

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 March 31, 2017

or

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

For the transition period from _____ to _____

Commission file number: 001-37599

LivaNova

LivaNova PLC

(Exact name of registrant as specified in its charter)

England and Wales

(State or other jurisdiction of
incorporation or organization)

**20 Eastbourne Terrace
London, United Kingdom**

(Address of principal executive offices)

98-1268150

(I.R.S. Employer
Identification No.)

W2 6LG

(Zip Code)

(44) (0) 20 3325 0660

Registrant's telephone number, including area code:

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

Ordinary Shares — £1.00 par value per share

Title of Each Class of Stock

The NASDAQ Stock Market LLC

Name of Each Exchange on Which Registered

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

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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 Act). Yes No

Class

Outstanding at April 28, 2017

Ordinary Shares - £1.00 par value per share

48,185,995

LIVANOVA PLC
TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION		PAGE NO.
<u>Item 1</u>	<u>Condensed Consolidated Financial Statements</u>	<u>5</u>
	<u>Condensed Consolidated Statements of Income (Loss)</u>	<u>5</u>
	<u>Condensed Consolidated Statements of Comprehensive Income (Loss)</u>	<u>6</u>
	<u>Condensed Consolidated Balance Sheets</u>	<u>7</u>
	<u>Condensed Consolidated Statements of Cash Flows</u>	<u>8</u>
	<u>Notes to the Condensed Consolidated Financial Statements</u>	<u>9</u>
<u>Item 2</u>	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>28</u>
<u>Item 3</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>36</u>
<u>Item 4</u>	<u>Controls and Procedures</u>	<u>36</u>
PART II. OTHER INFORMATION		
<u>Item 1</u>	<u>Legal Proceedings</u>	<u>37</u>
<u>Item 1A</u>	<u>Risk Factors</u>	<u>37</u>
<u>Item 2</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>38</u>
<u>Item 6</u>	<u>Exhibits</u>	<u>39</u>

In this Quarterly Report on Form 10-Q, “LivaNova,” “the Company,” “we,” “us” and “our” refer to LivaNova PLC and its consolidated subsidiaries.

This report may contain references to our proprietary intellectual property, including among others:

- Trademarks for our VNS therapy systems, the VNS Therapy® System, the VITARIA®™ System and our proprietary Pulse generators products: Model 102 (Pulse™), Model 102R (Pulse Duo™), Model 103 (Demipulse®), Model 104 (Demipulse Duo®), Model 105 (AspireHC®), Model 106 (AspireSR®) and our newest model in development, Sentiva™.
- Trademarks for our Oxygenators product systems: Inspire™, Heartlink™ and Connect™.
- Trademarks for our line of surgical tissue and mechanical valve replacements and repair products: Mitroflow™, Crown PRT™, Solo Smart™, Perceval™, Top Hat™, Reduced Series Aortic Valves™, Carbomedics Carbo-Seal™, Carbo-Seal Valsalva™, Carbomedics Standard™, Orbis™ and Optiform™, and Mitral valve repair products: Memo 3D™, Memo 3D ReChord™, AnnuloFlo™ and AnnuloFlex™.
- Trademarks for our implantable cardiac pacemakers and associated services: REPLY 200™, ESPRIT™, KORA 100™, KORA 250™, SafeR™, the REPLY CRT-PT™, the remedé® System.
- Trademarks for our Implantable Cardioverter Defibrillators and associated technologies: the INTENSIA™, PLATINIUM™, and PARADYM® product families.
- Trademarks for our cardiac resynchronization therapy devices, technologies services: SonR®, SonRtip™, SonR CRT™, the INTENSIA™, PARADYM RF™, PARADYM 2™ and PLATINIUM™ product families and the Respond CRT™ clinical trial.
- Trademarks for heart failure treatment product: Equilia®™.
- Trademarks for our bradycardia leads: BEFLEX™ (active fixation) and XFINET™ (passive fixation).

These trademarks and tradenames are the property of LivaNova or the property of our consolidated subsidiaries and are protected under applicable intellectual property laws. Solely for convenience, our trademarks and tradenames referred to in this Report on Form 10-Q may appear without the ® or ™ symbols, but such references are not intended to indicate in any way that we will not assert, to the fullest extent under applicable law, our rights to these trademarks and tradenames.

“Safe Harbor” Statement under the Private Securities Litigation Reform Act of 1995

Certain statements in this Quarterly Report on Form 10-Q, other than purely historical information, are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These statements include, but are not limited to, statements about the benefits of the business combination of Sorin and Cyberonics, LivaNova’s plans, objectives, strategies, financial performance and outlook, trends, the amount and timing of future cash distributions, prospects or future events and involve known and unknown risks that are difficult to predict. As a result, our actual financial results, performance, achievements or prospects may differ materially from those expressed or implied by these forward-looking statements. In some cases, you can identify forward-looking statements by the use of words such as “may,” “could,” “seek,” “guidance,” “predict,” “potential,” “likely,” “believe,” “will,” “should,” “expect,” “anticipate,” “estimate,” “plan,” “intend,” “forecast,” “foresee” or variations of these terms and similar expressions, or the negative of these terms or similar expressions. Such forward-looking statements are necessarily based on estimates and assumptions that, while considered reasonable by LivaNova and its management based on their knowledge and understanding of the business and industry, are inherently uncertain. These statements are not guarantees of future performance, and stockholders should not place undue reliance on forward-looking statements. There are a number of risks, uncertainties and other important factors, many of which are beyond our control, that could cause our actual results to differ materially from the forward-looking statements contained in this Quarterly Report on Form 10-Q, and include but are not limited to the risks and uncertainties summarized below:

Risks related to the Mergers:

- failure to effectively integrate and/or manage newly acquired businesses, and the cost, time and effort required to integrate newly acquired businesses, all of which may be greater than anticipated;
- operating costs, customer loss or business disruption (including, without limitation, difficulties in maintaining relationships with employees, customers, distributors or suppliers) being greater than expected following the Mergers;
- failure to retain certain key legacy employees of the Cyberonics or Sorin businesses; and
- changes in tax laws or interpretations that could increase our consolidated tax liabilities following the Mergers, including the risk that we could be treated as a domestic corporation for United States federal tax purposes.

Risks related to our business:

- changes in our common stock price;
- changes in our profitability;
- regulatory activities and announcements, including the failure to obtain regulatory approvals for our new products;
- effectiveness of our internal controls over financial reporting;
- fluctuations in future quarterly operating results;
- failure to comply with, or changes in, laws, regulations or administrative practices affecting government regulation of our products, including, but not limited to, U.S. Food and Drug Administration (“FDA”) laws and regulations;
- failure to establish, expand or maintain market acceptance of our products for the treatment of our approved indications;
- any legislative or administrative reform to the healthcare system, including the U.S. Medicare or Medicaid systems or international reimbursement systems, that significantly reduces reimbursement for our products or procedures or denies coverage for such procedures, as well as adverse decisions by administrators of such systems on coverage or reimbursement issues relating to our products;
- failure to maintain the current regulatory approvals for our products’ approved indications;
- failure to obtain or maintain insurance coverage and reimbursement for our products’ approved indications;
- unfavorable results from clinical studies;
- variations in sales and operating expenses relative to estimates;
- our dependence on certain suppliers and manufacturers to provide certain materials, components and contract services necessary for the production of our products;
- product liability, intellectual property disputes, shareholder related matters, environmental proceedings, income tax disputes, and other related losses and costs;

- protection, expiration and validity of our intellectual property;
- changes in technology, including the development of superior or alternative technology or devices by competitors;
- failure to comply with applicable U.S. domestic laws and regulations, including federal and state privacy and security laws and regulations;
- failure to comply with non-U.S. law and regulations;
- non-U.S. operational and economic risks and concerns;
- failure to attract or retain key personnel;
- losses or costs from pending or future lawsuits and governmental investigations;
- changes in accounting rules that adversely affect the characterization of our consolidated financial position, results of operations or cash flows;
- changes in customer spending patterns;
- continued volatility in the global market and worldwide economic conditions, in particular the implementation of Brexit will likely cause increased economic volatility;
- changes in tax laws, including changes due to Brexit, or exposure to additional income tax liabilities;
- harsh weather or natural disasters that interrupt our business operations or the business operations of our hospital-customers; and
- the adoption of new therapies by the market requires significant time and expense and cannot be guaranteed.
- Other factors that could cause our actual results to differ from our projected results are described in (1) “Part II, Item 1A. Risk Factors” and elsewhere in this Quarterly Report on Form 10-Q, (2) our 2016 Form 10-K, (3) our reports and registration statements filed and furnished from time to time with the SEC and (4) other announcements we make from time to time.

Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof. We undertake no obligation to update or revise any forward-looking statements after the date they are made, whether as a result of new information, future events or otherwise. You should read the following discussion and analysis in conjunction with our unaudited consolidated financial statements and related notes included elsewhere in this report. Operating results for the quarter ended March 31, 2017 are not necessarily indicative of future results, including the full fiscal year. You should also refer to our “Annual Consolidated Financial Statements,” “Notes” thereto, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Risk Factors” contained in our 2016 Form 10-K.

Financial Information and Currency of Financial Statements

All of the financial information included in this quarterly report has been prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP. The reporting currency of our consolidated financial statements is U.S. dollars.

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

LIVANOVA PLC AND SUBSIDIARIES'
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(UNAUDITED)
(In thousands, except per share amounts)

	Three Months Ended March 31,	
	2017	2016
Net sales	\$ 285,105	\$ 286,969
Cost of sales	101,463	123,567
Product remediation	(792)	706
Gross profit	184,434	162,696
Operating expenses:		
Selling, general and administrative	112,397	115,866
Research and development	29,651	31,690
Merger and integration expenses	2,208	6,761
Restructuring expenses	10,150	28,592
Amortization of intangibles	11,414	15,892
Total operating expenses	165,820	198,801
Income (loss) from operations	18,614	(36,105)
Interest income	273	213
Interest expense	(2,315)	(1,192)
Foreign exchange and other gains (losses)	3,439	(1,835)
Income (loss) before income taxes	20,011	(38,919)
Income tax expense (benefit)	5,655	(1,258)
Losses from equity method investments	(3,085)	(2,717)
Net income (loss)	\$ 11,271	\$ (40,378)
Basic income (loss) per share	\$ 0.23	\$ (0.83)
Diluted income (loss) per share	\$ 0.23	\$ (0.83)
Shares used in computing basic income (loss) per share	48,067	48,918
Shares used in computing diluted income (loss) per share	48,178	48,918

See accompanying notes to the condensed consolidated financial statements

LIVANOVA PLC AND SUBSIDIARIES'
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)
(In thousands)

	Three Months Ended March 31,	
	2017	2016
Net income (loss)	\$ 11,271	\$ (40,378)
Other comprehensive income (loss):		
Net change in unrealized loss on derivatives	(2,633)	(3,765)
Tax effect	724	386
Net of tax	(1,909)	(3,379)
Foreign currency translation adjustment, net of tax	15,430	48,501
Total other comprehensive income	13,521	45,122
Total comprehensive income	\$ 24,792	\$ 4,744

