(6,696)		(97,748)	
Net loss	$ (42,525)		$ (131,870)	

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

	Three months ended			
	September 30, 2018	% of net sales	September 24, 2017	% of net sales
Cost of sales	$ 141	0.1%	$ 152	0.1%
Selling, general and administrative	6,537	3.4%	4,960	2.9%
Research and development	579	0.3%	333	0.2%

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		
	September 30, 2018	September 24, 2017	% change
U.S.			
Lower extremities	$ 57,602	$ 51,417	12.0 %
Upper extremities	65,334	54,788	19.2 %
Biologics	20,654	18,640	10.8 %
Sports med & other	1,975	2,019	(2.2)%
Total U.S.	$ 145,565	$ 126,864	14.7 %
International			
Lower extremities	$ 13,501	$ 13,963	(3.3)%
Upper extremities	25,681	21,197	21.2 %
Biologics	6,549	5,193	26.1 %
Sports med & other	2,810	3,286	(14.5)%
Total International	$ 48,541	$ 43,639	11.2 %
Total net sales	$ 194,106	$ 170,503	13.8 %

Net sales

U.S. Sales. U.S. net sales totaled $145.6 million in the third quarter of 2018, a 14.7% increase from $126.9 million in the third quarter of 2017, due to significant growth in our U.S. upper extremities business and U.S. lower extremities business. U.S. sales represented approximately 75.0% of total net sales in the third quarter of 2018, compared to 74.4% of total net sales in the third quarter of 2017.

Our U.S. lower extremities net sales increased to $57.6 million in the third quarter of 2018 compared to $51.4 million in the third quarter of 2017, representing growth of 12.0%. This growth was driven by a 22.1% net sales growth in our total ankle replacement products and net sales growth in our core lower extremities business primarily due to increased contributions from our expanded sales organization.

Our U.S. upper extremities net sales increased to $65.3 million in the third quarter of 2018 from $54.8 million in the third quarter of 2017, representing growth of 19.2%. This growth was driven by demand for our innovative shoulder product portfolio, including continued success from our PERFORM™ Reversed Glenoid System and our SIMPLICITI® shoulder system and accelerated adoption of our BLUEPRINT enabling technology.

Our U.S. biologics net sales totaled $20.7 million in the third quarter of 2018, from $18.6 million in the third quarter of 2017, representing a 10.8% increase over the third quarter of 2017. This increase was driven by net sales volume growth in our core biologics products and AUGMENT® Injectable Bone Graft, which launched at the end of the second quarter of 2018 after receiving FDA approval.

International Sales. Net sales in our international regions totaled $48.5 million in the third quarter of 2018 compared to $43.6 million in the third quarter of 2017. This 11.2% increase was due to growth in both our direct and distributor markets, partially offset by a $0.9 million unfavorable impact from foreign currency exchange rates (a 2 percentage point unfavorable impact to international sales growth rate).

Our international lower extremities net sales decreased 3.3% to $13.5 million in the third quarter of 2018 from $14.0 million in the third quarter of 2017. Sales decreased primarily due to a $0.3 million unfavorable impact from foreign currency exchange rates (a 2 percentage point unfavorable impact to international lower extremities sales growth rate).

Our international upper extremities net sales increased 21.2% to $25.7 million in the third quarter of 2018 from $21.2 million in the third quarter of 2017. Sales increased by 15.0% in our direct markets in Europe, and a combined 19.9% increase in our Canada, Australia, and Japan direct markets. This increase was partially offset by a $0.5 million unfavorable impact from foreign currency exchange rates (a 2 percentage point unfavorable impact to international upper extremities sales growth rate).

Our international biologics net sales increased 26.1% to $6.5 million in the third quarter of 2018 from $5.2 million in the third quarter of 2017, mostly driven by increased sales volumes to stocking distributors. This increase was partially offset by a $0.2

million unfavorable impact from foreign currency exchange rates (a 3 percentage point unfavorable impact to international biologics sales growth rate).

Cost of sales

Our cost of sales totaled $44.3 million, or 22.8% of net sales, in the third quarter of 2018, compared to $38.4 million, or 22.5% of net sales, in the third quarter of 2017. Cost of sales remained relatively constant as a percentage of net sales with variances due to customer and product mix.

Selling, general and administrative

Our selling, general and administrative expenses totaled $139.2 million, or 71.7% of net sales, in the third quarter of 2018, compared to $131.4 million, or 77.1% of net sales, in the third quarter of 2017. Selling, general and administrative expenses as a percentage of net sales decreased 5 percentage points due to a decrease in spending on transition and transaction costs of $1.3 million, or 0.7% of net sales, from the third quarter 2017 and by leveraging fixed expenses in our U.S. businesses over increased net sales, partially offset by higher levels of cash incentive compensation expense and non-cash stock-based compensation expense.

Research and development

Our research and development expense totaled $13.8 million in the third quarter of 2018 compared to $12.0 million in the third quarter of 2017. Research and development costs remained relatively 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 2018.

Amortization of intangible assets

Charges associated with amortization of intangible assets totaled $5.9 million in the third quarter of 2018, compared to $7.2 million in the third quarter of 2017. Based on intangible assets held at September 30, 2018, we expect amortization expense to be approximately $24.6 million for the full year of 2018, $22.8 million in 2019, $22.1 million in 2020, $21.9 million in 2021, and $21.9 million in 2022.

Interest expense, net

Interest expense, net, totaled $19.8 million in the third quarter of 2018 and $19.0 million in the third quarter of 2017. Our interest expense in the third quarter of 2018 related primarily to non-cash interest expense associated with the amortization of the discount on the 2023 Notes, 2021 Notes and 2020 Notes of $4.9 million, $5.0 million and $2.4 million, respectively; amortization of deferred financing charges on the 2023 Notes, 2021 Notes, 2020 Notes, and our ABL Facility totaling $1.3 million; and cash interest expense totaling $7.6 million primarily associated with the 2023 Notes, 2021 Notes, 2020 Notes and borrowings under our ABL Facility and the new Term Loan Facility that was established during the quarter ended July 1, 2018. Our interest expense was partially offset by interest income of $1.5 million as a result of the investment of the net proceeds from the 2023 Notes issued in the second quarter of 2018. Our interest expense in the third 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 $4.6 million and $6.9 million, respectively, amortization of deferred financing charges on the 2021 Notes, 2020 Notes, and our ABL Facility totaling $1.2 million; and cash interest expense totaling $6.0 million primarily associated with the coupon on the 2021 Notes, 2020 Notes, and our ABL Facility.

Other expense, net

Other expense, net totaled $3.9 million in the third quarter of 2018, compared to $5.5 million of other expense, net in the third quarter of 2017.

In the third quarter of 2018 and 2017, other expense, net, primarily consisted of an unrealized loss of $3.4 million and $4.5 million, respectively, for the mark-to-market adjustment on CVRs issued in connection with the BioMimetic acquisition.

Provision (benefit) for income taxes

We recorded a tax provision from continuing operations of $3.0 million in the third quarter of 2018, compared to a tax benefit from continuing operations of $8.8 million in the third quarter of 2017. The net tax provision recorded in the third quarter of 2018 includes the impact of the lower statutory tax rate in the U.S. of 21% and the ability to carryforward net operating losses indefinitely as enacted by the Tax Cuts and Jobs Act ("2017 Tax Act") in December 2017, offset by tax provision for foreign currency gains, the result of net earnings in jurisdictions for which we do not have a valuation allowance and the valuation allowance on our U.S. net deferred tax assets, resulting in the inability to recognize a tax benefit for pre-tax losses in the U.S., except to the extent to which we recognize a gain in discontinued operations. Our second quarter 2018 gain from discontinued operations was partially offset by a discontinued operations loss in the third quarter of 2018, resulting in a third quarter income tax benefit within discontinuing operations, and a corresponding income tax provision in continuing operations. Other provisions under the 2017 Tax Act include U.S. taxation on certain foreign earnings referred to as Global Intangible Low-Taxed Income and the Base Erosion Anti-Abuse Tax, both of which did not have an effect on our financial results due to the losses and valuation allowance in the U.S.

During the third quarter of 2017, the net tax benefit primarily related to the benefit recorded due to a change in our valuation allowance with respect to certain deferred tax assets that we had previously determined were not more likely than not to be realized.

Further, we recognized the income tax effects of the 2017 Tax Act in our 2017 financial statements in accordance with Staff Accounting Bulletin No. 118 (SAB 118), which provides SEC staff guidance for the application of ASC Topic 740, Income Taxes, in the reporting period in which the 2017 Tax Act was signed into law. We included the provisional amount pertaining to the one-time deemed repatriation charge in our 2017 financial statements and still conclude this is a reasonable estimate based on current guidance and interpretations. We did not identify any items for which the income tax effects of the 2017 Tax Act could not be reasonably estimated as of September 30, 2018.

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 third quarter of 2017, we recognized a charge of $86.9 million for certain retained metal-on-metal product liability claims associated with the OrthoRecon business. See Note 4 and Note 13 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 nine months ended September 30, 2018 to the nine months ended September 24, 2017

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:

	Nine months ended			
	September 30, 2018		September 24, 2017	
	Amount	% of net sales	Amount	% of net sales
Net sales	$ 598,043	100.0 %	$ 527,387	100.0 %
Cost of sales [1]	131,004	21.9 %	113,669	21.6 %
Gross profit	467,039	78.1 %	413,718	78.4 %
Operating expenses:				
Selling, general and administrative [1]	417,297	69.8 %	392,073	74.3 %
Research and development [1]	42,393	7.1 %	36,971	7.0 %
Amortization of intangible assets	19,031	3.2 %	21,574	4.1 %
Total operating expenses	478,721	80.0 %	450,618	85.4 %
Operating loss	(11,682)	(2.0)%	(36,900)	(7.0)%
Interest expense, net	60,243	10.1 %	55,512	10.5 %
Other expense, net	75,649	12.6 %	6,875	1.3 %
Loss from continuing operations before income taxes	(147,574)	(24.7)%	(99,287)	(18.8)%
Benefit for income taxes	(1,217)	(0.2)%	(7,498)	(1.4)%
Net loss from continuing operations	$ (146,357)	(24.5)%	$ (91,789)	(17.4)%
(Loss) income from discontinued operations, net of tax	10,620		(139,942)	
Net loss	$ (135,737)		$ (231,731)	

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

	Nine months ended			
	September 30, 2018	% of net sales	September 24, 2017	% of net sales
Cost of sales	$ 452	0.1%	$ 403	0.1%
Selling, general and administrative	16,496	2.8%	12,939	2.5%
Research and development	1,388	0.2%	789	0.1%

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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:

	Nine months ended		
	September 30, 2018	September 24, 2017	% change
U.S.			
Lower extremities	$ 173,889	$ 161,228	7.9 %
Upper extremities	203,163	168,280	20.7 %
Biologics	59,053	56,547	4.4 %
Sports med & other	5,828	5,899	(1.2)%
Total U.S.	$ 441,933	$ 391,954	12.8 %
International			
Lower extremities	$ 44,508	$ 42,372	5.0 %
Upper extremities	84,412	66,606	26.7 %
Biologics	18,388	15,492	18.7 %
Sports med & other	8,802	10,963	(19.7)%
Total International	$ 156,110	$ 135,433	15.3 %
Total net sales	$ 598,043	$ 527,387	13.4 %

Net sales

U.S. Sales. U.S. net sales totaled $441.9 million in the first nine months of 2018, a 12.8% increase from $392.0 million in the first nine months of 2017, primarily due to continued growth in our U.S. upper extremities business. U.S. sales represented approximately 73.9% of total net sales in the first nine months of 2018, compared to 74.3% of total net sales in the first nine months of 2017.