See accompanying notes to the condensed consolidated financial statements

LIVANOVA PLC AND SUBSIDIARIES'
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
	(Unaudited)	
ASSETS		
<i>Current Assets:</i>		
Cash and cash equivalents	\$ 62,719	\$ 39,789
Accounts receivable, net	271,534	275,730
Inventories	192,388	183,489
Prepaid and refundable income taxes	60,367	60,615
Assets held for sale	17,622	4,477
Prepaid expenses and other current assets	56,047	55,973
Total Current Assets	<u>660,677</u>	<u>620,073</u>
Property, plant and equipment, net	205,121	223,842
Goodwill	698,276	691,712
Intangible assets, net	605,780	609,197
Investments	58,728	61,092
Deferred tax assets, net	9,401	6,017
Other assets	132,664	130,698
Total Assets	<u>\$ 2,370,647</u>	<u>\$ 2,342,631</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
<i>Current Liabilities:</i>		
Current debt obligations	\$ 45,456	\$ 47,650
Accounts payable	101,954	92,952
Accrued liabilities	68,416	75,567
Income taxes payable	26,682	22,340
Accrued employee compensation and related benefits liability	81,320	78,302
Total Current Liabilities	<u>323,828</u>	<u>316,811</u>
Long-term debt obligations	76,068	75,215
Deferred income taxes liability	166,960	172,541
Long-term employee compensation and related benefits liability	31,104	31,668
Other long-term liabilities	37,759	39,487
Total Liabilities	635,719	635,722
Commitments and contingencies (Note 8)		
<i>Stockholders' Equity:</i>		
Ordinary Shares, £1.00 par value: unlimited shares authorized; 48,184,737 shares issued and 48,124,731 shares outstanding at March 31, 2017; 48,156,690 shares issued and 48,028,413 shares outstanding at December 31, 2016	74,612	74,578
Additional paid-in capital	1,721,238	1,719,893
Accumulated other comprehensive loss	(54,966)	(68,487)
Retained deficit	(3,304)	(14,575)
Treasury stock at cost, 60,006 shares at March 31, 2017 and 128,277 shares at December 31, 2016	(2,652)	(4,500)
Total Stockholders' Equity	<u>1,734,928</u>	<u>1,706,909</u>
Total Liabilities and Stockholders' Equity	<u>\$ 2,370,647</u>	<u>\$ 2,342,631</u>

See accompanying notes to the condensed consolidated financial statements

LIVANOVA PLC AND SUBSIDIARIES'
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(In thousands)

	Three Months Ended March 31,	
	2017	2016
Cash Flows From Operating Activities:		
Net income (loss)	\$ 11,271	\$ (40,378)
Non-cash items included in net income (loss):		
Depreciation	8,778	10,915
Amortization	11,414	12,653
Stock-based compensation	3,844	6,116
Deferred income tax (benefit) expense	(5,518)	1,282
Losses from equity method investments	3,085	2,717
Impairment of property, plant and equipment	4,650	—
Amortization of income taxes payable on intercompany transfers	6,513	3,502
Other	(1,915)	2,745
Changes in operating assets and liabilities:		
Accounts receivable, net	6,573	(8,442)
Inventories	(4,436)	10,800
Other current and non-current assets	(9,308)	(13,714)
Restructuring reserve	(6,697)	22,011
Accounts payable and accrued current and non-current liabilities	4,953	(607)
Net cash provided by operating activities	33,207	9,600
Cash Flow From Investing Activities:		
Purchases of property, plant and equipment	(7,566)	(8,137)
Proceeds from sale of cost method investment	3,192	—
Purchases of short-term investments	—	(6,991)
Maturities of short-term investments	—	7,000
Other	(361)	(820)
Net cash used in investing activities	(4,735)	(8,948)
Cash Flows From Financing Activities:		
Loans to equity method investments	(5,336)	(2,846)
Short-term borrowing (repayment), net	253	(10,342)
Proceeds from exercise of stock options and SARs	876	2,541
Repayment of trade receivable advances	—	(16,076)
Other	(1,819)	(346)
Net cash used in financing activities	(6,026)	(27,069)
Effect of exchange rate changes on cash and cash equivalents	484	1,272
Net increase (decrease) in cash and cash equivalents	22,930	(25,145)
Cash and cash equivalents at beginning of period	39,789	112,613
Cash and cash equivalents at end of period	\$ 62,719	\$ 87,468

See accompanying notes to the condensed consolidated financial statements

LIVANOVA PLC AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Unaudited Condensed Consolidated Financial Statements

Basis of Presentation

The accompanying condensed consolidated financial statements of LivaNova as of and for the three months ended March 31, 2017 and March 31, 2016 have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S.” and such principles, “U.S. GAAP”) for interim financial information and the instructions to Form 10-Q and Article 10 of regulation S-X. The accompanying condensed consolidated balance sheet of LivaNova at December 31, 2016 has been derived from audited financial statements contained in our annual report on form 10-K for the year ended December 31, 2016, but do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, the condensed consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the operating results of LivaNova and its subsidiaries, for the three months ended March 31, 2017 and are not necessarily indicative of the results that may be expected for the year ending December 31, 2017. The financial information presented herein should be read in conjunction with the audited consolidated financial statements and notes thereto accompanying our Annual Report on Form 10-K for the year ended December 31, 2016.

Description of the Mergers

On October 19, 2015 LivaNova became the holding company of the combined businesses of Cyberonics and Sorin (the “Mergers”). Based on the structure of the Mergers, management determined that Cyberonics was considered to be the accounting acquirer and predecessor for accounting purposes.

Reclassification of Prior Year Comparative Period Presentation

To conform the condensed consolidated statement of income (loss) for the three months ended March 31, 2016 to the current period presentation, we reclassified \$0.7 million previously presented on the Litigation Related Expenses line to Cost of Goods Sold - Product Remediation and \$0.3 million to Selling, General and Administrative Expenses. Litigation Related Expenses was presented on a separate line within operating expenses in the condensed consolidated statement of income (loss) for the three months ended March 31, 2016.

To conform the condensed consolidated balance sheet as of December 31, 2016 to the current period presentation, we classified \$4.5 million of Assets Held for Sale, relating to our plan to exit the Costa Rica manufacturing operation, to a separate line item in the condensed consolidated balance sheet from Prepaid Expenses and Other Current Assets.

To conform the condensed consolidated statement of cash flow for the three months ended March 31, 2016 to the current period presentation, certain amounts were reclassified within Cash Flows from Operating Activities.

Note 2. Restructuring

Our 2015 and 2016 Reorganization Plans (the “Plans”) were initiated October 2015 and March 2016, respectively, in conjunction with the completion of the Mergers. We initiated these plans to leverage economies of scale, streamline distribution and logistics and strengthen operational and administrative effectiveness in order to reduce overall costs. Costs associated with these plans were reported as ‘Restructuring expenses’ in our operating results in the condensed consolidated statements of income (loss). We estimate that the Plans will result in a net reduction of approximately 341 personnel of which 228 have occurred as of March 31, 2017.

In March 2017, we committed to a plan to sell our Suzhou Industrial Park facility in Shanghai, China. As a result of this exit plan we recorded an impairment of the building and equipment of \$4.6 million, and accrued \$0.5 million of additional costs, primarily related to employee severance, during the three months ended March 31, 2017. In addition, the remaining \$13.1 million carrying value of the land, building and equipment was reclassified to Assets Held for Sale on the condensed consolidated balance sheet, as of March 31, 2017.

The restructuring expense accrual detail (in thousands):

	Employee severance and other termination costs	Other	Total
Balance as of December 31, 2016	\$ 21,092	\$ 3,056	\$ 24,148
Charges	4,758	5,392	10,150
Cash payments, impairment and adjustments	(15,868)	(5,166)	(21,034)
Balance as of March 31, 2017	<u>\$ 9,982</u>	<u>\$ 3,282</u>	<u>\$ 13,264</u>

The following table presents restructuring expense by reportable segment (in thousands):

	Three Months Ended March 31,	
	2017	2016
Cardiac Surgery	\$ 6,002	\$ 4,210
Cardiac Rhythm Management	120	15,166
Neuromodulation	684	2,163
Other	3,344	7,053
Total	<u>\$ 10,150</u>	<u>\$ 28,592</u>

Note 3. Product Remediation Liability

At December 31, 2016, we recognized a liability for a product remediation plan related to our 3T Heater Cooler device. The remediation plan we developed consists primarily of a modification of the 3T design to include internal sealing and addition of a vacuum system to new and existing devices. These changes are intended to address regulatory actions and further reduce the risk of possible dispersion of aerosols from the 3T Heater Cooler devices in the operating room. The deployment of this solution for commercially distributed devices will occur upon final validation and verification of the design changes and approval or clearance by regulatory authorities worldwide, including FDA clearance in the U.S. In April 2017, we obtained CE Mark in Europe for the design change of the 3T device. As part of this plan, we also intend to perform a no-charge deep disinfection service for 3T users who have reported confirmed *M. chimaera* mycobacterium contamination. Although the deep disinfection service is not yet available in the U.S., it is currently offered in many countries around the world and will be expanded to additional geographies as regulatory approvals are received. Finally, in the fourth quarter of 2016 we initiated a program to provide existing 3T users with a new loaner 3T device at no charge pending regulatory approval and implementation of the vacuum system addition and deep disinfection service worldwide. This loaner program began in the U.S. and is being progressively made available on a global basis, prioritizing and allocating devices to 3T users based on pre-established criteria.

Changes in the carrying amount of the product remediation liability are as follows (in thousands):

Balance at December 31, 2016	\$ 33,487
Adjustments	(986)
Remediation activity	(1,182)
Effect of changes in currency exchange rates	412
Balance at March 31, 2017	<u>\$ 31,731</u>

As a result of the above adjustments to the product remediation liability and remediation activity during the three months ended March 31, 2017, there was a reduction in costs related to the product remediation program of \$0.8 million included in Product Remediation line in the condensed consolidated statement of income (loss). It is reasonably possible that our estimate of the remediation liability could materially change in future periods due to the various significant assumptions involved such as customer behavior, market reaction and the timing of approvals or clearance by regulatory authorities worldwide. We recognize changes in estimates on a prospective basis. For further information, please refer to "Note 8. Commitments and Contingencies - 3T Heater Cooler." At this stage, no liability has been recognized with respect to any lawsuits involving the Company related to the 3T Heater Cooler, while related legal costs are expensed as incurred.

Note 4. Investments

Cost-Method Investments

Our cost-method investments of \$34.2 million and \$33.8 million as of March 31, 2017 and December 31, 2016, respectively, consisted primarily of our equity investments in Respicardia, Inc. and ImThera Medical, Inc. Respicardia is a privately funded U.S. company developing an implantable device designed to restore a more natural breathing pattern during sleep in patients with central sleep apnea ("CSA") by transvenously stimulating the phrenic nerve. ImThera is a privately funded U.S. company developing a neurostimulation device system for the treatment of obstructive sleep apnea. During the three months ended March 31, 2017, we loaned ImThera \$1.0 million, which is included in Other Assets on the condensed consolidated balance sheet. In addition, during the three months ended March 31, 2017, we sold our investment in Istituto Europeo di Oncologia S.R.L. for a gain of \$3.2 million. This gain is included in Foreign exchange and other gains (losses) in the condensed consolidated statement of income (loss).

Equity Method Investments

Our equity-method investments consist of our equity position in the following entities (in thousands, except for percent ownership):

	% Ownership ⁽¹⁾	March 31, 2017	December 31, 2016
Caisson Interventional LLC ⁽²⁾	49.1%	\$ 14,963	\$ 16,423
Highlife S.A.S. ⁽³⁾	38.0%	5,588	6,009
MicroPort Sorin CRM (Shanghai) Co. Ltd.	49.0%	3,912	4,867
Other		18	16
Total ⁽⁴⁾		\$ 24,481	\$ 27,315

(1) Ownership percentages as of March 31, 2017.

(2) Caisson Interventional LLC is a privately held clinical-stage medical device company located in the U.S., and is focused on the design, development, and clinical evaluation of a novel percutaneous mitral valve replacement system. During the quarter ended March 31, 2017, we loaned Caisson \$3.0 million, which is included in Other Assets on the condensed consolidated balance sheet.

(3) Highlife S.A.S is a privately held clinical-stage medical device company located in France, and is focused on the development of a unique transcatheter mitral valve replacement system to treat patients with mitral regurgitation. We loaned Highlife \$1.3 million during the three months ended March 31, 2017, which is included in Other Assets on the condensed consolidated balance sheet.

(4) We have loans outstanding to Caisson and Highlife amounting to \$13.2 million, in total, at March 31, 2017.

Note 5. Fair Value Measurements

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table provides information by level for assets and liabilities that are measured at fair value on a recurring basis (in thousands):

	Fair Value as of	Fair Value Measurements Using Inputs Considered as:		
	March 31, 2017	Level 1	Level 2	Level 3
Assets:				
Derivative assets - designated as cash flow hedges (FX)	\$ 2,569	\$ —	\$ 2,569	\$ —
Derivative assets - freestanding hedges (FX)	1,620	—	1,620	—
	<u>\$ 4,189</u>	<u>\$ —</u>	<u>\$ 4,189</u>	<u>\$ —</u>
Liabilities:				
Derivative liabilities - designated as cash flow hedges (interest rate swaps)	\$ 2,053	\$ —	\$ 2,053	\$ —
Earmout for contingent payments ⁽¹⁾	3,913	—	—	3,913
	<u>\$ 5,966</u>	<u>\$ —</u>	<u>\$ 2,053</u>	<u>\$ 3,913</u>

	Fair Value as of		Fair Value Measurements Using Inputs Considered as:					
	December 31, 2016		Level 1	Level 2	Level 3			
Assets:								
Derivative assets - designated as cash flow hedges (FX)	\$	4,911	\$	—	\$	4,911	\$	—
Derivative assets - freestanding hedges (FX)		3,358		—		3,358		—
	\$	8,269	\$	—	\$	8,269	\$	—
Liabilities:								
Derivative liabilities - designated as cash flow hedges (FX)	\$	942	\$	—	\$	942	\$	—
Derivative Liabilities - designated as cash flow hedges (interest rate swaps)		1,392		—		1,392		—
Earmout for contingent payments ⁽¹⁾		3,890		—		—		3,890
	\$	6,224	\$	—	\$	2,334	\$	3,890

(1) This contingent payment arose as a result of acquisitions, see “Note 13. Supplemental Financial Information - Other Long-Term Liabilities” for further information.

Note 6. Financing Arrangements

The outstanding principal amount of long-term debt (in thousands, except interest rates):

	March 31, 2017	December 31, 2016	Maturity	Interest Rate
European Investment Bank ⁽¹⁾	\$ 80,069	\$ 78,987	June 2021	0.95%
Banca del Mezzogiorno ⁽²⁾	6,859	6,747	December 2019	0.50% - 3.15%
Mediocredito Italiano ⁽³⁾	7,397	7,276	December 2023	0.50% - 3.07%
Bpifrance (ex-Oséo)	1,775	1,909	October 2019	2.58%
Region Wallonne	809	798	December 2023 and June 2033	0.00% - 2.42%
Mediocredito Italiano - mortgages	751	799	September 2021 and September 2026	0.40% - 0.65%
Total long-term facilities	97,660	96,516		
Less current portion of long-term debt	21,592	21,301		
Total long-term debt	\$ 76,068	\$ 75,215		

- (1) The European Investment Bank (“EIB”) loan was obtained in July 2014 to support product development projects. The interest rate for the EIB loan is reset by the lender each quarter based on the Euribor. Interest payments are quarterly and principal payments are semi-annually.
- (2) The Banca del Mezzogiorno loan was obtained in January 2015 to support R&D projects as a part of the Large Strategic Project program of the Italian Ministry of Education.
- (3) We obtained the Mediocredito Italiano Bank loan in July 2016 as part of the Fondo Innovazione Teconologica program implemented by the Italian Ministry of Education.

Revolving Credit

The outstanding principal amount of our short-term unsecured revolving credit agreements and other agreements with various banks and governmental entities was \$23.9 million and \$26.4 million, at March 31, 2017 and December 31, 2016, respectively, with interest rates ranging from 0.0% to 15.3%.

Note 7. Derivatives and Risk Management

Due to the global nature of our operations, we are exposed to foreign currency exchange rate fluctuations. In addition, due to certain loans with floating interest rates, we are also subject to the impact of changes in interest rates on our interest payments. We enter into foreign currency exchange rate (“FX”) derivative contracts and interest rate swap contracts to reduce the impact of foreign currency rate and interest rate fluctuations on earnings and cash flow. We measure all outstanding derivatives each period end at fair value and report the fair value as either financial assets or liabilities in the consolidated balance sheets. We do not enter into derivative contracts for speculative purposes. If the derivative qualifies for hedge accounting, depending on the nature of the hedge and hedge effectiveness, changes in the fair value of the derivative will either be recognized immediately in earnings or recorded in other Accumulated Other Comprehensive Income (loss) (“AOCI”) until the hedged item is recognized in earnings upon settlement/termination. FX amounts in AOCI are reclassified to the consolidated statement of income (loss) as shown in the tables below and interest rate swaps gains and losses in AOCI are reclassified to interest expense in the consolidated statement of income (loss). We evaluate hedge effectiveness at inception and on an ongoing basis. If a derivative is no longer expected to be highly effective, hedge accounting is discontinued. Hedge ineffectiveness, if any, is recorded in earnings. Cash flows from derivative contracts are reported as operating activities in the consolidated statements of cash flows.

Derivatives that are not designated as hedging instruments are referred to as freestanding derivatives with changes in fair value included in earnings. We use currency exchange rate derivative contracts and interest rate derivative instruments, to manage the impact of currency exchange and interest rate changes on earnings and cash flows. In order to minimize earnings and cash flow volatility resulting from currency exchange rate changes, we enter into derivative instruments, principally forward currency exchange rate contracts. These contracts are designed to hedge anticipated foreign currency transactions and changes in the value of specific assets and liabilities. At inception of the forward contract, the derivative is designated as either a freestanding derivative or a cash flow hedge.

Freestanding Derivative FX Contracts

The gross notional amount of derivative FX forward contracts, not designated as hedging instruments (freestanding derivatives), outstanding at March 31, 2017 and December 31, 2016 was \$210.0 million and \$489.1 million, respectively. These derivative contracts are designed to offset the FX effects in earnings of various intercompany loans, our European Investment Bank loan, and receivables denominated in JPY and GBP. We recorded net losses for these freestanding derivatives of \$1.8 million and \$3.8 million, for the three months ended March 31, 2017 and March 31, 2016, respectively. These losses are included in Foreign exchange and other gains (losses) in the condensed consolidated statement of income (loss).

Cash Flow Hedges

Notional amounts of open derivative contracts designated as cash flow hedges (in thousands):

Description of contract:	March 31, 2017	December 31, 2016
FX derivative contracts to be exchanged for British Pounds	\$ 8,277	\$ 6,663
FX derivative contracts to be exchanged for Japanese Yen	52,498	57,840
Interest rate swap contracts	64,107	63,246
	<u>\$ 124,882</u>	<u>\$ 127,749</u>

After-tax net gain associated with derivatives designated as cash flow hedges recorded in the ending balance of Accumulated Other Comprehensive Loss and the amount expected to be reclassified to earnings in the next 12 months (in thousands):

Description of contract:	March 31, 2017	Net amount expected to be reclassified to earnings in next 12 months
FX derivative contracts	\$ 1,195	\$ 1,195
Interest rate swap contracts	515	121
	<u>\$ 1,710</u>	<u>\$ 1,316</u>

Pre-tax gains (losses) for derivative contracts designated as cash flow hedges recognized in Other Comprehensive Income (“OCI”) and the amount reclassified to earnings from Accumulated Other Comprehensive Income (“AOCI”) (in thousands):

Description of derivative contract	Location in earnings of reclassified gain or loss	Three Months Ended March 31,			
		2017		2016	
		Losses Recognized in OCI	(Losses) Gains Reclassified from AOCI to Earnings:	Losses Recognized in OCI	Gains (Losses) Reclassified from AOCI to Earnings:
FX derivative contracts	Foreign Exchange and Other	\$ (6,832)	\$ (4,678)	\$ (3,580)	\$ 190
FX derivative contracts	SG&A	—	810	—	(291)
Interest rate swap contracts	Interest expense	—	(331)	(319)	(33)
		<u>\$ (6,832)</u>	<u>\$ (4,199)</u>	<u>\$ (3,899)</u>	<u>\$ (134)</u>

The following tables present the fair value on a gross basis, and the location of, derivative contracts reported in the consolidated balance sheets (in thousands):

March 31, 2017		Asset Derivatives		Liability Derivatives	
Derivatives designated as hedging instruments	Balance Sheet Location	Fair Value (1)	Balance Sheet Location	Fair Value (1)	
Interest rate contracts	Prepaid expenses and other current assets	\$ —	Accrued liabilities	\$ 901	
Interest rate contracts	Other assets	—	Other long-term liabilities	1,152	
Foreign currency exchange rate contracts	Prepaid expenses and other current assets	2,569	Accrued liabilities	—	
Total derivatives designated as hedging instruments		2,569		2,053	
Derivatives not designated as hedging instruments					
Foreign currency exchange rate contracts	Prepaid expenses and other current assets	1,620	Accrued liabilities	—	
Total derivatives not designated as hedging instruments		1,620		—	
		\$ 4,189		\$ 2,053	

December 31, 2016		Asset Derivatives		Liability Derivatives	
Derivatives designated as hedging instruments	Balance Sheet Location	Fair Value (1)	Balance Sheet Location	Fair Value (1)	
Interest rate contracts	Prepaid expenses and other current assets	\$ —	Accrued liabilities	\$ 942	
Interest rate contracts	Other assets	—	Other long-term liabilities	1,392	
Foreign currency exchange rate contracts	Prepaid expenses and other current assets	4,911	Accrued liabilities	—	
Total derivatives designated as hedging instruments		4,911		2,334	
Derivatives not designated as hedging instruments					
Foreign currency exchange rate contracts	Prepaid expenses and other current assets	3,358	Accrued liabilities	—	
Total derivatives not designated as hedging instruments		3,358		—	
		\$ 8,269		\$ 2,334	

(1) For the classification of input used to evaluate the fair value of our derivatives, refer to “Note 5. Fair Value Measurements.”

Note 8. Commitments and Contingencies

3T Heater Cooler

FDA Warning Letter.

On December 31, 2015, LivaNova received a Warning Letter (the “Warning Letter”) dated December 29, 2015 from the U.S. Food and Drug Administration (“FDA”) alleging certain violations of FDA regulations applicable to medical device manufacturers at the Company’s Munich, Germany and Arvada, Colorado facilities.