International Sales. International net sales totaled $156.1 million in the first nine months of 2018 compared to $135.4 million in the first nine months of 2017. This 15.3% increase was primarily driven by a 5.8% increase in our direct markets and a $6.7 million favorable impact from foreign currency exchange rates (a 5 percentage point favorable impact to sales growth rate).

Cost of sales

Our cost of sales as a percentage of net sales slightly increased to 21.9% in the first nine months of 2018 compared to 21.6% in the first nine months of 2017. This increase was primarily driven by customer and product mix, partially offset by favorable manufacturing expenses.

Operating expenses

As a percentage of net sales, operating expenses decreased to 80.0% in the first nine months of 2018 compared to 85.4% in the first nine months of 2017, reflecting a decrease of 5 percentage point as a percentage of net sales. This decrease was primarily the result of reduced spending on transition and transaction costs of $6.9 million, or 1.2% of net sales, and leveraging corporate and certain U.S. selling, general and administrative expenses over increased net sales.

Benefit for income taxes

We recorded an income tax benefit from continuing operations of $1.2 million in the first nine months of 2018, compared to a tax benefit from continuing operations of $7.5 million in the first nine months of 2017. The tax benefit for the current year period includes a benefit recorded due to our ability to recognize a tax benefit on pre-tax losses in the U.S. as a result of the earnings within discontinued operations in the U.S. The remaining includes the impact of the lower statutory tax rate in the U.S. of 21% and the ability to carryforward net operating losses indefinitely as enacted by the 2017 Tax Act in December 2017, offset by tax provision for foreign currency gains and the result of net earnings in jurisdictions for which we do not have a valuation allowance. The tax benefit for the prior year period is primarily related to the benefit recorded due to a change in our valuation allowance with respect to certain deferred tax assets that we had previously determined were not more likely than not to be realized.

(Loss) income from discontinued operations, net of tax

As described earlier and within Note 13, we received an insurance recovery payment of $30.75 million on May 8, 2018, which is reflected within our results of discontinued operations for the nine months ended September 30, 2018, and contributed to the $10.6 million in income from discontinued operations, net of tax for the first nine months of 2018, compared to a loss from discontinued operations, net of tax of $139.9 million for the first nine months of 2017. See Note 4 and Note 13 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 September 30, 2018		
	U.S. Lower Extremities & Biologics	U.S. Upper Extremities	International Extremities & Biologics
Net sales	$ 79,296	$ 66,269	$ 48,541
Operating income (loss)	$ 20,487	$ 21,192	$ (278)
Operating income (loss) as a percent of net sales	25.8%	32.0%	(0.6)%

	Three months ended September 24, 2017		
	U.S. Lower Extremities & Biologics	U.S. Upper Extremities	International Extremities & Biologics
Net sales	$ 70,946	$ 55,918	$ 43,639
Operating income (loss)	$ 13,506	$ 16,575	$ (1,563)
Operating income (loss) as a percent of net sales	19.0%	29.6%	(3.6)%

	Nine months ended September 30, 2018		
	U.S. Lower Extremities & Biologics	U.S. Upper Extremities	International Extremities & Biologics
Net sales	$ 235,595	$ 206,338	$ 156,110
Operating income (loss)	$ 62,211	$ 69,864	$ (1,526)
Operating income (loss) as a percent of net sales	26.4%	33.9%	(1.0)%

	Nine months ended September 24, 2017		
	U.S. Lower Extremities & Biologics	U.S. Upper Extremities	International Extremities & Biologics
Net sales	$ 220,259	$ 171,695	$ 135,433
Operating income	$ 51,988	$ 52,942	$ 1,641
Operating income as a percent of net sales	23.6%	30.8%	1.2%

Net sales of our U.S. lower extremities and biologics segment increased $8.4 million and $15.3 million in the three and nine months ended September 30, 2018, respectively, compared to the three and nine months ended September 24, 2017. Operating income of our U.S. lower extremities and biologics segment increased $7.0 million and $10.2 million for the three and nine months ended September 30, 2018, respectively, compared to the three and nine months ended September 24, 2017. These increases to both net sales and operating income were driven primarily by net sales growth from our total ankle replacement products and our core lower extremities and biologics businesses and leveraging fixed operating expenses over increased net sales.

Net sales of our U.S. upper extremities segment increased $10.4 million and $34.6 million in the three and nine months ended September 30, 2018, respectively, compared to the three and nine months ended September 24, 2017. Operating income of our U.S. upper extremities segment increased $4.6 million and $16.9 million in the three and nine months ended September 30, 2018, respectively, as compared to the three and nine months ended September 24, 2017. These increases to both net sales and operating income were primarily driven by net sales growth within our innovative shoulder product portfolio, including continued success of our PERFORM™ Reversed Glenoid System and the SIMPLICITI® shoulder system, and leveraging fixed operating expenses over increased net sales.

Net sales of our International extremities and biologics segment increased $4.9 million and $20.7 million in the three and nine months ended September 30, 2018, respectively, compared to the three and nine months ended September 24, 2017, primarily due to increased sales growth in our direct markets. Operating loss of our International extremities and biologics segment decreased $1.3 million in the three months ended September 30, 2018 compared to the three months ended September 24, 2017, primarily driven by reduced leveraging of operating expenses over increased net sales. International extremities and biologics segment had a $1.5 million operating loss during the nine months ended September 30, 2018 compared to $1.6 million of operating income for the nine months ended September 24, 2017. This $3.2 million decrease in operating income was due to investments made in sales, marketing, and distribution employees during the latter portion of 2017.

Liquidity and Capital Resources

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

	September 30, 2018	December 31, 2017
Cash and cash equivalents	$ 694,903	$ 167,740
Working capital [1]	257,426	151,599

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[1] As of September 30, 2018, 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 may convert the notes during the calendar quarter ending December 30, 2018. Due to the ability of the holders of the 2021 Notes to convert the notes during this period, the $316 million carrying value of the 2021 Notes and the $221 million fair value of the 2021 Notes Conversion Derivatives were classified as current liabilities and the $223 million fair value of the 2021 Notes Hedges was classified as current assets as of September 30, 2018. The holders of the 2020 Notes may convert their notes at any time prior to August 15, 2019 solely into cash upon satisfaction of certain circumstances as described in Note 9. On or after August 15, 2019, through their maturity, holders may convert their 2020 Notes solely into cash, regardless of the foregoing circumstances. Due to the ability of the holders of the 2020 Notes to convert within the next year, the $171 million carrying value of the 2020 Notes and the $27 million fair value of the 2020 Notes Conversion Derivatives were classified as current liabilities and the $27 million fair value of the 2020 Notes Hedges was classified as current assets as of September 30, 2018. The respective balances were all classified as long-term as of December 31, 2017. We currently do not expect significant conversions of the 2021 Notes because they currently trade at a premium to the as-converted value, and a converting holder would forego future interest payments. However, any conversions would reduce our cash resources. We believe that, in the event that holders elect to exercise the conversion option, our cash resources and access to additional borrowings would provide the necessary liquidity.

Operating Activities. Cash used in operating activities totaled $12.5 million and $129.3 million in the first nine months of 2018 and 2017, respectively. The decrease in cash used in operating activities in the first nine months of 2018 was primarily driven by discontinued operations. As detailed in Note 4, cash used in operating activities by the OrthoRecon business totaled $46.8 million and $142.7 million for the nine months ended September 30, 2018 and September 24, 2017, respectively. See Note 13 to our condensed consolidated financial statements for further discussion related to product liability settlements liabilities and insurance recoveries. Remaining difference is attributable to improved cash profitability of continuing operations.

Investing Activities. Our capital expenditures totaled $49.9 million and $49.5 million in the first nine months of 2018 and 2017, 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 more than $50 million in 2018.

Financing Activities. During the first nine months of 2018, cash provided by financing activities totaled $592.8 million, compared to $42.8 million in the first nine months of 2017.

Cash provided by financing activities in the first nine months of 2018 was primarily attributable to the net cash proceeds received from the registered equity offering and 2023 Notes issuance. During August 2018, we entered into an underwriting agreement with J.P. Morgan, relating to a registered public offering of our ordinary shares. The discounted proceeds to Wright for the equity offering were $448.9 million. Payments of equity offering costs were $25.6 million during the first nine months of 2018. Proceeds were subsequently used in October 2018 to fund the $435 million purchase price of Cartiva.

During June 2018, we issued $675.0 million of 2023 Notes, settled $400.9 million of 2020 Notes, and paid a premium of $55.6 million on the 2020 Notes. We also paid $141.3 million for hedges associated with the 2023 Notes and received approximately $102.1 million for the issuance of warrants associated with the 2023 Notes. As part of the 2023 Notes issuance, Term Loan Facility and 2023 warrants, we paid $16.0 million for deferred financing and equity issuance costs. Other debt proceeds were primarily made up of the Term Loan Facility which were used to pay down a portion of the asset-based line of credit under the ABL Facility. In July 2018, we settled a pro rata share of the 2020 Notes hedges and 2020 warrants which resulted in net proceeds of $10.6 million. Additionally, we received $11.0 million in cash from the issuance of ordinary shares in connection with option exercises.

Cash provided by financing activities in the first nine months of 2017 was primarily attributable to $24.8 million in cash received from the issuance of ordinary shares in connection with option exercises and $32.0 million of proceeds from additional borrowings from the ABL Facility, offset by $8.7 million of net payments due to timing of the weekly lockbox repayment/re-borrowing arrangement underlying the ABL Facility and a $2.0 million payment of the 2017 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 our former Large Joints and OrthoRecon businesses.

Cash used in operating activities by the OrthoRecon business totaled $46.8 million and $142.7 million for the nine months ended September 30, 2018 and September 24, 2017, respectively. Cash provided by operating activities from the Large Joints business totaled $2.7 million for the nine months ended September 30, 2018. Cash used in operating activities by the Large Joints business totaled $3.5 million for the nine months ended September 24, 2017.

We expect cash outflows resulting from product liabilities during the remainder of 2018 and 2019, associated with the metal-on-metal settlements, net of insurance recoveries. We do not expect that the future cash outflows from discontinued operations, including the payment of these 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. As of September 30, 2018, there were 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 Operations-Liquidity and Capital Resources-Contractual Cash Obligations* " of our Annual Report on Form 10-K for the year ended December 31, 2017, except for the new 2023 Notes, new Term Loan Facility, and the reclassification of the 2021 Notes and 2020 Notes from long-term to current, as described in Note 9.

As of September 30, 2018, 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 may convert the notes during the calendar quarter ending December 30, 2018. 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 Derivatives were classified as current liabilities and the fair value of the 2021 Notes Hedges was classified as current assets as of September 30, 2018.