The FDA inspected the Munich facility from August 24, 2015 to August 27, 2015 and the Arvada facility from August 24, 2015 to September 1, 2015. On August 27, 2015, the FDA issued a Form 483 identifying two observed non-conformities with certain regulatory requirements at the Munich facility. We did not receive a Form 483 in connection with the FDA's inspection of the Arvada facility. Following the receipt of the Form 483, we provided written responses to the FDA describing corrective and preventive actions that were underway or to be taken to address the FDA's observations at the Munich facility. The Warning Letter responded in part to our responses and identified other alleged violations not previously included in the Form 483.

The Warning Letter further stated that our 3T Heater Cooler devices and other devices we manufactured at our Munich facility are subject to refusal of admission into the United States until resolution of the issues set forth by the FDA in the Warning Letter. The FDA has informed us that the import alert is limited to the 3T Heater Cooler devices, but that the agency reserves the right to expand the scope of the import alert if future circumstances warrant such action. The Warning Letter did not request that existing users cease using the 3T Heater Cooler device, and manufacturing and shipment of all of our products other than the 3T Heater Cooler remain unaffected by the import limitation. To help clarify these issues for current customers, we issued an informational Customer Letter in January 2016, and that same month agreed with the FDA on a process for shipping 3T Heater Cooler devices to existing U.S. users pursuant to a certificate of medical necessity program.

Lastly, the Warning Letter stated that premarket approval applications for Class III devices to which certain Quality System regulation deviations identified in the Warning Letter are reasonably related will not be approved until the violations have been corrected. However, the Warning Letter only specifically names the Munich and Arvada facilities in this restriction, which do not manufacture or design devices subject to premarket approval.

We are continuing to work diligently to remediate the FDA's inspectional observations for the Munich facility as well as the additional issues identified in the Warning Letter. We take these matters seriously and intend to respond timely and fully to the FDA's requests.

CDC and FDA Safety Communications and Company Field Safety Notice Update

On October 13, 2016 the Centers for Disease Control and Prevention ("CDC") and FDA separately released safety notifications regarding the 3T Heater Cooler devices. The CDC's Morbidity and Mortality Weekly Report ("MMWR") and Health Advisory Notice ("HAN") reported that tests conducted by CDC and its affiliates indicate that there appears to be genetic similarity between both patient and heater cooler strains of the non-tuberculous mycobacterium ("NTM") bacteria *M. chimaera* isolated in hospitals in Iowa and Pennsylvania. Citing the geographic separation between the two hospitals referenced in the investigation, the report asserts that 3T Heater Cooler devices manufactured prior to August 18, 2014 could have been contaminated during the manufacturing process. The CDC's HAN and FDA's Safety Communication, issued contemporaneously with the MMWR report, each assess certain risks associated with heater cooler devices and provide guidance for providers and patients. The CDC notification states that the decision to use the 3T Heater Cooler during a surgical operation is to be taken by the surgeon based on a risk approach and on patient need. Both the CDC's and FDA's communications confirm that heater cooler devices are critical medical devices and enable doctors to perform life-saving cardiac surgery procedures.

Also on October 13, 2016, the Company issued a Field Safety Notice Update for U.S. users of 3T Heater Cooler devices to proactively and voluntarily contact facilities to facilitate implementation of the CDC and FDA recommendations. In the fourth quarter of 2016, we initiated a program to provide existing 3T users with a new loaner 3T device at no charge pending regulatory approval and implementation of additional risk mitigation strategies worldwide. This loaner program began in the U.S. and is being progressively made available on a global basis, prioritizing and allocating devices to 3T users based on pre-established criteria. We anticipate that this program will continue until we are able to address customer needs through a broader solution that includes implementation of one or more of the risk mitigation strategies currently under review with regulatory agencies.

At December 31, 2016, we recognized a liability for our product remediation plan related to our 3T Heater Cooler device. We concluded that it was probable that a liability had been incurred upon management's approval of the plan and the commitments made by management to various regulatory authorities globally in November and December 2016, and furthermore, the cost associated with the plan was reasonably estimable. At March 31, 2017, the product remediation liability was \$31.7 million. Refer to "Note 3. Product Remediation Liability" for additional information.

Baker, Miller et al v. LivaNova PLC

On February 12, 2016, LivaNova was alerted that a class action complaint had been filed in the U.S. District Court for the Middle District of Pennsylvania with respect to the Company's 3T Heater Cooler devices, naming as evidence, in part, the Warning Letter issued by the FDA in December 2015. The named plaintiffs to the complaint are two individuals who underwent open heart surgeries at WellSpan York Hospital and Penn State Milton S. Hershey Medical Center in 2015, and the complaint alleges that: (i) patients were exposed to a harmful form of bacteria, known as nontuberculous mycobacterium ("NTM"), from LivaNova's 3T Heater Cooler devices; and (ii) LivaNova knew or should have known that design or manufacturing defects in 3T Heater Cooler devices can lead to NTM bacterial colonization, regardless of the cleaning and disinfection procedures used (and recommended by the Company). Named plaintiffs seek to certify a class of plaintiffs consisting of all Pennsylvania residents who underwent open heart surgery at WellSpan York Hospital and Penn State Milton S. Hershey Medical Center between 2011 and 2015 and who are currently asymptomatic for NTM infection (approximately 3,600 patients).

The putative class action, which has not been certified, seeks: (i) declaratory relief finding the 3T Heater Cooler devices are defective and unsafe for intended uses; (ii) medical monitoring; (iii) general damages; and (iv) attorneys' fees. On March 21, 2016, the plaintiffs filed a First Amended Complaint adding Sorin Group Deutschland GmbH and Sorin Group USA, Inc. as defendants. On September 29, 2016 the Court dismissed LivaNova PLC from the case, and on October 11, 2016, the Court denied the Company's motion to dismiss Sorin Group Deutschland GmbH and Sorin Group USA, Inc. from the lawsuit.

In addition to the Baker case addressed in the preceding section, the Company has received additional lawsuits from around the U.S. related to surgical cases in which a 3T Heater Cooler device was allegedly used. Thirty-six lawsuits have been filed against the Company in state and Federal courts in Pennsylvania, South Carolina, North Carolina, Iowa, South Dakota, California, Texas, Massachusetts, Illinois and Alabama and one case has been filed in Montreal, Canada. Two of the cases noted above are brought by plaintiffs seeking class action status: the case filed against the Company in Canada, which relates to surgical cases at the Montreal Heart Institute, and a single case relating to surgical cases performed at two hospitals in South Carolina.

We intend to vigorously defend each of these claims. Given the relatively early stage of each of these matters, we cannot, however, give any assurances that additional legal proceedings making the same or similar allegations will not be filed against LivaNova PLC or one of its subsidiaries, nor that the resolution of these complaints or other related litigation in connection therewith will not have a material adverse effect on our business, results of operations, financial condition and/or liquidity.

Other Matters

SNIA Litigation

Sorin S.p.A. was created as a result of a spin-off (the "Sorin spin-off") from SNIA S.p.A. ("SNIA"). The Sorin spin-off, which spun off SNIA's medical technology division, became effective on January 2, 2004. Pursuant to the Italian Civil Code, in a spin-off transaction, the parent and the spun-off company can be held jointly liable up to the actual value of the shareholders' equity conveyed or received (we estimate that the value of the shareholders' equity received was approximately €573 million (or \$612 million) for certain indebtedness or liabilities of the pre-spin-off company:

- for "debt" (*debiti*) of the pre-spin-off company that existed at the time of the spin-off (this joint liability is secondary in nature and, consequently, arises only when such indebtedness is not satisfied by the company owing such indebtedness);
- for "liabilities" (*elementi del passivo*) whose allocation between the parties to the spin-off cannot be determined based on the spin-off plan.

The Company believes and has argued before the relevant fora that Sorin is not jointly liable with SNIA for its alleged SNIA debts and liabilities. Specifically, between 1906 and 2010, SNIA's subsidiaries Caffaro Chimica S.r.l. and Caffaro S.r.l. and their predecessors (the "SNIA Subsidiaries"), conducted certain chemical operations (the "Caffaro Chemical Operations"), at sites in Torviscosa, Brescia and Colleferro, Italy (the "Caffaro Chemical Sites"). These activities allegedly resulted in substantial and widely dispersed contamination of soil, water and ground water caused by a variety of hazardous substances released at the Caffaro Chemical Sites. In 2009 and 2010, SNIA and the SNIA Subsidiaries filed for insolvency. In connection with SNIA's Italian insolvency proceedings, the Italian Ministry of the Environment and the Protection of Land and Sea (the "Italian Ministry of the Environment"), sought compensation from SNIA in an aggregate amount of €3.4 billion (or \$3.6 billion) for remediation costs relating to the environmental damage at the Caffaro Chemical Sites allegedly caused by the Caffaro Chemical Operations. The amount was based on certain clean-up activities and precautionary measures set forth in three technical reports prepared by ISPRA, the technical agency of the Ministry of the Environment. In addition to disputing liability, the Company also disputes the amount being claimed and the basis for its estimation by Italian authorities, and that issue also remains in dispute. No final remediation plan has been approved at any time by the Italian authorities.

In September 2011, the Bankruptcy Court of Udine, and in July 2014, the Bankruptcy Court of Milan each held (in proceedings to which our Company is not part) that the Italian Ministry of the Environment and other Italian government agencies (the "Public Administrations") were not creditors of either SNIA Subsidiaries or SNIA in connection with their claims in the context of their Italian insolvency proceedings. LivaNova (as the successor to Sorin in the litigation) believes these findings are and will be influential (although not formally binding) upon other Italian courts, including civil courts. Public Administrations have appealed both decisions in those insolvency proceedings: in January 2016 the Court of Udine rejected the appeal brought by the Italian Public Administrations. The Public Administrations have appealed that second loss in pending proceedings before the Italian Supreme Court. The appeal by the Public Administrations before the Court of Milan remains pending.

In January 2012, SNIA filed a civil action against Sorin in the Civil Court of Milan asserting provisions of the Italian Civil Code relating to potential joint liability of a parent and a spun-off company in the context of a spin-off, as described above. Those proceedings seek to determine Sorin's joint liability with SNIA for damages allegedly related to the Caffaro Chemical Operations (as described below). SNIA's civil action against Sorin also named the Public Administrations Italian Ministry of the Environment and other Italian government agencies, as defendants, in order to have them bound to the final ruling. The Public Administrations that had also sought compensation from SNIA for alleged environmental damage subsequently counterclaimed against Sorin, seeking to have Sorin declared jointly liable towards those Public Administrations alongside SNIA, and on the same legal basis. SNIA and the Public Administrations also requested the court to declare inapplicable to the Sorin spin-off the cap on potential joint liability of parties to a spin-off otherwise provided for by the Italian Civil Code. The cap, if applied, would limit any joint liability to the actual value of the shareholders' equity received. The Public Administrations have argued before the court that the Sorin spin-off was planned prior to the date such caps were enacted under the Italian Civil Code (although executed after such caps were introduced into Italian law) and should therefore not be applied to the Sorin spin-off.

We have vigorously contested all of SNIA's claims against Sorin as well as those claims brought by the Public Administrations. A favorable decision pertaining to the case was delivered in Judgment No. 4101/2016 on April 1, 2016 (the "Decision"). In its Decision, the Court of Milan dismissed all legal actions of SNIA and of the Public Administrations against Sorin, further requiring the Public Administrations to pay Sorin €300 thousand (or \$321 thousand), as legal fees (of which €50,000 jointly with SNIA).

On June 21, 2016, the Public Administrations filed an appeal against the above decision before the Court of Appeal of Milan. The first hearing of the appeal proceedings was held on December 20, 2016 and the Court scheduled the final hearing for May 16, 2017. After such hearing the parties will file their final briefs and the Court is expected to render its decision in November 2017. SNIA appeared before the Court but did not file an appeal.

LivaNova (as successor to Sorin in the litigation) continues to believe that the risk of material loss relating to the SNIA litigation is not probable as a result of the reasoning contained in, and legal conclusions reached in, the recent court decisions described above. We also believe that the amount of potential losses relating to the SNIA litigation is, in any event, not estimable given that the underlying damages, related remediation costs, allocation and apportionment of any such responsibility, which party is responsible for which time period, all remain issues in dispute and that no final decision on a remediation plan has been approved. As a result, LivaNova has not made any accrual in connection with the SNIA litigation.

Pursuant to European Union, United Kingdom and Italian cross-border merger regulations applicable to the Mergers, legacy Sorin liabilities, including any potential liabilities arising from the claims against Sorin relating to the SNIA litigation, are assumed by LivaNova as successor to Sorin. Although LivaNova believes the claims against Sorin in connection with the SNIA

litigation are without merit and continues to contest them vigorously, there can be no assurance as to the outcome. A finding during any appeal or novel proceedings that Sorin or LivaNova is liable for relating to the environmental damage at the Caffaro Chemical Sites or its alleged cause(s) could have a material adverse effect on our consolidated financial position, results of operations or cash flows.

Environmental Remediation Order

On July 28, 2015, Sorin and other direct and indirect shareholders of SNIA received an administrative order from the Italian Ministry of the Environment (the “Environmental Remediation Order”), directing them to promptly commence environmental remediation efforts at the Caffaro Chemical Sites (as described above). LivaNova believes that the Environmental Remediation Order is without merit. LivaNova (as successor to Sorin) believes that it should not be liable for damages relating to the Caffaro Chemical Operations pursuant to the Italian statute on which the Environmental Remediation Order relies because, inter alia, the statute does not apply to activities occurring prior to 2006, the date on which the statute was enacted (Sorin was spun off from SNIA in 2004). Additionally, LivaNova believes that Sorin should not be subject to the Environmental Remediation Order because Italian environmental regulations only permit such an order to be imposed on an “operator” of a remediation site, and Sorin has never operated any activity of whatsoever nature at any of the industrial sites concerned and, further, has never been identified in any legal proceeding as an operator at any of these Caffaro Chemical Sites, and could not and in fact did not cause any environmental damage at any of the Caffaro Chemical Sites.

Accordingly, LivaNova (as successor to Sorin) alongside other parties, challenged the Environmental Remediation Order before the Administrative Court of Lazio in Rome (the “TAR”). A hearing was held on February 3, 2016.

On March 21, 2016 the TAR issued several judgments, annulling the Environmental Remediation Order, one for each of the addressees of the Environmental Remediation Order, including LivaNova. Those judgments were based on the fact that (i) the Environmental Remediation Order lacks any detailed analysis of the causal link between the alleged damage and the activities of the Company, which is a pre-condition to imposition of the measures proposed in the Environmental Remediation Order, (ii) the situation of the Caffaro site does not require urgent safety measures, because no new pollution events have occurred and no additional information/evidence of a situation of contamination exists and (iii) the Environmental Remediation Order was not enacted using the correct legal basis, and in any event the Ministry failed to verify the legal elements that could have led to a conclusion of legal responsibility of the addressees of the Environmental Remediation Order.

LivaNova has welcomed the decisions. The TAR decisions described above have nonetheless been appealed by the Ministry before the Council of State. No information on the timing of the first hearing of this appeal is presently available.

Opposition to Merger Proceedings

On July 28, 2015, the Public Administrations filed an opposition proceeding to the proposed merger between Sorin and Cyberonics (the “Merger”), before the Commercial Courts of Milan, asking the Court to prohibit the execution of the Merger. In its initial decision on August 20, 2015 the Court authorized the Merger. Public Administrations did not appeal such decision. The proceeding then continued as a civil case, with the Public Administration seeking damages against LivaNova. The Commercial Court of Milan delivered a first instance decision on October 6, 2016 fully rejecting the Public Administrations’ request and condemning the same to pay LivaNova €200 thousand in damages for frivolous litigation plus €200 thousand in legal fees. LivaNova has welcomed the decision, which has nonetheless been appealed by the Public Administrations before the Court of Appeal of Milan. The first hearing was held on April 4, 2017 and the Court scheduled a final hearing on January 17, 2018. The Court of Appeal is likely to take a decision around June 2018.

Andrew Hagerty v. Cyberonics, Inc.

On December 5, 2013, the United States District Court for the District of Massachusetts (“District Court”) unsealed a qui tam action filed by former employee Andrew Hagerty against Cyberonics under the False Claims Act (the “False Claims Act”) and the false claims statutes of 28 different states and the District of Columbia (*United States of America et al ex rel. Andrew Hagerty v. Cyberonics, Inc.* Civil Action No. 1:13-cv-10214-FDS). The False Claims Act prohibits the submission of a false claim or the making of a false record or statement to secure reimbursement from, or limit reimbursement to, a government-sponsored program. A “qui tam” action is a lawsuit brought by a private individual, known as a relator, purporting to act on behalf of the government. The action is filed under seal, and the government, after reviewing and investigating the allegations, may elect to participate, or intervene, in the lawsuit. Typically, following the government’s election, the qui tam action is unsealed.

Previously, in August 2012, Mr. Hagerty filed a related lawsuit in the same court and then voluntarily dismissed that lawsuit immediately prior to filing this qui tam action. In addition to his claims for wrongful and retaliatory discharge stated in the first lawsuit, the qui tam lawsuit alleges that Cyberonics violated the False Claims Act and various state false claims statutes while marketing its VNS Therapy System, and seeks an unspecified amount consisting of treble damages, civil penalties, and attorneys' fees and expenses.

In October 2013, the United States Department of Justice declined to intervene in the qui tam action, but reserved the right to do so in the future. In December 2013, the District Court unsealed the action. In April 2014, Cyberonics filed a motion to dismiss the qui tam complaint, alleging a number of deficiencies in the lawsuit. In May 2014, the relator filed a First Amended Complaint. Cyberonics filed another motion to dismiss in June 2014, and the parties completed their briefing on the motion in July 2014. On April 6, 2015, the District Court dismissed all claims filed by Andrew Hagerty under the False Claims Act, but did not dismiss the claims for wrongful and retaliatory discharge. On July 28, 2015, Cyberonics filed its answer to the surviving claims in Mr. Hagerty's first Amended Complaint and asserted its demand for arbitration pursuant to Mr. Hagerty's employment documents.

In August 2015, Mr. Hagerty filed a Motion Seeking Leave to file a Second Amended Complaint responding to certain deficiencies noted by the District Court when dismissing claims in his First Amended Complaint alleging that Cyberonics submitted, or caused the submission of false claims under the False Claims Act. On September 4, 2015, Cyberonics filed our Brief in Opposition to Hagerty's Motion for Leave to file a Second Amended Complaint. Mr. Hagerty filed a Reply Brief in support of his Motion for Leave to file a Second Amended Complaint on September 11, 2015. On September 16, 2015, the District Court heard oral arguments on (a) Mr. Hagerty's motion seeking to amend his complaint, and (b) Cyberonics' pending motion demanding arbitration on the claims relating to wrongful and retaliatory discharge. On November 17, 2015, the District Court (1) denied Mr. Hagerty's Motion for Leave to File a Second Amended Complaint (accordingly, the previously dismissed claims remain dismissed); (2) granted Cyberonics' Motion to Compel Arbitration of the two remaining claims (for retaliatory discharge under the False Claims Act ("FCA") and for wrongful termination/retaliation under Massachusetts law); and (3) stayed the pending case (in order to consolidate all issues for appeal pending resolution of the arbitration). On or about February 22, 2016, Mr. Hagerty dismissed, without prejudice, his individual claims that were ordered to arbitration. Subsequently, on or about March 21, 2016, Mr. Hagerty filed an appeal of the previously dismissed FCA claims with the U.S. First Circuit Court of Appeals ("Appeals Court"). Both Mr. Hagerty and the Company filed written briefs with the Appeals Court and on November 8, 2016, the First Circuit Court of Appeals held oral arguments before the Court. On or about December 16, 2016, the Court issued its opinion in the matter, upholding the district court's dismissal of the FCA claims. Mr. Hagerty did not seek panel rehearing or en banc reconsideration of that opinion on or before January 9, 2017 and the First Circuit issued a mandate sending the case back to the district court for final disposition. Mr. Hagerty did not file a petition for Writ of Certiorari with the U.S. Supreme Court before March 16, 2017, and accordingly, the matter is concluded.

Tax Litigation

In a tax audit report notified on October 30, 2009, the Regional Internal Revenue Office of Lombardy (the "Internal Revenue Office") informed Sorin Group Italia S.r.l. that, among several issues, it was disallowing in part (for a total of €102.6 million or \$109.6 million, related to tax years 2002 through 2006) a tax-deductible write down of the investment in the U.S. company, Cobe Cardiovascular Inc., which Sorin Group Italia S.r.l. recognized in 2002 and deducted in five equal installments, beginning in 2002. In December 2009, the Internal Revenue Office issued notices of assessment for 2002, 2003 and 2004. The assessments for 2002 and 2003 were automatically voided for lack of merit. In December 2010 and October 2011, the Internal Revenue Office issued notices of assessment for 2005 and 2006 respectively. The Company challenged all three notices of assessment (for 2004, 2005 and 2006) before the relevant Provincial Tax Courts.

The preliminary challenges filed for 2004, 2005 and 2006 were denied at the first jurisdictional level. These decisions were appealed by the Company. The appeal submitted against the first-level decision for 2004 was accepted. The second-level decision relating to the 2004 notice of assessment was appealed to the Italian Supreme Court (Corte di Cassazione) by the Internal Revenue Office on February 3, 2017. The Supreme Court's decision is pending. The appeal submitted against the first-level decision for 2005 was rejected. The second-level decision (relating to the 2005 notice of assessment) has been appealed to the Italian Supreme Court (Corte di Cassazione), where LivaNova will argue that the assessment should be deemed null, void and illegitimate because of inappropriate interpretation and application of regulations. This litigation is still pending before the Italian Supreme Court. The appeal filed against the second-level decision for 2006 was rejected; LivaNova filed an appeal to the Italian Supreme Court on April 28, 2017. In November 2012, the Internal Revenue Office served a notice of assessment for 2007 and, in July 2013, served a notice of assessment for 2008. In that matter the Internal Revenue Office claims an increase in taxable income due to a reduction (similar to the previous notices of assessment for 2004, 2005 and 2006) of the losses reported by Sorin Group Italia S.r.l. for the 2002, 2003 and 2004 tax periods, and subsequently utilized in 2007 and 2008. Both notices of assessment were challenged within the statutory deadline. The Provincial Tax Court of Milano has stayed its decision for

years 2007 and 2008 pending resolution of the litigation regarding years 2004, 2005, and 2006. The total amount of losses in dispute is €62.6 million (or \$66.9 million). LivaNova has continuously reassessed its potential exposure in this matter - taking into account also the recent, and generally adverse, trend to taxpayers in this type of litigation. Although LivaNova's defensive arguments are strong, the negative Court decisions experienced so far (four negative judgments versus one positive judgment received to date) has led us to leave unchanged the previously recognized liability of €16.9 million (or \$18.1 million).