The holders of the 2020 Notes may convert their notes at any time prior to August 15, 2019 solely into cash upon satisfaction of certain circumstances as described in Note 9. On or after August 15, 2019, holders may convert their 2020 Notes solely into cash, regardless of the foregoing circumstances. Due to the ability of the holders of the 2020 Notes to convert within the next year, the carrying value of the 2020 Notes and the fair value of the 2020 Notes Conversion Derivatives were classified as current liabilities and the fair value of the 2020 Notes Hedges was classified as current assets as of September 30, 2018. The respective balances were all classified as long-term as of December 31, 2017.

We currently do not expect significant conversions of the 2021 Notes because they currently trade at a premium to the as-converted value, and a converting holder would forego future interest payments. However, any conversions would reduce our cash resources. We believe that, in the event that holders elect to exercise the conversion option, our cash resources and access to additional borrowings would provide the necessary liquidity.

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.

In August 2018, we entered into an underwriting agreement with J.P. Morgan, relating to a registered public offering. The net proceeds to Wright were $423.0 million. The proceeds were subsequently used to fund the $435 million purchase of Cartiva in October 2018 as well as costs and expenses related thereto.

In June 2018, WMG issued $675 million aggregate principal amount of the 2023 Notes, which, after consideration of the exchange of approximately $400.9 million principal amount of the 2020 Notes, generated proceeds of approximately $215.5 million net of premium and interest paid. We also paid $141.3 million for hedges associated with the 2023 Notes and received approximately

$102.1 million for the issuance of warrants associated with the 2023 Notes. In July 2018, we settled a pro rata share of the 2020 Notes hedges and 2020 warrants which resulted in net proceeds of $10.6 million.

On December 23, 2016, we, together with WMG and certain of our other wholly-owned U.S. subsidiaries, entered into the ABL Credit Agreement with Midcap Financial Trust, as 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 the 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 September 30, 2018. As of September 30, 2018, we had $21.5 million in borrowings outstanding under the ABL Facility and $128.5 million in unused availability under the ABL Facility. As of December 31, 2017, we had $53.6 million in borrowings outstanding under the ABL Facility and $96.4 million in unused availability under the ABL Facility.

On May 7, 2018, we amended and restated the ABL Credit Agreement to add a $40 million Term Loan Facility. The initial $20 million term loan tranche was funded at closing. The Borrowers may at any time borrow the second $20 million term loan tranche, but will be required to do so no later than May 7, 2019 unless certain adjusted EBITDA targets are met; in which case, the Borrowers will be permitted to extend the borrowing requirement for up to an additional two years. All borrowings under the Term Loan Facility are subject to the satisfaction of customary conditions, including the absence of default and the accuracy of representations and warranties in all material respects.

On November 1, 2016, WMT entered into a MSA with Court-appointed attorneys representing plaintiffs in the metal-on-metal hip replacement product liability litigation pending before the MDL and 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.

On October 3, 2017, WMT entered into two settlement agreements (collectively, the Second Settlement Agreements) with the Court-appointed attorneys representing plaintiffs in the MDL and JCCP. Under the terms of the Second Settlement Agreements, the parties agreed to settle 629 specifically identified CONSERVE®, DYNASTY®, and LINEAGE® claims that meet the eligibility requirements of the Second Settlement Agreements and are either pending in the MDL or JCCP, or subject to court-approved tolling agreements in the MDL or JCCP, for a maximum settlement amount of $89.75 million. The comprehensive settlement amount is contingent on WMT's recovery of new insurance payments totaling at least $35 million from applicable insurance carriers by December 31, 2017. On March 29, 2018, WMT entered into a Third Amendment to the Third Settlement Agreement which eliminated the contingency and gave WMT the option, by September 30, 2018, to either pay or make available for payment the then outstanding deficit on the insurance contingency or transfer to eligible claimants WMT's claims against the insurance carriers with whom WMT has not settled, and pay or make available for payment such insurance deficit in March 2019, subject to the right to recover these funds from any plaintiff recoveries from carriers plus ten percent interest, plus an additional $5 million in costs, in each case after recovery by plaintiffs' counsel of costs and fees. In connection with such transfer agreement, WMT would also enter into a stipulated judgment in the amount of $541 million, which judgment would not be recoverable against WMT or its affiliates. On September 27, 2018, WMT elected not to transfer WMT's claims against the insurance carriers with whom WMT has not settled. As of September 30, 2018, certain of the insurance carriers have contributed $21.9 million of funds applicable against the $35 million contingency, leaving a $13.1 million deficit.

As of September 30, 2018, our accrual for metal-on-metal claims totaled $105.6 million, of which $88.8 million is included in our condensed consolidated balance sheet within "Accrued expenses and other current liabilities" and $16.8 million is included within "Other liabilities." As of December 31, 2017, our accrual for metal-on-metal claims totaled $177.5 million, of which $127.4 million is included in our condensed consolidated balance sheet within "Accrued expenses and other current liabilities" and $50.1 million is included within "Other liabilities." See Note 13 to our condensed consolidated financial statements for additional discussion regarding the MSA and Second Settlement Agreements and our accrual methodologies for the metal-on-metal hip replacement product liability claims.

In September 2015, the third insurance carrier in the policy year applicable to titanium modular neck fracture claims denied coverage under its $25 million excess liability policy despite full payout by the other carriers in that policy year. The company disputed the carrier's position and, in accordance with the dispute resolution provisions of the policy, initiated an arbitration proceeding in London. The arbitration proceeding was completed on February 15, 2018 and, on April 11, 2018, the arbitration tribunal issued its ruling. Thereafter, we and the insurance carrier agreed to resolve the entire matter in exchange for a single lump sum payment by the carrier to us in the amount of $30.75 million, representing the full policy limits of $25 million plus an additional $5.75 million for costs and interest. We received payment of this sum from the carrier on May 8, 2018. This insurance recovery is reflected within our results of discontinued operations for the quarter ended July 1, 2018.

Although it is difficult for us to predict our future liquidity requirements, we believe that our cash and cash equivalents of $694.9 million, the $128.5 million in availability under the ABL Facility and the additional $20 million of term loan capacity, as of September 30, 2018, will be sufficient for at least the next 12 months to fund the $435 million Cartiva acquisition, working capital requirements and operations, permit anticipated capital expenditures, pay retained metal-on-metal product and other liabilities of the OrthoRecon business, including without limitation amounts under the MSA and Second Settlement Agreements, fund contingent considerations including without limitation the $42 million CVR milestone payment due in December 2018, and meet our other anticipated contractual cash obligations in 2018 and 2019.

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 reflects 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 September 2015, we received premarket approval from the FDA for AUGMENT® Bone Graft, and in June 2018, we received premarket approval from the FDA for AUGMENT® Injectable Bone Graft.

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+. In September 2018, we received FDA clearance of AEQUALIS® Flex Revive.

In connection with the IMASCAP acquisition, we acquired IPRD technology related to a next generation reverse shoulder implant system that had not yet reached technological feasibility as of the acquisition date. This project was assigned a fair value of $5.3 million on the acquisition date.

We currently have one IPRD project associated with the IMASCAP acquisition. All other IPRD projects have been completed. This IPRD project relates to a next generation reverse shoulder implant system. We have an anticipated first clinical use in 2020 and launch in the first half of 2021. Project cost to complete is estimated to be less than $2 million. However, the risks and uncertainties associated with completion are dependent upon testing validations and FDA and CE mark 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 31, 2017 filed with the SEC on February 27, 2018. 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 31, 2017.

Recent Accounting Pronouncements

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

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 September 30, 2018, we had $21.5 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 September 30, 2018, we had invested cash and cash equivalents of approximately $694.9 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 $0.7 million to our interest income.

As of September 30, 2018, we had outstanding an aggregate of $186.6 million, $395 million, and $675 million, principal amount of our 2020 Notes, 2021 Notes, and 2023 Notes, respectively. Additionally, we had $20 million principal outstanding under our Term Loan Facility. 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 the 2020 Notes, 2021 Notes, and 2023 Notes fluctuates when interest rates change, and when the market price of our ordinary shares fluctuates. We do not carry the 2020 Notes, 2021 Notes, or 2023 Notes at fair value, but present the fair value of the principal amount of our 2020 Notes, 2021 Notes, and 2023 Notes for disclosure purposes.

Equity Price Risk

On June 28, 2018, we issued $675 million aggregate principal amount of the 2023 Notes. The holders of the 2023 Notes may convert their 2023 Notes into cash upon the satisfaction of certain circumstances as described in Note 9. The conversion and settlement provisions of the 2023 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 2023 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 $40.86 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)
$44.95	(10% greater than strike price)	1,839
$49.03	(20% greater than strike price)	3,371
$53.12	(30% greater than strike price)	4,668
$57.20	(40% greater than strike price)	5,780
$61.29	(50% greater than strike price)	6,743

The fair value of the 2023 Notes Conversion Derivative and the 2023 Notes Hedge is directly impacted by the price of our ordinary shares. We entered into the 2023 Notes Hedges in connection with the issuance of the 2023 Notes with the option counterparties. The 2023 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 2023 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 2023 Notes Conversion Derivative and 2023 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 September 30, 2018	Fair value of security given a 10% increase in share price
2023 Notes Hedges (Asset)	$ 116,151	$ 150,853	$ 188,819
2023 Notes Conversion Derivative (Liability)	$ 113,022	$ 151,107	$ 193,118

On May 20, 2016, we issued $395 million aggregate principal amount of the 2021 Notes. The holders of the 2021 Notes may convert their 2021 Notes into cash upon the satisfaction of certain circumstances as described in Note 9. As of September 30, 2018, 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 may 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 September 30, 2018. The respective balances were classified as long-term as of December 31, 2017. We currently do not expect significant conversions because the 2021 Notes currently trade at a premium to the as-converted value, and a converting holder would forego future interest payments. However, any conversions would reduce our cash resources.

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

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 September 30, 2018**	**Fair value of security given a 10% increase in share price**
2021 Notes Hedges (Asset)	$180,121	$222,919	$267,789
2021 Notes Conversion Derivative (Liability)	$174,262	$221,356	$270,507

On February 13, 2015, WMG issued $632.5 million of the 2020 Notes. A portion of the 2020 Notes was exchanged in conjunction with both the 2021 Notes and the 2023 Notes. As of September 30, 2018, $186.6 million was outstanding on the 2020 Notes. The holders of the 2020 Notes may convert their notes at any time prior to August 15, 2019 solely into cash upon satisfaction of certain circumstances as described in Note 9. On or after August 15, 2019, holders may convert their 2020 Notes solely into cash, regardless of the foregoing circumstances. Due to the ability of the holders of the 2020 Notes to convert within the next year, the carrying value of the 2020 Notes and the fair value of the 2020 Notes Conversion Derivatives were classified as current liabilities and the fair value of the 2020 Notes Hedges was classified as current assets as of September 30, 2018. The respective balances were all classified as long-term as of December 31, 2017.