Other Litigation

Additionally, we are the subject of various pending or threatened legal actions and proceedings that arise in the ordinary course of our business. These matters are subject to many uncertainties and outcomes that are not predictable and that may not be known for extended periods of time. Since the outcome of these matters cannot be predicted with certainty, the costs associated with them could have a material adverse effect on our consolidated net income, financial position or cash flows.

Note 9. Stockholders' Equity

Comprehensive income

The table below presents the change in each component of accumulated other comprehensive income (loss) ("AOCI"), net of tax, and the reclassifications out of AOCI into net earnings for the three months ended March 31, 2017 and March 31, 2016 (in thousands):

	Change in Unrealized Gain (Loss) on Cash Flow Hedging Derivatives	Foreign Currency Translation Adjustments Gain (Loss) ⁽¹⁾	Total
As of December 31, 2016	\$ 3,619	\$ (72,106)	\$ (68,487)
Other comprehensive (loss) income before reclassifications, before tax	(6,832)	15,430	8,598
Tax benefit	1,934	—	1,934
Other comprehensive (loss) income before reclassifications, net of tax	(4,898)	15,430	10,532
Reclassification of loss from accumulated other comprehensive income, before tax	4,199	—	4,199
Tax benefit	(1,210)	—	(1,210)
Reclassification of loss from accumulated other comprehensive income, after tax	2,989	—	2,989
Net current-period other comprehensive (loss) income, net of tax	(1,909)	15,430	13,521
As of March 31, 2017	\$ 1,710	\$ (56,676)	\$ (54,966)
As of December 31, 2015	\$ 888	\$ (55,116)	\$ (54,228)
Other comprehensive (loss) income before reclassifications, before tax	(3,899)	48,501	44,602
Tax benefit	405	—	405
Other comprehensive (loss) income before reclassifications, net of tax	(3,494)	48,501	45,007
Reclassification of loss from accumulated other comprehensive income, before tax	134	—	134
Tax benefit	(19)	—	(19)
Reclassification of loss from accumulated other comprehensive income, after tax	115	—	115
Net current-period other comprehensive (loss) income, net of tax	(3,379)	48,501	45,122
As of March 31, 2016	\$ (2,491)	\$ (6,615)	\$ (9,106)

(1) Taxes are not provided for foreign currency translation adjustments as translation adjustment are related to earnings that are intended to be reinvested in the countries where earned.

Note 10. Income Taxes

During the three months ended March 31, 2017 and March 31, 2016, we recorded income tax expense of \$5.7 million and income tax benefit of \$1.3 million, respectively, with effective income tax rates of 28.3% and 3.2%, respectively.

Our consolidated effective income tax rate for the three months ended March 31, 2017, includes the continued impact of various discrete items, including the recognition of a \$3.0 million deferred tax asset related to a reserve for an uncertain tax position recognized in a prior year. Excluding the impact of discrete tax items, our consolidated effective income tax rate for the three months ended March 31, 2017 and March 31, 2016 was 41.6% and 3.2%, respectively.

Our consolidated effective tax rate, excluding discrete tax items for the three months ended March 31, 2017, includes the full year impact in 2017 of the consolidation of our intangible assets into an entity organized under the laws of England and Wales, which was not effective until the end of the second quarter of 2016. Our consolidated effective income tax rate, excluding discrete tax items, for the three months ended March 31, 2016, was impacted by \$32.0 million of unbenefited net operating losses in certain tax jurisdictions.

Note 11. Net Income (Loss) Per Share

The following table sets forth the computation of basic and diluted net income (loss) per share, (in thousands, except per share data):

	Three Months Ended March 31,	
	2017	2016
Numerator:		
Net income (loss)	\$ 11,271	\$ (40,378)
Denominator:		
Basic weighted average shares outstanding	48,067	48,918
Add effects of share based compensation instruments ⁽¹⁾	111	—
Diluted weighted average shares outstanding	48,178	48,918
Basic income (loss) per share	\$ 0.23	\$ (0.83)
Diluted income (loss) per share	\$ 0.23	\$ (0.83)

- (1) Excluded from the computation of diluted earnings per share during the quarter ended March 31, 2017 were average outstanding dilutive instruments (primarily stock options and stock appreciation rights) to purchase approximately 607,000 ordinary shares of LivaNova because to include them would be anti-dilutive, primarily due to an exercise price exceeding the average price of our stock during the period. Excluded from the computation of diluted earnings per share for the quarter ended March 31, 2016, were average outstanding dilutive instruments to purchase 157,000 ordinary shares of LivaNova because to include them would be anti-dilutive due to the net loss during the period.

Note 12. Geographic and Segment Information

Segment Information

We identify operating segments based on the way we manage, evaluate and internally report our business activities for purposes of allocating resources and assessing performance.

We are transitioning the organization to a regional focus with regional leaders in the U.S., Europe, and the rest of world. Supporting the regions will be our three product franchises: Neuromodulation, Cardiac Surgery, and Cardiac Rhythm Management. The product franchise leaders will be responsible for product R&D and marketing on a global basis. We believe a regional focus will allow a number of tangible benefits, namely the ability to share resources, faster decision-making, improved market access capabilities, and greater focus on the needs of physicians, hospitals, and patients. Our new operating structure, and the introduction of new talent into the leadership team, will facilitate an evolution of our goals and decision making processes; accordingly, we will continue to monitor the way we manage, evaluate and internally report our business activities and the corresponding impact this could have on our segment reporting.

The Cardiac Surgery segment generates its revenue from the development, production and sale of cardiovascular surgery products. Cardiac Surgery products include oxygenators, heart-lung machines, autotransfusion, mechanical heart valves and tissue heart valves. The Cardiac Rhythm Management segment generates its revenue from the development, manufacturing

and marketing of products for the diagnosis, treatment, and management of heart rhythm disorders and heart failure. Cardiac Rhythm Management products include high-voltage defibrillators, cardiac resynchronization therapy devices (“CRT-D”) and low-voltage pacemakers. The Neuromodulation segment generates its revenue from the design, development and marketing of neuromodulation therapy for the treatment of drug-resistant epilepsy and treatment resistant depression. Neuromodulation products include the VNS Therapy System, which consists of an implantable pulse generator, a lead that connects the generator to the vagus nerve, surgical equipment to assist with the implant procedure, equipment to enable the treating physician to set the pulse generator stimulation parameters for the patient, instruction manuals and magnets to suspend or induce stimulation manually.

“Other” includes Corporate shared services expenses for finance, legal, human resources and information technology and Corporate business development (“New Ventures”). New Ventures is focused on new growth platforms and identification of other opportunities for expansion.

Net sales of our reportable segments include end-customer revenues from the sale of products they each develop and manufacture or distribute. We define segment income as operating income before merger and integration, restructuring, amortization and litigation settlement.

Net sales and operating income (loss) by segment (in thousands):

Net Sales:	Three Months Ended March 31,	
	2017	2016
Cardiac Surgery	\$ 139,204	\$ 143,443
Neuromodulation	87,159	81,358
Cardiac Rhythm Management	58,280	61,731
Other	462	437
Total Net Sales	\$ 285,105	\$ 286,969

Income (Loss) from Operations:	Three Months Ended March 31,	
	2017	2016
Cardiac Surgery	\$ 16,018	\$ 2,122
Neuromodulation	41,678	40,582
Cardiac Rhythm Management	2,492	(9,491)
Other	(17,802)	(18,073)
Total Reportable Segments’ Income from Operations	42,386	15,140
Merger and integration expenses	2,208	6,761
Restructuring expenses	10,150	28,592
Amortization of intangibles	11,414	15,892
Operating Income (Loss)	\$ 18,614	\$ (36,105)

The following tables present our assets and capital expenditures by segment (in thousands):

Assets:	March 31, 2017	December 31, 2016
Cardiac Surgery	\$ 1,270,946	\$ 1,277,799
Neuromodulation	608,728	611,085
Cardiac Rhythm Management	345,940	341,998
Other	145,033	111,749
Total Assets	\$ 2,370,647	\$ 2,342,631

Capital expenditures:	Three Months Ended March 31,	
	2017	2016
Cardiac Surgery	\$ 3,794	\$ 5,489
Neuromodulation	1,461	1,915
Cardiac Rhythm Management	1,658	480
Other	1,203	253
Total	\$ 8,116	\$ 8,137

Geographic Information

We operate under three geographic regions: United States, Europe, and Rest of World. Net sales to external customers by geography are determined based on the country the products are shipped to and are as follows (in thousands):

Net Sales	Three Months Ended March 31,	
	2017	2016
United States	\$ 114,349	\$ 114,128
Europe ⁽¹⁾⁽²⁾	96,346	99,307
Rest of World	74,410	73,534
Total ⁽³⁾	\$ 285,105	\$ 286,969

- (1) Net sales to external customers include \$8.0 million and \$8.8 million in the United Kingdom for the three months ended March 31, 2017 and March 31, 2016, respectively.
- (2) Includes those countries in Europe where LivaNova has a direct sales presence. Countries where sales are made through distributors are included in Rest of World.
- (3) No single customer represented over 10% of our consolidated net sales. Except for the U.S. and France, no country's net sales exceeded 10% of our consolidated net sales. French sales were \$32.8 million for the three months ended March 31, 2017.

Property, plant and equipment, net by geography are as follows (in thousands):

PP&E	March 31, 2017	December 31, 2016
United States	\$ 61,730	\$ 61,279
Europe ⁽¹⁾	128,482	130,777
Rest of World	14,909	31,786
Total	\$ 205,121	\$ 223,842

- (1) Property, plant and equipment, net included with Europe includes \$3.1 million and \$3.0 million in the United Kingdom at March 31, 2017 and December 31, 2016, respectively.

Note 13. Supplemental Financial Information

Accounts receivable, net, consisted of the following (in thousands):

	March 31, 2017	December 31, 2016
Trade receivables from third parties	\$ 282,078	\$ 285,336
Allowance for bad debt	(10,544)	(9,606)
	\$ 271,534	\$ 275,730

Inventories consisted of the following (in thousands):

	March 31, 2017	December 31, 2016
Raw materials	\$ 48,212	\$ 47,704
Work-in-process	36,347	32,316
Finished goods	107,829	103,469
	<u>\$ 192,388</u>	<u>\$ 183,489</u>

Inventories are reported net of the provision for obsolescence, which totaled \$9.7 million and \$9.8 million at March 31, 2017 and December 31, 2016, respectively.

Prepaid expenses and other current assets consisted of the following (in thousands):

	March 31, 2017	December 31, 2016
Income taxes payable on inter-company transfers of property	\$ 19,445	\$ 19,445
Current loans and notes receivable	9,168	7,093
Deposits and advances to suppliers	5,297	5,417
Earthquake grant receivable	4,515	4,748
Derivative contract assets	4,189	8,269
Other prepaid expenses	13,433	11,001
	<u>\$ 56,047</u>	<u>\$ 55,973</u>

Other long-term assets consisted of the following (in thousands):

	March 31, 2017	December 31, 2016
Income taxes payable on inter-company transfers of property	\$ 120,721	\$ 124,551
Loans and notes receivable	7,424	2,029
Investments ⁽¹⁾	2,865	2,537
Guaranteed deposits	858	940
Other	796	641
	<u>\$ 132,664</u>	<u>\$ 130,698</u>

(1) Primarily cash surrender value of company owned life insurance policies.

Accrued liabilities consisted of the following (in thousands):

	March 31, 2017	December 31, 2016
Product remediation liability ⁽¹⁾	\$ 23,987	\$ 23,464
Restructuring related liabilities	10,326	16,859
Provisions for agents, returns and other	5,879	7,271
Product warranty obligations	2,611	2,736
Royalty costs	2,093	2,503
Deferred income	1,844	1,708
Clinical study costs	1,322	839
Derivative contract liabilities	901	942
Insurance	111	118
Other	19,342	19,127
	<u>\$ 68,416</u>	<u>\$ 75,567</u>

(1) Refer to "Note 3. Product Remediation Liability."

Other long-term liabilities consisted of the following (in thousands):

	March 31, 2017	December 31, 2016
Uncertain tax positions	\$ 17,182	\$ 16,857
Product remediation liability ⁽¹⁾	7,744	10,023
Earnout for contingent payments ⁽²⁾	3,913	3,890
Government grant deferred revenue	3,855	3,803
Unfavorable operating leases ⁽³⁾	1,566	1,672
Derivative contract liabilities ⁽⁴⁾	1,152	1,392
Other	2,347	1,850
	<u>\$ 37,759</u>	<u>\$ 39,487</u>

(1) Refer to "Note 3. Product Remediation Liability."

(2) The earnout for contingent payments represents contingent payments due related to two acquisitions: the first acquisition, in September 2015, was of Cellplex PTY Ltd. in Australia and the second acquisition was the commercial activities of a local distributor in Colombia. The contingent payments for the first acquisition are based on achievement of sales targets by the acquiree through June 30, 2018 and the contingent payments for the second acquisition are based on sales of cardiopulmonary disposable products and heart lung machines of the acquiree through December 2019. Refer to "Note 5. Fair Value Measurements."

(3) Unfavorable operating leases represents the adjustment to recognize future lease obligations at their estimated fair value in conjunction with the Mergers in October 2015 between Cyberonics and Sorin.

(4) Financial derivatives represent forward interest rate swap contracts, which hedge our long-term European Investment Bank debt. Refer to "Note 7. Derivatives and Risk Management."

Note 14. New Accounting Pronouncements

In May 2014, the FASB issued ASC Update No. 2014-09, Revenue from Contracts with Customers (Topic 606): Update No. 2014-09 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers and will replace most existing revenue recognition guidance when it becomes effective. This new standard is effective for annual reporting periods beginning after December 15, 2017, and interim periods within that reporting period. Early application is not permitted, and the standard permits the use of either the retrospective or cumulative effect transition method. We are evaluating the effect this standard will have on our financial statements and related disclosures.

In January 2016, the FASB issued ASC Update No. 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. Update 2016-01 requires equity investments that do not result in consolidation and are not accounted for under the equity method to be measured at fair value with changes recognized in net income. However, an entity may elect to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The amendments, in addition, reduce complexity of the impairment assessment of equity investments without readily determinable fair values with regard to the other-than-temporary impairment guidance. The amendments also require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset and liability. This guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early application of certain provisions is permitted. We are currently evaluating the effect this standard will have on our consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASC Update No. 2016-02, Leases (new Topic 842, superseded Topic 840): This guidance requires lessees to recognize most leases on their balance sheets as lease liabilities with corresponding right-of-use assets. While many aspects of lessor accounting remain the same, the new standard makes some changes, such as eliminating today's real estate-specific guidance. The new standard requires lessees and lessors to classify most leases using a principle generally consistent with that of "IAS 17 - Leases," which is similar to U.S. GAAP but without the use of bright lines. The standard also changes what is considered initial direct costs. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. The standard is effective for annual periods beginning after December 15, 2018 and interim periods within that year. Early adoption is permitted. We are currently evaluating the effect this standard will have on our consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASC Update No. 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which simplified the accounting for certain aspects of share-based payment transactions including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. We adopted the amendments of ASU 2016-09 effective January 1, 2017, using the following methods:

We adopted the Amendment that requires all of the tax effects related to the settlement of share based compensation awards to be recorded through the income statement on a prospective basis. The adoption of this Amendment did not have a material effect on income tax expense for the three months ended March 31, 2017.

We adopted the Amendment related to cash flow presentation of tax-related cash flows resulting from share based payments on a prospective basis. The Amendment stipulates that all tax-related cash flows resulting from share based payments are to be reported as operating activities in the statement of cash flows, rather than, under past requirements, to present gross windfall tax benefits as an inflow from financing activities and an outflow from operating activities.

Under the Amendment related to forfeitures, entities are permitted to make a company wide accounting policy election to either estimate forfeitures each period, as required prior to this Amendment's effective date, or to account for forfeitures as they occur. We elected to continue to account for forfeitures using the estimation method.

We adopted the Amendment related to the timing of when excess tax benefits are recognized, which requires that all windfalls and shortfalls be recognized when they arise. There were no unrecognized excess tax benefits prior to the adoption of the Amendment.

In August 2016, the FASB issued ASC Update No. 2016-15, Classification of Certain Cash Receipts and Cash Payments (Topic 230 -Statement of Cash Flows): The amendments provide guidance in the presentation and classification of certain cash receipts and cash payments in the statement of cash flows including debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, and distributions received from equity method investees. The amendments are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The amendments should be applied using a retrospective transition method to each period presented. We are currently evaluating the impact of adopting these provisions on our consolidated financial statements.

In October 2016, the FASB issued ASC Update No. 2016-16, Income Taxes - Intra-Entity Transfers of Assets Other Than Inventory (Topic 740): This update simplifies the accounting for the income tax consequences of transfers of assets from one unit of a corporation to another unit or subsidiary by eliminating an accounting exception that prevents the recognition of current and deferred income tax consequences for such "intra-entity transfers" until the assets have been sold to an outside party. The amendment should be applied using a modified retrospective transition method by means of a cumulative-effect adjustment directly to retained earnings as of the beginning of the period in which the guidance is adopted. The rule takes effect for annual periods after December 15, 2017, including interim periods within those annual reporting periods. We are currently evaluating the impact of adopting this update; however, based on preliminary analysis, it is possible that this update could adversely impact our effective tax rate by several percentage points in future periods commencing in the first quarter of year 2018.

In March 2017, the FASB issued ASC Update No. 2017-01, Business Combinations (Topic 805)—Clarifying the Definition of a Business. This update clarifies when a set of assets and activities is a business. The amendments provide a screen to determine when a set is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. If the screen is not met, the amendments in this Update (1) require that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and (2) remove the evaluation of whether a market participant could replace missing elements. This update is effective for annual periods after December 15, 2017, including interim periods within those annual reporting periods. We are currently evaluating the impact of adopting this update on our consolidated financial statements.

In March 2017, the FASB issued ASC Update No. 2017-07, Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post Retirement Benefit Cost. This update requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are used to present the other components of net benefit cost, that line item or items must be appropriately described. If a separate line item or items are not used, the line item or items used in the income statement to present the other components of net benefit cost must be disclosed. The amendments in this Update also allow only the service cost component to be eligible for capitalization when applicable. This update takes effect for annual periods after December 15, 2017, including interim periods within those annual reporting periods. We are currently evaluating the impact of adopting this update on our consolidated financial statements.

Note 15. Subsequent Events

We announced on February 23, 2017 our voluntary cancellation of our standard listing of ordinary shares with the London Stock Exchange (“LSE”). We have taken this action due to the low volume of our ordinary share trading on the LSE. Trading ceased at the close of business on April 4, 2017. We will continue to serve our shareholders through our listing on the NASDAQ Stock Market, where the vast majority of trading of our ordinary shares occurs. This decision has no bearing on our status as a UK company and our commitment to invest in the European market.

On May 2, 2017, we acquired the remaining outstanding interests in Caisson Interventional, LLC (“Caisson”), in support of our strategic growth initiatives. Based in Maple Grove, Minn., Caisson is a privately held clinical-stage medical device company focused on the design, development and clinical evaluation of a novel transcatheter mitral valve replacement (“TMVR”) implant with a fully transvenous delivery system. We have been an investor in Caisson since 2012 and have agreed to pay up to \$72 million, net of \$6 million of debt forgiveness, to acquire the remaining 51 percent of the company. The first payment of \$18 million was made at closing with the balance paid on a schedule driven primarily by regulatory approvals and sales earn outs. As a result of the acquisition, LivaNova expects to recognize a pre-tax non-cash gain during the three months ended June 30, 2017 on the \$15.0 million book value of its existing investment in Caisson.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with our condensed consolidated financial statements and related notes which appear elsewhere in this document and with our annual report on Form 10-K for the year ended December 31, 2016. Our discussion and analysis may contain forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under “Risk Factors” in Item 1A of our Annual Report on Form 10-K and elsewhere in this quarterly report.

The capitalized terms used below have been defined in the notes to our condensed consolidated financial statements. In the following text, the terms “we,” “our,” “our company” and “us” may refer, as the context requires, to LivaNova PLC or collectively to LivaNova PLC and its subsidiaries.

Business Overview

LivaNova PLC and its subsidiaries (collectively, the “Company”, “LivaNova”, “we” or “our”) is a public limited company organized under the laws of England and Wales. Headquartered in London, United Kingdom (“U.K.”). LivaNova is a global medical device company focused on the development and delivery of important therapeutic solutions for the benefit of patients, healthcare professionals and healthcare systems throughout the world. Working closely with medical professionals in the fields of Cardiac Surgery, Neuromodulation and Cardiac Rhythm Management, we design, develop, manufacture and sell innovative therapeutic solutions that are consistent with our mission to improve our patients’ quality of life, increase the skills and capabilities of healthcare professionals and minimize healthcare costs.

Business Franchises

We operate our business through three segments: Neuromodulation, Cardiac Surgery and Cardiac Rhythm Management. Our three reportable segments correspond to our Business Franchises and each Business Franchise corresponds to one of our three main therapeutic areas aligned to best serve our customers. Corporate activities include corporate business development and New Ventures. New Ventures is focused on new growth platforms and identification of other opportunities for expansion and investment.

For further information regarding our business segments, historical financial information and our methodology for the presentation of financial results, please refer to the condensed consolidated financial statements and accompanying notes of this Quarterly Report on Form 10-Q.

Cardiac Surgery (“CS”) Update

On October 5, 2015, we announced the initiation of PERSIST-AVR, the first international, prospective post-market randomized multi-center trial evaluating the Perceval sutureless aortic valve compared to standard sutured bioprostheses in patients with aortic valve disease. The trial is expected to enroll 1,234 patients within a two-year enrollment period and patients will be followed until five years post procedure. In January 2017, the independent study, “Aortic Valve Replacement With Sutureless Perceval Bioprosthesis: Single-Center Experience With 617 Implants,” was presented to The Society of Thoracic Surgeons. The study found that AVR procedures conducted with Perceval resulted in low mortality and excellent hemodynamic performance for patients.