The conversion and settlement provisions of the 2020 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 associated 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)	566
$46.56	(20% greater than strike price)	1,039
$50.44	(30% greater than strike price)	1,438
$54.32	(40% greater than strike price)	1,780
$58.20	(50% greater than strike price)	2,077

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. In conjunction with the issuance of the 2021 Notes, a portion of the 2020 Notes Conversion Derivative and the 2020 Notes Hedges were settled. In conjunction with the issuance of the 2023 Notes, a portion of the 2020 Notes Conversion Derivative and the 2020 Notes Hedges were settled as described in Note 6. The remaining 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 Hedges 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 September 30, 2018	Fair value of security given a 10% increase in share price
2020 Notes Hedges (Asset)	$17,845	$27,327	$38,673
2020 Notes Conversion Derivative (Liability)	$16,895	$26,757	$38,694

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 22% and 23% of our net sales from continuing operations were denominated in foreign currencies during the three and nine months ended September 30, 2018, respectively, and we expect that foreign currencies 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.

For three and nine months ended September 30, 2018, approximately 91% and 90%, respectively, of our net sales denominated in foreign currencies were derived from European Union countries, which are denominated in the euro; from the United Kingdom, which are denominated in the British pound; from Australia which are denominated in Australian dollar; and from Canada, which are denominated in the Canadian dollar. Additionally, we have significant intercompany receivables, payables, and debt from our foreign subsidiaries that are denominated in foreign currencies, principally the euro, the Japanese yen, the British pound, the Australian dollar, and the Canadian dollar. Our principal exchange rate risk, therefore, exists between the U.S. dollar and the euro, British pound, Australian dollar, and the Canadian dollar. Fluctuations from the beginning to the end of any given reporting period result in the revaluation of our foreign currency-denominated intercompany receivables, payables, and debt generating currency translation gains or losses that impact our non-operating income and expense levels in the respective period.

As discussed in Note 6 to the condensed consolidated financial statements, during 2017, we entered into certain short-term derivative financial instruments in the form of foreign currency forward contracts. These forward contracts were 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 was expected to be offset by a change in the value of the intercompany balance. These contracts were effectively closed at the end of each reporting period. We discontinued our foreign currency forward contracts derivative program in 2018.

A uniform 10% strengthening in the value of the U.S. dollar relative to the currencies in which our transactions are denominated would have resulted in an increase in operating income of approximately $1.1 million and $2.6 million for the three and nine months ended September 30, 2018, respectively. This hypothetical calculation assumes that each exchange rate would change in the same direction relative to the U.S. dollar. This sensitivity analysis of the effects of changes in foreign currency exchange rates does not factor in a potential change in sales levels or local currency prices, which can also be affected by the change in exchange rates.

ITEM 4. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

We have established disclosure controls and procedures, as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934. Our disclosure controls and procedures are designed to ensure that material information relating to us, including our consolidated subsidiaries, is made known to our principal executive officer and principal financial officer by others within our organization. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures as of September 30, 2018 to ensure that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our principal executive officer and principal financial officer as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of September 30, 2018.

Changes in Internal Control Over Financial Reporting

During the fiscal quarter ended September 30, 2018, there were no changes in our internal control over financial reporting that materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

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.

The actions and proceedings described in this section relate primarily to 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 will continue to cooperate as required.

Patent Litigation

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 completed fact and expert discovery with respect to the remaining asserted method claims. We 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 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. Spineology appealed the judgment to the U.S. Court of Appeals for the Federal Circuit and on July 6, 2018, the Court of Appeals affirmed the judgment of non-infringement in our favor and directed the District Court to enter judgment of non-infringement as to all of Spineology’s asserted patent claims. On September 6, 2018, the Court of Appeals denied Spineology’s petition for rehearing and, on September 18, 2018, the District Court entered final judgment of non-infringement.

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 opposed that motion. On January 27, 2017, we filed a motion for summary judgment on certain issues pertaining to our indemnification claims. Spineology opposed that motion. On July 7, 2017, the Court extended the deadlines for completing discovery until after it ruled on those pending motions. On August 29, 2017, the Court ruled on the motions to dismiss and for summary judgment. In view of that decision, on September 22, 2017, the parties stipulated to, and the Court entered, a judgment that effectively ended the case in a draw. We appealed the judgment as to our claims against Spineology to the U.S. Court of Appeals for the Sixth Circuit and oral argument occurred on August 2, 2018. On August 24, 2018, the Court of Appeals ruled in our favor on our breach of contract claim and remanded the case to the District Court for further proceedings. Spineology did not appeal the District Court’s dismissal of its contract counterclaim.

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*. Pursuant to previously disclosed settlement agreements with the Court-appointed attorneys representing plaintiffs in the MDL and JCCP described below, the MDL and JCCP were closed to new cases effective October 18, 2017 and October 31, 2017, respectively.

Every hip implant case, including metal-on-metal hip cases, 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. We believe we have data that supports the efficacy and safety of our hip products.

Excluding claims resolved in the settlement agreements described below, as of September 30, 2018, there were approximately 129 unresolved metal-on-metal hip cases pending in the U.S. This number includes cases ineligible for settlement, cases which opted out of settlement, post-settlement cases, tolled cases, and existing state court cases that were not part of the MDL or JCCP. As of September 30, 2018, we estimate there also were pending approximately 34 non-U.S. metal-on metal cases and 34 unresolved modular neck U.S. cases and no non-U.S. cases alleging claims related to the release of metal ions. We also estimate that as of September 30, 2018 there were approximately 535 non-revision claims either dismissed or awaiting dismissal from the MDL and JCCP pursuant to the terms of the settlement agreements. Although there is a limited time period during which dismissed non-revision claims may be refiled, it is presently unclear how many non-revision claimants will elect to do so. As of September 30, 2018, no dismissed non-revision cases have been refiled.

On November 1, 2016, WMT entered into the 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 claims ceiling, but otherwise eligible for participation, on May 5, 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.

On October 3, 2017, WMT entered into the Second Settlement Agreements with the Court-appointed attorneys representing plaintiffs in the MDL and JCCP. Under the terms of the Second Settlement Agreements, the parties agreed to settle 629 specifically identified CONSERVE®, DYNASTY® and LINEAGE® claims that meet the eligibility requirements of the Second Settlement Agreements and are either pending in the MDL or JCCP, or subject to court-approved tolling agreements in the MDL or JCCP, for a maximum settlement amount of $89.75 million. The comprehensive settlement amount was contingent on WMT's recovery of new insurance proceeds totaling at least $35 million from applicable insurance carriers by December 31, 2017. On December 29, 2017, WMT entered into a First Amendment to the Third Settlement Agreement pursuant to which the deadline for the recovery of new insurance proceeds totaling at least $35 million from applicable insurance carriers was extended through February 28, 2018 and, on February 23, 2018, WMT entered into a Second Amendment to the Third Settlement Agreement pursuant to which the deadline was extended through March 30, 2018. On March 29, 2018, WMT entered into a Third Amendment to the Third Settlement Agreement which eliminated the contingency and gave WMT the option, by September 30, 2018, to either pay or make available for payment the then outstanding deficit on the insurance contingency or transfer to eligible claimants WMT's claims against the insurance carriers with whom WMT has not settled, and pay or make available for payment such insurance deficit in March 2019, subject to the right to recover these funds from any plaintiff recoveries from carriers plus ten percent interest, plus an additional $5 million in costs, in each case after recovery by plaintiffs' counsel of costs and fees. In connection with such transfer agreement, WMT would also enter into a stipulated judgment in the amount of $541 million, which judgment would not be recoverable against WMT or its affiliates. On September 27, 2018, WMT elected not to transfer WMT's claims against the insurance carriers with whom WMT has not settled. As of September 30, 2018, certain of the insurance carriers have contributed $21.9 million of funds applicable against the $35 million contingency, leaving a $13.1 million deficit.

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 appealed, and the appellate court heard oral argument on November 8, 2017. On February 20, 2018, the Missouri Court of Appeals, Eastern District, denied the plaintiff's appeal and upheld the verdict of the trial court. The plaintiff's time for seeking any further relief from the verdict has lapsed and this matter is closed.

We have received claims for personal injury against us associated with fractures of our PROFEMUR® titanium modular neck product (Titanium Modular Neck Claims). As of September 30, 2018, there were approximately 18 unresolved pending U.S. lawsuits and approximately 57 unresolved pending non-U.S. lawsuits alleging such claims. These lawsuits generally seek monetary damages.

We are aware that MicroPort has recalled a certain size of its cobalt chrome modular neck product as a result of alleged fractures. As of September 30, 2018, there were seven pending U.S. lawsuits and five 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.

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 October 28, 2016, WMT and 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, 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. On August 29, 2017, we refiled the motion to add a bad faith claim against the primary and excess insurance carriers. The Court granted our motion on October 19, 2017 and, on October 23, 2017, we filed amended cross-claims alleging bad faith against all of the insurance carriers.

On February 22, 2018, we and certain of our subsidiaries entered into a Settlement and Release Agreement (Second Insurance Settlement Agreement) with Federal Insurance Company (a subsidiary of Chubb Insurance) (Federal), pursuant to which Federal has paid us a single lump sum payment of $15 million (in addition to $5 million previously paid by Federal). This is in full satisfaction of all potential liability of Federal relating to designated metal-on-metal hip claims, including but not limited to all claims asserted by our subsidiary WMT against Federal in the previously disclosed insurance coverage litigation. On March 20, 2018, Federal was dismissed from the Tennessee and California actions described above.

On April 19, 2018, we and certain of our subsidiaries entered into a Settlement and Release Agreement (Third Insurance Settlement Agreement) with Catlin Underwriting Agencies Limited for and on behalf of Syndicate 2003 at Lloyd's of London (Lloyd's Syndicate 2003) pursuant to which Lloyd's Syndicate 2003 has paid us a single lump sum payment of $1.9 million (in addition to $5 million previously paid by Lloyd's Syndicate 2003). This amount is in full satisfaction of all potential liability of Lloyd's Syndicate 2003 relating to designated metal-on-metal hip claims, including but not limited to all claims asserted by our subsidiary WMT against Lloyd's Syndicate 2003 in the previously disclosed insurance coverage litigation. On May 1, 2018, Lloyd's Syndicate 2003 was dismissed from the Tennessee action described above. Lloyd's Syndicate 2003 was dismissed from the California action on May 3, 2018.

Following the settlements with the Three Settling Insurers, Federal, and Lloyd's Syndicate 2003, the only remaining insurer in the Tennessee and California coverage litigation is Catlin Specialty Insurance Company, a high-level excess insurer that provided "follow-form" coverage during the 2011/2012 policy period. Litigation with this carrier is continuing. Trial is set for July 2019.

In March 2017, Lexington Insurance Company (Lexington), which had been dismissed from the Tennessee action, requested arbitration under five Lexington insurance policies in connection with the CONSERVE® Claims. We subsequently engaged in discussions and correspondence with Lexington about the scope of the requested arbitration(s). On or about October 27, 2017, Lexington filed an Application for Order to Compel Arbitration in the Commonwealth of Massachusetts, Suffolk County Superior Court, naming WMT, Wright Medical Group, Inc., and Wright Medical Group N.V. We opposed the Application. On February 28, 2018, the Massachusetts Court ordered the parties to arbitrate the two Lexington insurance policies containing Massachusetts arbitration clauses but did not order arbitration under the remaining three Lexington policies at issue. We have appealed that ruling. While the appeal is pending, we are proceeding with the arbitration, but the selection of the arbitrators is still in dispute by the parties. In the arbitration, Lexington has asserted a claim for declaratory relief, and we have asserted counter-claims for breach of contract, declaratory relief, and bad faith. On September 26, 2018, Lexington sought to add a claim alleging our filing of the Tennessee lawsuit referred to below was not in good faith. We objected to Lexington's additional claim and argued that such claim could only be added upon agreement of the arbitrators (who are yet to be selected). The American Arbitration Association agreed with our position.

On May 22, 2018, we initiated a lawsuit against Lexington under the three policies that the court did not order into arbitration in Massachusetts. The lawsuit, filed in the Chancery Court of Tennessee, alleges breach of contract, declaratory relief, and bad faith in connection with Lexington's failure and refusal to provide coverage for the underlying metal-on-metal claims under policies issued for 2009-2012. On July 12, 2018, Lexington brought a motion to stay the litigation and compel arbitration under the 2009-2011 Lexington policies. The motion remains pending.

During the second quarter of 2018, we resolved the previously reported insurance arbitration. See Note 13 to our condensed consolidated financial statements for additional information.

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 31, 2017, as filed with the SEC on February 27, 2018, other than the updated risk factors below which update or replace the existing risk factors addressing the same topic and the deletion of the risk factors entitled "*Our obligation to settle substantially all the remaining outstanding metal-on-metal hip claims may be cancelled if the insurance recovery contingency contained in the Second Settlement Agreements is not satisfied, which would leave a substantial number of metal-on-metal hip claims unresolved*." and "*Our obligation to settle substantially all the remaining outstanding metal-on-metal hip claims may be cancelled if an insufficient number of eligible claimants choose to participate, which would leave a substantial number of metal-on-metal hip claims unresolved.*"

We may never realize the expected benefits of our strategic business combinations or acquisition transactions.

In addition to developing new products and growing our business internally, we have sought to grow through business combinations and acquisitions of complementary businesses, technologies and products. Examples include, our recent acquisition of Cartiva in October 2018, our acquisition of IMASCAP in December 2017, the Wright/Tornier merger in October 2015, legacy Wright's acquisition of BioMimetic in early 2013, as well as its acquisitions of Biotech International in November 2013, Solana Surgical, LLC (Solana) in January 2014, and OrthoPro, L.L.C. (OrthoPro) in February 2014, and legacy Tornier's acquisition of OrthoHelix Surgical Designs, Inc. in 2012. Future acquisitions may require equity or debt financing, the dilutive or other effects of which could negatively impact the anticipated benefits of the transaction. Business combinations and acquiring new businesses involve a myriad of risks. Whenever new businesses are combined or acquired, there is a risk we may fail to realize some or all of the anticipated benefits of the transaction. This can occur if integration of the businesses proves to be more complicated than planned, resulting in failure to realize operational synergies and/or failure to mitigate operational dis-synergies, diversion of management attention, and loss of key personnel. It can also occur if the combined or acquired business fails to meet our net sales projections, exposes us to unexpected liabilities, or if our pre-acquisition due diligence fails to uncover issues that negatively affect the value or cost structure of the acquired enterprise. Although we carefully plan our business combinations and acquisitions, there can be no assurances that these and other risks will not prevent us from realizing the expected benefits of these transactions. If we do not achieve the anticipated benefits of an acquisition as rapidly as expected, or at all, investors or analysts may not perceive the same benefits of the acquisition as we do. If these risks materialize, our ordinary share price could be materially adversely affected. Any difficulties in the integration of acquired businesses or unexpected penalties or liabilities in connection with such businesses could have a material adverse effect on our business, operating results and financial condition.

We have a significant amount of indebtedness. We may not be able to generate enough cash flow from our operations to service our indebtedness, and we may incur additional indebtedness in the future, which could adversely affect our business, financial condition, and operating results.

We have a significant amount of indebtedness, including, as of September 30, 2018, $675 million in aggregate principal with additional accrued interest under WMG's 1.625% cash convertible senior notes due 2023 (2023 Notes), $395 million in aggregate principal with additional accrued interest under our 2.25% cash convertible senior notes due 2021 (2021 Notes) and $186.6 million in aggregate principal with additional accrued interest under WMG's 2.00% cash convertible senior notes due 2020 (2020 Notes, together with the 2023 Notes and 2021 Notes, the Notes). The 2023 Notes and 2020 Notes are guaranteed by Wright Medical Group N.V. In addition, under an amended and restated credit, security and guaranty agreement (ABL Credit Agreement) with Midcap Funding IV Trust and the additional lenders from time to time party thereto (ABL Lenders), WMG and certain of our other wholly-owned U.S. subsidiaries have access to a $150 million senior secured asset based line of credit, subject to the satisfaction of a borrowing base requirement, and which may be increased by up to $100 million upon our request, subject to the consent of the ABL Lenders (ABL Facility), as well as a $40 million term loan facility (Term Loan Facility), an initial $20 million of which was funded at closing of this facility in May 2018. As of September 30, 2018, $21.5 million in aggregate principal plus additional accrued interest was outstanding under the ABL Facility and $20 million was outstanding under the Term Loan Facility. As of September 30, 2018, our total indebtedness under the Notes and ABL Credit Agreement was $1.3 billion, excluding accrued interest.

Our ability to make payments on, and to refinance, our indebtedness, including the Notes and amounts borrowed under the ABL Facility and Term Loan Facility, and our ability to fund planned capital expenditures, contractual cash obligations, research and development efforts, working capital, acquisitions, and other general corporate purposes depends on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory, and other factors, some of which are beyond our control. If we do not generate sufficient cash flow from operations or if future borrowings are not available to us in an amount sufficient to pay our indebtedness, including payments of principal upon conversion of outstanding Notes or on their respective maturity dates or in connection with a transaction involving us that constitutes a fundamental change under the respective indenture governing the Notes, or to fund our liquidity needs, we may be forced to refinance all or a portion of our indebtedness on or before the maturity dates thereof, sell assets, reduce or delay capital expenditures, seek to raise additional capital, or take other similar actions. We may not be able to execute any of these actions on commercially reasonable terms or at all. Our ability to refinance our indebtedness will depend on our financial condition at the time, the restrictions in the instruments governing our indebtedness, and other factors, including market conditions. In addition, in the event of a default under the Notes or under the ABL Credit Agreement, the holders and/or the trustee under the indentures governing the Notes or the ABL Lenders may accelerate payment obligations under the Notes and/or the amounts borrowed under the ABL Credit Agreement, respectfully, which could have a material adverse effect on our business, financial condition, and operating results. In addition, the Notes and ABL Credit Agreement contain cross default provisions. Our inability to generate sufficient cash flow to satisfy our debt service obligations, or to refinance or restructure our obligations on commercially reasonable terms or at all, would likely have an adverse effect, which could be material, on our business, financial condition, and operating results.

In addition, our significant indebtedness, combined with our other financial obligations and contractual commitments, could have other important consequences. For example, it could:

- make us more vulnerable to adverse changes in general U.S. and worldwide economic, industry, and competitive conditions and adverse changes in government regulation;
- limit our flexibility in planning for, or reacting to, changes in our business and our industry;
- restrict our ability to make strategic acquisitions or dispositions or to exploit business opportunities;
- place us at a competitive disadvantage compared to our competitors who have less debt; and
- limit our ability to borrow additional amounts for working capital, capital expenditures, contractual obligations, research and development efforts, acquisitions, debt service requirements, execution of our business strategy, or other purposes.

Any of these factors could materially and adversely affect our business, financial condition, and operating results. In addition, we may incur additional indebtedness, and if we do, the risks related to our business and our ability to service our indebtedness would increase.

In addition, under our Notes, we are required to offer to repurchase the Notes upon the occurrence of a fundamental change, which could include, among other things, any acquisition of ours for consideration other than publicly traded securities. The repurchase price must be paid in cash, and this obligation may have the effect of discouraging, delaying, or preventing an acquisition of ours that would otherwise be beneficial to our security holders.

With respect to the 2021 Notes which have been issued by Wright Medical Group N.V., we are dependent on the cash flow of, and dividends and distributions to us from, our subsidiaries in order to service our indebtedness under these Notes. Our subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay any amounts due pursuant to any indebtedness of ours or to make any funds available therefor, except for those subsidiaries that have guaranteed our obligations under our outstanding indebtedness. The ability of our subsidiaries to pay any dividends and distributions will be subject to, among other things, the terms of any debt instruments of our subsidiaries then in effect as well as among other things, the availability of profits or funds and requirements of applicable laws, including surplus, solvency and other limits imposed on the ability of companies to pay dividends. There can be no assurance that our subsidiaries will generate cash flow sufficient to pay dividends or distributions to us that enable us to pay interest or principal on our existing indebtedness.

A failure to comply with the covenants and other provisions of the indentures governing the Notes or the ABL Credit Agreement could result in events of default under such indentures or ABL Credit Agreement, especially in light of the cross default provisions, which could require the immediate repayment of our outstanding indebtedness. If we are at any time unable to generate sufficient cash flows from operations to service our indebtedness when payment is due, we may be required to attempt to renegotiate the terms of the indentures, the ABL Credit Agreement and other agreements relating to the indebtedness, seek to refinance all or a portion of the indebtedness, or obtain additional financing. There can be no assurance that we will be able to successfully renegotiate such terms, that any such refinancing would be possible, or that any additional financing could be obtained on terms that are favorable or acceptable to us.

Product liability lawsuits could harm our business and adversely affect our operating results or results from discontinued operations and financial condition if adverse outcomes exceed our product liability insurance coverage.

The manufacture and sale of medical devices expose us to significant risk of product liability claims. We are currently defendants in a number of product liability matters, including those relating to the OrthoRecon business, which legacy Wright divested to MicroPort in 2014. Legacy Wright remains responsible, as between it and MicroPort, for claims associated with products sold before divesting the OrthoRecon business to MicroPort.

We have been named as a defendant, in some cases with multiple other defendants, in lawsuits in which it is alleged that certain defects in the design, manufacture, or labeling of certain metal-on-metal and other hip replacement products rendered the products defective. The pre-trial management of certain of the metal-on-metal claims was 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 in state court in Los Angeles County, California (JCCP). Pursuant to previously disclosed settlement agreements with the Court-appointed attorneys representing plaintiffs in the MDL and JCCP, the MDL and JCCP were closed to new cases effective October 18, 2017 and October 31, 2017, respectively. Excluding claims resolved in the settlement agreements, as of September 30, 2018, there were approximately 129 unresolved metal-on-metal hip cases pending in the U.S. This number includes cases ineligible for settlement, cases which opted out of settlement, post-settlement cases, tolled cases, and existing state court cases that were not part of the MDL or JCCP. As of September 30, 2018, we estimate there also was pending approximately 34 non-U.S. metal-on metal cases, 34 unresolved U.S. and no non-U.S. cobalt chrome modular neck corrosion cases, 18 unresolved U.S. titanium modular neck fracture cases, 57 unresolved non-U.S. titanium modular neck fracture cases, 7 U.S. cobalt chrome modular neck fracture cases, and 5 non-U.S. cobalt chrome modular neck fracture cases. We also estimate that as of September 30, 2018 there were approximately 535 non-revision claims either dismissed or awaiting dismissal from the MDL and JCCP pursuant to the terms of the settlement agreements. Although there is a limited time period during which dismissed non-revision claims may be refiled, it is presently unclear how many non-revision claimants will elect to do so. As of September 30, 2018, no dismissed non-revision cases have been refiled. We believe we have data that supports the efficacy and safety of our hip products and have been vigorously defending these cases.

Our material product liability litigation is discussed in Note 13 to our consolidated financial statements. These matters are subject to many uncertainties and outcomes are not predictable. Regardless of the outcome of these matters, legal defenses are costly. We have incurred and expect to continue to incur substantial legal expenses in connection with the defense of these matters. We could incur significant liabilities associated with adverse outcomes that exceed our products liability insurance coverage, which could adversely affect our operating results or results from discontinued operations and financial condition. The ultimate cost to us with respect to product liability claims could be materially different than the amount of the current estimates and accruals and could have a material adverse effect on our financial position, operating results or results from discontinued operations, and cash flows.

In the future, we may be subject to additional product liability claims. We also could experience a material design or manufacturing failure in our products, a quality system failure, other safety issues, or heightened regulatory scrutiny that would warrant a recall of some of our products. Product liability lawsuits and claims, safety alerts and product recalls, regardless of their ultimate outcome, could result in decreased demand for our products, injury to our reputation, significant litigation and other costs, substantial monetary awards to or costly settlements with patients, product recalls, loss of revenue, and the inability to commercialize new products or product candidates, and otherwise have a material adverse effect on our business and reputation and on our ability to attract and retain customers.

Certain of our settlement agreements with insurance carriers include broad releases of coverage for present and future claims of personal injury alleged to be caused by metal-on-metal hip components or the release of metal ions, which could result in inadequate insurance coverage to defend and resolve these claims. In addition, our settlements with these carriers do not resolve previously disclosed disputes with the remaining carriers concerning the extent of coverage available for metal-on-metal hip claims.

On October 28, 2016, our WMT and WMG subsidiaries entered into a Settlement Agreement with a subgroup of three insurance carriers, Columbia Casualty Company (Columbia), St. Paul Surplus Lines Insurance Company and AXIS Surplus Lines Insurance Company (Three Settling Insurers), pursuant to which the Three Settling Insurers paid $60 million (in addition to $10 million previously paid) in full settlement of all potential liability of the Three Settling Insurers for metal ion and metal-on-metal hip claims, including but not limited to all claims in the MDL and the JCCP. As part of the settlement, the Three Settling Insurers repurchased their policies in the five policy years beginning with the 2007-2008 policy year.

On February 22, 2018, we and certain of our subsidiaries entered into a Settlement and Release Agreement (Second Insurance Settlement Agreement) with Federal Insurance Company, a subsidiary of Chubb Insurance (Federal), pursuant to which Federal has paid us a single lump sum payment of $15 million (in addition to $5 million previously paid by Federal). This amount is in full satisfaction of all potential liability of Federal relating to designated metal-on-metal hip claims, including but not limited to all claims asserted by our subsidiary WMT against Federal in the previously disclosed insurance coverage litigation.

On April 19, 2018, we and certain of our subsidiaries entered into a Settlement and Release Agreement (Third Insurance Settlement Agreement) with Catlin Underwriting Agencies Limited for and on behalf of Syndicate 2003 at Lloyd’s of London (Lloyd’s Syndicate 2003) pursuant to which Lloyd’s Syndicate 2003 has paid us a single lump sum payment of $1.9 million (in addition to $5 million previously paid by Lloyd’s Syndicate 2003). This amount is in full satisfaction of all potential liability of Lloyd’s Syndicate 2003 relating to designated metal-on-metal hip claims, including but not limited to all claims asserted by our subsidiary WMT against Lloyd’s Syndicate 2003 in the previously disclosed insurance coverage litigation.

As a result of the above-mentioned settlement agreements, we have no further coverage from the Three Settling Insurers for present or future metal-on-metal or metal ion claims and we have no further coverage from Federal or Lloyd’s Syndicate 2003 for present or future metal-on-metal claims (as defined in the settlement agreements).

Our existing product liability insurance coverage may be inadequate to protect us from any liabilities we might incur.

If the product liability claims brought against us involve uninsured liabilities or result in liabilities that exceed our insurance coverage, our business, financial condition, and operating results could be materially and adversely affected. Further, such product liability matters may negatively impact our ability to obtain insurance coverage or cost-effective insurance coverage in future periods. We remain in litigation with the insurance carriers with whom we have not settled (Lexington and Catlin, with remaining policy limits totaling $30 million and $5 million, respectively) concerning the amount of coverage available to satisfy potential liabilities associated with the metal-on-metal hip claims against us. An unfavorable outcome in this litigation could have an adverse effect on our financial condition and results from discontinued operations if we ultimately are subject to liabilities associated with these claims that exceed coverage amounts not in dispute.

MicroPort's recall of a certain size of its cobalt chrome modular neck device due to alleged fractures could result in additional product liability claims against us. Although we have contested these claims, adverse outcomes could harm our business and adversely affect our results from discontinued operations and financial condition.

In August 2015, MicroPort announced the voluntary recall of a certain size of its PROFEMUR® Long Cobalt Chrome Modular Neck devices manufactured from June 15, 2009 to July 22, 2015. Because MicroPort did not acquire the OrthoRecon business until January 2014, many of the recalled devices were sold by legacy Wright prior to the acquisition by MicroPort. Under the asset purchase agreement with MicroPort, legacy Wright retained responsibility, as between it and MicroPort, for claims for personal injury relating to sales of these products prior to the acquisition. We were not consulted by MicroPort in connection with its recall, and we were aware of only 12 lawsuits alleging personal injury related to cobalt chrome neck fractures (seven in the United States and five outside the United States) as of September 30, 2018. However, if the number of product liability claims alleging personal injury from fractures of cobalt chrome modular necks we sold prior to the MicroPort transaction were to become significant, this could have an adverse effect on our results from discontinued operations and financial condition.

A competitor's recall of its modular hip systems, and the liability claims and adverse publicity which ensued, could generate copycat claims against modular hip systems legacy Wright sold.

On July 6, 2012, Stryker Corporation announced the voluntary recall of its Rejuvenate Modular and ABG II modular neck hip stems citing risks including the potential for fretting and/or corrosion at or about the modular neck junction. Although Stryker's recalled modular neck hip stems differ in design and material from the PROFEMUR® modular neck systems legacy Wright sold before divestiture of the OrthoRecon business, we have previously noted the risk that Stryker's recall and the resultant publicity could negatively impact sales of modular neck systems of other manufacturers, including the PROFEMUR® system, and that Stryker's action has increased industry focus on the safety of cobalt chrome modular neck products. We have carefully monitored the clinical performance of the PROFEMUR® modular neck hip system, which combine a cobalt chrome modular neck and a titanium stem. With over 33,000 units sold since this version was introduced in 2009, and an extremely low complaint rate, we remain confident in the safety and efficacy of this product. Nevertheless, in light of Stryker's recall, the resulting product liability claims to which it has been subject, and the general negative publicity surrounding "metal-on-metal" articulating surfaces (which do not involve modular hip stems), there remains a risk that, even in the absence of clinical evidence, claims for personal injury relating to sales of these products before divestiture of the OrthoRecon business could increase, which could have an adverse effect on our financial condition and results from discontinued operations since legacy Wright retained responsibility, as between it and MicroPort, for these claims. Since the 2012 Stryker recall, we have from time to time been subject to product liability claims alleging corrosion of cobalt chrome modular necks. We presently have approximately 34 such unresolved lawsuits pending in various U.S. courts and no non-U.S. cases.

As a result of different shareholder voting requirements in the Netherlands relative to laws in effect in certain states in the United States, we may have less flexibility with respect to the issuance of our ordinary shares than companies organized in the United States.

Currently, our articles of association provide for an authorized share capital consisting of one class of shares, being 320,000,000 ordinary shares, each with a nominal value of €0.03. Under Dutch law, our authorized share capital can be increased by an amendment to our articles of association. Our articles of association can be amended upon a proposal of our board of directors by the general meeting of shareholders, which resolution can be adopted with a simple majority in a meeting where at least one-third of the outstanding shares are represented. New ordinary shares may be issued pursuant to a resolution of shareholders, or pursuant to such resolution of the board of directors if designated thereto by shareholders. Additionally, subject to specified exceptions, Dutch law grants statutory preemption rights to existing shareholders where shares are being issued for cash consideration. The right of our shareholders to subscribe for ordinary shares pursuant to preemptive rights may be limited or restricted by our shareholders and our shareholders may delegate such authority to the board of directors. Such designations of authority to our board of directors may remain in effect for up to five years and may be renewed for additional periods of up to five years.

Currently our board of directors is authorized to issue shares up to a maximum amount equal to the authorized but unissued share capital and to limit or exclude pre-emptive rights in respect of such issue of shares until June 18, 2020, without further shareholder approval. We cannot provide any assurance that these authorizations will always be approved on a timely basis, especially since our shareholders did not approve these two authorizations the last time we submitted them to a vote of our shareholders at our annual general meeting in June 2016. The failure to renew these authorizations on a timely basis could limit our ability to issue equity and thereby adversely affect our ability to run our business and the holders of our securities.

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.

Not applicable.

ITEM 6. EXHIBITS.

(a) Exhibits.

The following exhibits are being filed or furnished with this Quarterly Report on Form 10-Q:

Exhibit No.	Exhibit	Method of Filing
1.1	Underwriting Agreement, dated August 27, 2018, between Wright Medical Group N.V. and J.P. Morgan Securities LLC.	Incorporated by reference to Exhibit 1.1 to the Registrant's Current Report on Form 8-K as filed with the Securities and Exchange Commission on August 29, 2018 (File No. 001-35065)
2.1	Agreement and Plan of Merger dated as of August 24, 2018 among Wright Medical Group, Inc., Braves WMS, Inc., Wright Medical Group N.V., Cartiva, Inc., and Fortis Advisors LLC	Incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K as filed with the Securities and Exchange Commission on August 27, 2018 (File No. 001-35065)
10.1	Limited Consent and Amendment No. 1 to Amended and Restated Credit, Security and Guaranty Agreement dated as of August 24, 2018 among Wright Medical Group N.V. (as Guarantor), Wright Medical Group, Inc. (as Borrower), Certain Other Direct and Indirect Subsidiaries Listed on the Signature Pages Thereto (each as Borrower), MidCap Funding IV Trust (as Lender and Agent) and the Financial Institutions or Other Entities Parties Thereto	Filed herewith
31.1	Certification of Chief Executive 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
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

Exhibit No.	Exhibit	Method of Filing
101	The following materials from Wright Medical Group N.V.'s Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2018, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017, (ii) the Consolidated Statements of Operations for the three and nine months ended September 30, 2018 and September 24, 2017, (iii) the Consolidated Statements of Comprehensive Loss for the three and nine months ended September 30, 2018 and September 24, 2017, (iv) the Consolidated Statements of Cash Flows for the nine months ended September 30, 2018 and September 24, 2017, and (v) Notes to Consolidated Financial Statements	Filed herewith

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.

November 7, 2018

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)

Exhibit 10.1

Execution Version

LIMITED CONSENT AND AMENDMENT NO. 1 to AMENDED AND RESTATED CREDIT, SECURITY AND GUARANTY AGREEMENT

This **LIMITED CONSENT AND AMENDMENT No. 1 TO AMENDED AND RESTATED CREDIT, SECURITY AND GUARANTY AGREEMENT** (this "**Amendment**") is made as of this 24th day of August, 2018, by and among **WRIGHT MEDICAL GROUP N.V.**, a public limited liability company organized and existing under the laws of the Netherlands with its corporate seat (*statutaire zetel*) in Amsterdam and registered with the Dutch trade register under number 34250781, as a Guarantor ("**Parent**"), **WRIGHT MEDICAL GROUP, INC.**, a Delaware corporation ("**Wright**"), each of the direct and indirect Subsidiaries of Parent set forth on the signature pages hereto (individually as a "**Borrower**", and collectively with Wright, the "**Borrowers**"), **MIDCAP FUNDING IV TRUST,** a Delaware statutory trust, individually as a Lender, and as Agent (in such capacity, together with its successors and assigns, "**Agent**") and the other financial institutions or other entities from time to time parties to the Credit Agreement referenced below, each as a Lender.

RECITALS

A. Agent, Lenders, Parent and Borrowers have entered into that certain Amended and Restated Credit, Security and Guaranty Agreement, dated as of May 7, 2018 (as amended, restated, amended and restated, supplemented or otherwise modified prior to the date hereof, the "**Existing Credit Agreement**"; the Existing Credit Agreement, as amended hereby, the "**Credit Agreement**"), pursuant to which the Lenders have agreed to make certain advances of money and to extend certain financial accommodations to Borrowers in the amounts and manner set forth in the Credit Agreement.

B. Parent and certain of its Subsidiaries desire to consummate the Acquisition of Cartiva, Inc., a Delaware corporation ("**Cartiva**") through the merger of Cartiva into Braves WMS, Inc., a Delaware corporation ("**Acquisition Co.**") and a wholly-owned Subsidiary of Wright, with Cartiva as the surviving company, pursuant to the terms of that certain Agreement and Plan of Merger, dated as of the date hereof, by and among Wright, Acquisition Co., Parent, Cartiva and Fortis Advisors LLC, as representative (the "**Cartiva Merger Agreement**" and such Acquisition, the "**Cartiva Acquisition**").

C. In connection with the Cartiva Acquisition, Parent will enter into an Underwriting Agreement with J.P. Morgan Securities LLC ("**JPM Securities**") pursuant to which JPM Securities will provide to Parent a firm commitment to purchase an aggregate amount of Parent's ordinary shares for consideration in an aggregate amount equal to or greater than $440,000,000.00, prior to the date on which the Cartiva Acquisition is consummated (the "**Cartiva Acquisition Underwriting Agreement**" and such offering of Parent's ordinary shares, the "**Cartiva Acquisition Offering**").

D. Parent and Borrowers have requested that Agent and the Lenders constituting at least the Required Lenders (i) consent to the Cartiva Acquisition and (ii) amend certain terms of the Existing Credit Agreement related to the Cartiva Acquisition, and, on and subject to the conditions and terms set forth herein, Agent and the Lenders constituting at least the Required Lenders have agreed to (i) consent to the Cartiva Acquisition and (ii) so amend the Existing Credit Agreement, as more fully set forth and subject to the terms and conditions herein.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing, the terms and conditions set forth in this Amendment, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Agent, Required Lenders, Parent and Borrowers hereby agree as follows:

1. **Defined Terms; Recitals**. Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to them in the Credit Agreement (including those capitalized terms used in the Recitals hereto). The Recitals set forth above shall be construed as part of this Amendment as if set forth fully in the body of this Amendment.

2. **Limited Consent**.

(a) On the First Amendment Effective Date, subject to the satisfaction of the conditions and accordance with the terms set forth in this Amendment, including, without limitation, the satisfaction of the conditions set forth in Section 5 hereof, Agent and each Required Lender hereby consents (the "**Limited Consent**") to:

(i) the consummation of the Cartiva Acquisition; *provided,* that (a) the Cartiva Acquisition shall have been consummated in all material respects in accordance with the terms of the Cartiva Merger Agreement, without giving effect to any amendments, consents, waivers or other modifications thereto that are materially adverse to the interests of Agent or Lenders, without the prior written consent of Agent (such consent not to be unreasonably withheld, delayed or conditioned), (b) no Event of Default under Section 10.1(a), 10.1(e) or 10.1(f) of the Credit Agreement has occurred and is continuing, or would exist after giving pro forma effect to, the Cartiva Acquisition, the Cartiva Acquisition Offering and the other transactions contemplated in connection therewith, (c) all the Acquisition Consideration paid or payable in cash in connection with the Cartiva Acquisition constitutes Cartiva Acquisition Qualifying Consideration, (d) no Debt or Liens are assumed or created (other than Permitted Liens and Permitted Debt) in connection with Cartiva Acquisition, (e) prior to the consummation of the Cartiva Acquisition, the Borrowers shall have delivered to Agent all materials required by clauses (h) and (j) of the definition of Permitted Acquisition with respect to the Cartiva Acquisition, (f) the Cartiva Acquisition is consummated on or before February 28, 2019 (or such longer period as Agent may agree in its sole discretion), (g) prior to the consummation of the Cartiva Acquisition, Agent shall have received copies of all material amendments, supplements, and modifications to the Cartiva Merger Agreement and all material documents related thereto, and (h) Agent shall have received a fully executed copy of the Cartiva Underwriting Agreement, in form and substance reasonably satisfactory to Agent, and all material documents executed in connection therewith prior to August 31, 2018 (the conditions set forth in clauses (a) through (h) above, collectively, the "**Cartiva Acquisition Conditions**");

(ii) the formation of Acquisition Co., and agree that the Credit Parties shall not be required to comply with the joinder requirements set forth in Section 4.11(a) and (d) with respect to Acquisition Co.; *provided* that (x) the Cartiva Acquisition is consummated on or before February 28, 2019 (or such longer period as Agent may agree in its sole discretion); and (y) the Credit Parties do not make any Investment (other than any de minimis Investment) in Acquisition Co. prior to the consummation of the Cartiva Acquisition; and

(iii) the provisions of the Credit Agreement (including, without limitation, Section 5.6 of the Credit Agreement) to the contrary notwithstanding, the merger of Acquisition Co. with and into Cartiva upon the consummation of the Cartiva Acquisition in accordance with the Cartiva Merger Agreement.

(b) The Limited Consent is effective solely for the purposes set forth herein and shall be limited precisely as written and shall not be deemed to (i) except as expressly provided herein, be a consent to any amendment, waiver or modification of any term or condition of the Credit Agreement or of any other Financing Document; (ii) prejudice any right that Agent or the Lenders have or may have in the future under or in connection with the Credit Agreement or any other Financing Document; (iii) waive any Default and/or Event of Default that may exist and is continuing as of the date hereof; or (iv) establish a custom or course of dealing among the Parent and Borrowers, on the one hand, and Agent or any Lender, on the other hand. Without limiting the foregoing or any other provision in the Financing Documents, the parties hereto agree that the Credit Parties shall be required to comply with the joinder requirements set forth in Section 4.11(a) and (d) with respect to Cartiva and its Subsidiaries (as applicable) following the consummation of the Cartiva Acquisition.

3. **<u>Amendments to the Existing Credit Agreement</u>**. Subject to the terms and conditions of this Amendment, including, without limitation, the satisfaction of the conditions set forth in Section 5 hereof, the Existing Credit Agreement is hereby amended as follows:

(a) Section 1.1 of the Existing Credit Agreement is hereby amended by adding the new defined terms below in alphabetical order therein:

"**Cartiva Acquisition**" has the meaning given to such term in the First Amendment.

"**Cartiva Acquisition Conditions**" has the meaning given to such term in the First Amendment.

"**Cartiva Acquisition Escrow Account**" means that certain Deposit Account of Wright maintained pursuant to the Cartiva Merger Agreement in connection with the Cartiva Acquisition; *provided*, that at no time shall such Deposit Account contain any funds other than (or in excess of) those required to be contributed therein in accordance with the Cartiva Merger Agreement.

"**Cartiva Acquisition Offering**" has the meaning given to such term in the First Amendment.

"**Cartiva Acquisition Qualifying Consideration**" means (a) the Acquisition Consideration paid by the Credit Parties in connection with the Cartiva Acquisition from the proceeds of the Cartiva Acquisition Offering and (b) such additional amounts required to pay the Final Surplus (as defined in the Cartiva Merger Agreement) and reasonable out-of-pocket fees, costs and expenses incurred in connection with the Cartiva Acquisition (including under the Cartiva Acquisition Underwriting Agreement) in an aggregate amount not to exceed Thirty-Five Million Dollars ($35,000,000) with respect to this clause (b).

"**Cartiva Acquisition Underwriting Agreement**" has the meaning given to such term in the First Amendment.

"**Cartiva Merger Agreement**" has the meaning given to such term in the First Amendment.

"**First Amendment**" means that certain Limited Consent and Amendment No. 1 to Amended and Restated Credit, Security and Guaranty Agreement, dated as of August 24, 2018, among Parent, the Borrowers, Agent and Required Lenders.

(b) Section 1.1 of the Existing Credit Agreement is hereby amended by amending the definition of "Permitted Acquisition" by:

(i) amending and restating clause (i) in its entirety as follows:

"(i) the total consideration paid or payable (*including* without limitation, costs and expenses, deferred purchase price, seller notes and other liabilities incurred, assumed or to be reflected on a consolidated balance sheet of the Credit Parties and their Subsidiaries after giving effect to such Acquisition but excluding any equity interests issued as consideration for such Acquisition) ("**Acquisition Consideration**") shall be in an amount not to exceed (A) (i) $15,000,000 in the aggregate for all such Acquisitions in the twelve (12) month period following the Original Closing Date, (ii) $30,000,000 in the aggregate for all such Acquisitions in any succeeding twelve (12) month period occurring thereafter and (B) $75,000,000 in the aggregate for all such Acquisitions from the Original Closing Date through the term of this Agreement; *provided* that the foregoing caps in (A) and (B) shall not apply (x) in the case of the Cartiva Acquisition, to Acquisition Consideration constituting Cartiva Acquisition Qualifying Consideration, (y) in the case of the Imascap Acquisition, and (z) to the extent otherwise agreed in writing by Agent; and"; and

(ii) amending and restating the final sentence at the end of such definition as follows:

"Notwithstanding the foregoing, the Imascap Acquisition and, upon the satisfaction of the Cartiva Acquisition Conditions, the Cartiva Acquisition shall each constitute a Permitted Acquisition.".

(c) Section 1.1 of the Existing Credit Agreement is hereby amended by amending the definition of "Permitted Debt" by:

(i) amending clause (q) thereof by adding the phrase "(other than the Cartiva Acquisition; *provided* that, for the avoidance of doubt, Final Surplus (as defined in the Cartiva Merger Agreement) does not constitute an earn-out obligation or other similar contingent purchase price obligation for purposes of this clause (q))" following "Permitted Acquisition" in the second line thereof; and

(ii) amending clause (z) thereof by adding the phrase "(other than the Cartiva Acquisition; *provided* that, for the avoidance of doubt, Final Surplus (as defined in the Cartiva Merger Agreement) does not constitute Debt for purposes of this clause (z))" following "Permitted Acquisition" in the second line thereof.

(d) Section 5.14(c) of the Existing Credit Agreement is hereby amended by amending and restating clause (iv) as follows:

"(iv) escrow (which, for the avoidance of doubt shall include the Wright Settlement Escrow Account and the Cartiva Acquisition Escrow Account), trust and fiduciary accounts".

4. **<u>Representations and Warranties</u>.** Each Credit Party hereby confirms that all of the representations and warranties set forth in the Credit Agreement are true and correct in all material respects (without duplication of any materiality qualifier in the text of such representation or warranty) with respect to such Credit Party as of the date hereof, except to the extent that any such representation or warranty relates to a specific date in which case such representation or warranty shall be true and correct in all material respects as of such earlier date (without duplication of any materiality qualifier in the text of such representation or warranty).

5. **<u>Conditions to Effectiveness</u>.** This Amendment shall become effective as of the date on which each of the following conditions have been satisfied, as determined by Agent in its reasonable discretion (such date, the "**First Amendment Effective Date**"):

(a) Agent shall have received (including by way of facsimile or other electronic transmission) a duly authorized, executed and delivered counterpart of the signature page to this Amendment from each Credit Party, Agent and the Required Lenders;

(b) all representations and warranties of the Credit Parties contained herein shall be true and correct in all material respects (without duplication of any materiality qualifier in the text of such representation or warranty) as of the date hereof, except to the extent that any such representation or warranty relates to a specific date in which case such representation or warranty shall be true and correct in all material respects as of such earlier date (without duplication of any materiality qualifier in the text of such representation or warranty) (and such parties' delivery of their respective signatures hereto shall be deemed to be its certification thereof);

(c) Agent shall have received a fully executed copy of the Cartiva Merger Agreement, all schedules and exhibits thereto, and all material agreements and documents executed in connection therewith; and

(d) both immediately before and after giving effect to this Amendment, no Default or Event of Default shall have occurred and be continuing or result therefrom.

6. **Costs and Fees**. Parent and Borrowers shall be responsible for the payment of all reasonable, documented and invoiced out-of-pocket costs and fees of Agent's counsel incurred in connection with the preparation, negotiation, execution and delivery of this Amendment and any related Financing Documents.

7. **No Waiver or Novation.** The execution, delivery and effectiveness of this Amendment shall not, except as expressly provided in this Amendment, operate as a waiver of any right, power or remedy of Agent, nor constitute a modification or waiver of any provision of the Credit Agreement, the Financing Documents or any other documents, instruments and agreements executed or delivered in connection with any of the foregoing. Nothing herein is intended or shall be construed as a waiver of any existing Defaults or Events of Default under the Credit Agreement or other Financing Documents or any of Agent's rights and remedies in respect of such Defaults or Events of Default. This Amendment (together with any other document executed in connection herewith) is not intended to be, nor shall it be construed as, a novation of the Credit Agreement.

8. **Reaffirmation.** Except as specifically amended pursuant to the terms hereof, each Credit Party hereby acknowledges and agrees that the Credit Agreement and all other Financing Documents (and all covenants, terms, conditions and agreements therein) shall remain in full force and effect, and are hereby ratified and confirmed in all respects by such Credit Party. Each Credit Party covenants and agrees to comply with all of the terms, covenants and conditions of the Credit Agreement and the Financing Documents, notwithstanding any prior course of conduct, waivers, releases or other actions or inactions on Agent's or any Lender's part which might otherwise constitute or be construed as a waiver of or amendment to such terms, covenants and conditions. Each Credit Party confirms and agrees that all security interests and Liens granted to Agent continue in full force and effect, and all Collateral remains free and clear of any Liens, other than those granted to Agent and Permitted Liens.

9. **Miscellaneous**.

(a) Reference to the Effect on the Credit Agreement and Financing Documents. On and after the date hereof, (i) this Amendment shall constitute a "Financing Document" under and as defined in the Credit Agreement and the other Financing Documents and (ii) each reference in the Credit Agreement to "this Amendment," "hereunder," "hereof," "herein," or words of similar import shall mean and be a reference to the Credit Agreement, as amended by this Amendment.

(b) Incorporation of Credit Agreement Provisions. The provisions contained in Section 11.6 (*Indemnification*), Section 13.8 (*Governing Law; Submission to Jurisdiction*) and

Section 13.9 (*Waiver of Jury Trial*) of the Credit Agreement are incorporated herein by reference to the same extent as if reproduced herein in their entirety.

(c) Headings. Section headings in this Amendment are included for convenience of reference only and shall not constitute a part of this Amendment for any other purpose.

(d) Counterparts. This Amendment may be signed in any number of counterparts, each of which shall be deemed an original and all of which when taken together shall constitute one and the same instrument. Delivery of an executed counterpart of this Amendment by facsimile or by electronic mail delivery of an electronic version (e.g., .pdf or .tif file) of an executed signature page shall be effective as delivery of an original executed counterpart hereof and shall bind the parties hereto.

(e) Entire Agreement. This Amendment constitutes the entire agreement and understanding among the parties hereto and supersedes any and all prior agreements and understandings, oral or written, relating to the subject matter hereof.

(f) Severability. In case any provision of or obligation under this Amendment shall be invalid, illegal or unenforceable in any applicable jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

(g) Successors/Assigns. This Amendment shall bind, and the rights hereunder shall inure to, the respective successors and assigns of the parties hereto, subject to the provisions of the Credit Agreement and the other Financing Documents.

[SIGNATURES APPEAR ON FOLLOWING PAGES]

IN WITNESS WHEREOF, intending to be legally bound, the undersigned have executed this Amendment of the day and year first hereinabove set forth.

AGENT:

MIDCAP FUNDING IV TRUST,
as Agent

By: Apollo Capital Management, L.P.,
its investment manager

By: Apollo Capital Management GP, LLC,
its general partner

By: /s Maurice Amsellem
Name: Maurice Amsellem
Title: Authorized Signatory

LENDERS:

MIDCAP FUNDING IV TRUST,
as a Lender

By: Apollo Capital Management, L.P.,
its investment manager

By: Apollo Capital Management GP, LLC,
its general partner

By: /s Maurice Amsellem
Name: Maurice Amsellem
Title: Authorized Signatory

MIDCAP FINANCIAL TRUST

By: Apollo Capital Management, L.P.,
its investment manager

By: Apollo Capital Management GP, LLC,
its general partner

By: /s Maurice Amsellem
Name: Maurice Amsellem
Title: Authorized Signatory

LENDERS:

APOLLO INVESTMENT CORPORATION,
as a Lender

By: Apollo Investment Management, L.P., as Advisor

By: ACC Management, LLC, as its General Partner

By: /s Tanner Powell
Name: Tanner Powell
Title: Authorized Signatory

WRIGHT:

WRIGHT MEDICAL GROUP, INC.

By:/s Lance A. Berry
Name: Lance A. Berry
Title: Senior Vice President and Chief Financial Officer

BORROWERS:

BIOMIMETIC THERAPEUTICS CANADA, INC.

By:/s W. Dean Morgan
Name: W. Dean Morgan
Title: Vice President

BIOMIMETIC THERAPEUTICS LLC

By:/s Lance A. Berry
Name: Lance A. Berry
Title: Treasurer

BIOMIMETIC THERAPEUTICS USA, INC.

By:/s W. Dean Morgan
Name: W. Dean Morgan
Title: Vice President

INBONE TECHNOLOGIES, INC.

By:/s W. Dean Morgan
Name: W. Dean Morgan
Title: Vice President, Tax and Treasury

ORTHOHELIX SURGICAL DESIGNS, INC.

By:/s W. Dean Morgan
Name: W. Dean Morgan
Title: Treasurer

ORTHOPRO, L.L.C.

By:/s Lance A. Berry
Name: Lance A. Berry
Title: President and Chief Financial Officer

SOLANA SURGICAL, LLC

By: Wright Medical Group, Inc., its sole member

By:/s Lance A. Berry
Name: Lance A. Berry
Title: Senior Vice President and Chief Financial Officer

TORMIER US HOLDINGS, INC.

By:/s W. Dean Morgan
Name: W. Dean Morgan
Title: Treasurer

TORNIER, INC.

By: /s W. Dean Morgan
Name: W. Dean Morgan
Title: Treasurer

TROOPER HOLDINGS INC.

By:/s W. Dean Morgan
Name: W. Dean Morgan
Title: Treasurer

WHITE BOX ORTHOPEDICS, LLC

By: /s Lance A. Berry
Name: Lance A. Berry
Title: President and Chief Financial Officer

WRIGHT MEDICAL CAPITAL, INC..

By: /s W. Dean Morgan
Name: W. Dean Morgan
Title: Vice President, Tax and Treasury

WRIGHT MEDICAL TECHNOLOGY, INC.

By:/s W. Dean Morgan
Name: W. Dean Morgan
Title: Vice President, Tax and Treasury

WRIGHT MEDICAL GROUP INTELLECTUAL PROPERTY, INC.

By: /s W. Dean Morgan
Name: W. Dean Morgan
Title: Vice President, Tax and Treasury

GUARANTOR AND PARENT:

WRIGHT MEDICAL GROUP N.V.

By: /s Lance A. Berry
Name: Lance A. Berry
Title: Senior Vice President and Chief Financial Officer

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO RULE 13a-14(a) UNDER
THE SECURITIES EXCHANGE ACT OF 1934

I, Robert J. Palmisano, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the fiscal quarter ended September 30, 2018, of Wright Medical Group N.V.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the 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 registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2018

/s/ Robert J. Palmisano

Robert J. Palmisano
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO RULE 13a-14(a) UNDER
THE SECURITIES EXCHANGE ACT OF 1934

I, Lance A. Berry, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the fiscal quarter ended September 30, 2018, of Wright Medical Group N.V.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the 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 registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2018

/s/ Lance A. Berry

Lance A. Berry
Senior Vice President and Chief Financial Officer

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO RULE 13a-14(b) UNDER THE SECURITIES EXCHANGE ACT OF 1934 AND SECTION 1350 OF CHAPTER 63 OF TITLE 18 OF THE UNITED STATES CODE

Each of the undersigned, Robert J. Palmisano and Lance A. Berry, certifies pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 (Exchange Act) and Section 1350 of Chapter 63 of Title 18 of the United States Code, that (1) this Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2018 (Report) of Wright Medical Group N.V. (Company) fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act, and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2018

/s/ Robert J. Palmisano

Robert J. Palmisano
President and Chief Executive Officer

/s/ Lance A. Berry

Lance A. Berry
Senior Vice President and Chief Financial Officer