In January 2016, we announced FDA approval of the Perceval sutureless valve. Perceval is the only sutureless biological aortic replacement valve on the market today with a unique self-anchoring frame that enables the surgeon to replace the diseased valve without suturing it into place. While we have been selling Perceval in other parts of the world, we began commercial distribution of the device in the United States with the first implant announced on March 8, 2016. Perceval has been implanted in more than 20,000 patients in over 310 hospitals in 34 countries across the world.

In addition, in early February 2016, we announced that we had received FDA approval of CROWN PRT valve for the treatment of aortic valve disease. The CROWN PRT is a stented aortic bioprosthesis technology and features a surgeon-friendly design, with optimized hemodynamics with patented PRT, designed to enhance valve durability. We anticipate launching CROWN PRT in the U.S. later this year.

In March 2017, we committed to a plan to sell our Suzhou Industrial Park facility in Shanghai, China, an emerging market greenfield project for the local manufacture of Cardiopulmonary disposable products in Suzhou Industrial Park in China. As a result of this exit plan we recorded an impairment of the building and equipment of \$4.6 million and accrued \$0.5 million of additional costs, primarily related to employee severance, during the three months ended March 31, 2017, included in Restructuring Expenses line in the condensed consolidated statement of income (loss). In addition, the remaining \$13.1 million carrying value of the land, building and equipment were reclassified to Assets Held for Sale on the condensed consolidated balance sheet, as of March 31, 2017.

FDA Warning Letter. In December 2015, we received an FDA Warning Letter (the “Warning Letter”) alleging certain violations of FDA regulations applicable to medical device manufacturing at our Munich, Germany and Arvada, Colorado facilities. On October 13, 2016 the Centers for Disease Control and Prevention (“CDC”) and FDA separately released safety notifications regarding the 3T Heater Cooler devices in response to which the Company issued a Field Safety Notice Update for U.S. users of 3T Heater Cooler devices to proactively and voluntarily contact facilities to facilitate implementation of the CDC and FDA recommendations.

At December 31, 2016, we recognized a liability for a product remediation plan related to our 3T Heater Cooler device. The remediation plan developed by the Company consists primarily of a modification of the 3T design to include internal sealing and addition of a vacuum system to new and existing devices. These changes are intended to address regulatory actions and further reduce the risk of possible dispersion of aerosols from the 3T Heater Cooler device in the operating room. The deployment of this solution for commercially distributed devices will occur upon final validation and verification of the design changes and approval or clearance by regulatory authorities worldwide, including FDA clearance in the U.S. In April 2017, we obtained CE Mark in Europe for the design change of the 3T device. As part of this plan, we also intend to perform a no-charge deep disinfection service for 3T users who have reported confirmed *M. chimaera* mycobacterium contamination. Although the deep disinfection service is not yet available in the U.S., it is currently offered in many countries around the world and will be expanded to additional geographies as regulatory approvals are received. In the fourth quarter of 2016 we initiated a program to provide existing 3T users with a new loaner 3T device at no charge pending regulatory approval and implementation of the vacuum system addition and deep disinfection service worldwide. This loaner program began in the U.S. and is being progressively made available on a global basis, prioritizing and allocating devices to 3T users based on pre-established criteria. It is estimated that by the end of 2018, a majority of the 3T devices in use globally will be upgraded and returned to operation. It is reasonably possible that our estimate of the remediation liability could materially change in future periods due to the various significant assumptions involved such as customer behavior, market reaction and the timing of approvals or clearance by regulatory authorities worldwide. At March 31, 2017 the product remediation liability was \$31.7 million. Refer to “Note 3. Product Remediation Liability” in our consolidated financial statements included in this Report on Form 10-Q for additional information.

As of March 31, 2017, no liability has been recognized with respect to any lawsuits involving the Company related to the 3T Heater Cooler. For further information, please refer to “Note 8. Commitments and Contingencies” in our consolidated financial statements included in this Report on Form 10-Q.

Neuromodulation Update

Epilepsy

Our product development efforts are directed toward improving the VNS Therapy System and developing new products that provide additional features and functionality. We are conducting ongoing product development activities to enhance the VNS Therapy System pulse generator, lead and programming software. We will be required to obtain appropriate U.S. and international regulatory approvals, and clinical studies may be a prerequisite to regulatory approvals for some products. We recently submitted our application to the FDA for Sentiva. Sentiva will be our newest VNS Therapy device and will incorporate the same technology as AspireSR, but will be smaller in size - more akin to the Demi Pulse. We anticipate approval of the device in the latter part of 2017.

Depression

In March 2017, The American Journal of Psychiatry published the results of the longest and largest naturalistic study on effective treatments for patients experiencing chronic and severe depression. The findings showed that the addition of VNS Therapy to traditional treatment methods is effective in reducing symptoms in patients with treatment-resistant depression.

Cardiac Rhythm Management (“CRM”) Update

In January 2016, we announced that we received regulatory approval to market the KORA 250™ in Japan. The KORA 250 is a full body MRI conditional pacemaker and is equipped with our proprietary Automatic MRI mode. In addition, the device is designed to proactively manage comorbidities, including SafeR and the ability to monitor patients for severe sleep apnea using Sleep Apnea Monitoring (“SAM”).

Corporate Activities and New Ventures Update

Heart failure

New Ventures is primarily focused on the development and clinical testing of the VITARIA®™ System for treating heart failure through vagus nerve stimulation.

We received CE Mark approval of the VITARIA®™ System in February 2015 for patients who have moderate to severe heart failure (New York Heart Association Class II/III) with left ventricular dysfunction (ejection fraction < 40%) and who remain symptomatic despite stable, optimal heart failure drug therapy. The VITARIA®™ System provides a specific method of VNS called autonomic regulation therapy (“ART”), and it includes the same elements as the VNS Therapy System - pulse generator, lead, programming wand and software, programming computer, tunneling tool and accessory pack - without the patient kit with magnets. We conducted a pilot study, ANTHEM-HF, outside the United States, which concluded during 2014. The study results support the safety and efficacy of ART delivered by the VITARIA®™ System. We submitted the results to our European Notified Body, DEKRA, and on February 20, 2015, we received CE Mark approval. The VITARIA®™ System is not available in the U.S. During 2014, we also initiated a second pilot study, ANTHEM-HFpEF, to study ART in patients experiencing symptomatic heart failure with preserved ejection fraction. This pilot study is currently underway outside the United States.

Sleep Apnea

ImThera Medical, Inc. (“ImThera”) is a privately held, emerging-growth, company developing an implantable neurostimulation device system for the treatment of obstructive sleep apnea. We have an investment of \$12.0 million in ImThera, and during the three months ended March 31, 2017, we loaned ImThera \$1.0 million to fund operating expenses.

Mitral valve regurgitation

Mitral regurgitation occurs when the heart’s mitral valve does not close tightly, which allows blood to flow backwards in the heart. This reduces the amount of blood that flows to the rest of the body, making the patient feel tired or out of breath. Treatment depends on the nature and the severity of mitral regurgitation. In certain cases, heart surgery may be needed to repair or replace the valve. Left untreated, severe mitral valve regurgitation can cause heart failure or heart rhythm problems (arrhythmias). We are invested in three mitral valve startups. Cardiosolutions Inc., a startup headquartered in the U.S. in which we have held an interest since 2012, is developing an innovative Spacer technology for treating mitral regurgitation. In addition, Highlife S.A.S. (“Highlife”), headquartered in France, and Caisson Interventional LLC (“Caisson”), headquartered in the U.S., are two companies focused on developing devices for treating mitral regurgitation through percutaneous replacement

of the native mitral valve. Although both companies are focused on mitral valve replacement, their devices differ significantly in both the delivery system (transapical versus transfemoral) and the anchoring system. In 2016, both Caisson and Highlife completed their first human implants in feasibility clinical studies. We invested \$8.5 million in Caisson and \$5.3 million in Highlife in 2016 to fund product development and clinical studies.

Significant Accounting Policies and Critical Accounting Estimates

There have been no material changes to our critical accounting policies from the information provided in “Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in our 2016 Form 10-K. The accompanying unaudited condensed consolidated financial statements of LivaNova and its consolidated subsidiaries have been prepared in accordance with U.S. GAAP on an interim basis.

New accounting pronouncements are disclosed in “Note 14. New Accounting Pronouncements” contained in the condensed consolidated financial statements in this Quarterly Report on Form 10-Q.

Other

On June 23, 2016, the United Kingdom (the “U.K.”) held a referendum in which voters approved an exit from the European Union (the “EU”), commonly referred to as “Brexit.” On March 29, 2017, the U.K. Government gave formal notice of its intention to leave the EU, formally commencing the negotiations regarding the terms of withdrawal between the U.K. and the EU. The withdrawal must occur within two years, unless the deadline is extended. The negotiation process will determine the future terms of the U.K.’s relationship with the EU. The notification does not change the application of existing tax laws, and does not establish a clear framework for what the ultimate outcome of the negotiations and legislative process will be.

Various tax reliefs and exemptions that apply to transactions between EU Member States under existing tax laws may cease to apply to transactions between the U.K. and EU Member States when the U.K. ultimately withdraws from the EU. It is unclear at this stage if or when any new tax treaties between the U.K. and the EU or individual EU Member States will replace those reliefs and exemptions. It is also unclear at this stage what financial, trade and legal implications will ensue from Brexit and how Brexit may affect us, our customers, suppliers, vendors, or our industry.

Several of our wholly owned subsidiaries that are domiciled either in the U.K., various EU Member States, or in the United States, and our parent company, LivaNova PLC, are party to intercompany transactions and agreements under which we receive various tax reliefs and exemptions in accordance with applicable international tax laws, treaties and regulations. If certain treaties applicable to our transactions and agreements are not renegotiated or replaced with new treaties containing terms, conditions and attributes similar to those of the existing treaties, Brexit may have a material adverse impact on our future financial results and results of operations. During the two-year negotiation period, we will monitor and assess the potential impact of this event and explore possible tax planning strategies that may mitigate or eliminate any such potential adverse impact. We will not account for the impact of Brexit in our income tax provisions until changes in tax laws or treaties between the U.K. and the EU or individual EU Member States are enacted or the withdrawal becomes effective.

The Trump Administration has included as part of its agenda a potential reform of U.S. tax laws. In addition, the “Tax Reform Blueprint” published by the House of Representatives includes a framework of various issues that may affect our future tax position including, but not limited to, a reduction in the corporate tax rate, elimination of the interest deduction and border adjustability. The content of any final legislation, the timing for enactment, and the reporting periods that would be impacted cannot be determined at this time.

Results of Operations

We are reporting, in this Quarterly Report on Form 10-Q, the results for LivaNova and its consolidated subsidiaries for the three months ended March 31, 2017, as compared to the three months ended March 31, 2016.

The following table summarizes our condensed consolidated results of operations for the three months ended March 31, 2017 and March 31, 2016 (in thousands):

	Three Months Ended March 31,	
	2017	2016
Net sales	\$ 285,105	\$ 286,969
Cost of sales	101,463	123,567
Product remediation	(792)	706
Gross profit	184,434	162,696
Operating expenses:		
Selling, general and administrative	112,397	115,866
Research and development	29,651	31,690
Merger and integration expenses	2,208	6,761
Restructuring expenses	10,150	28,592
Amortization of intangibles	11,414	15,892
Total operating expenses	165,820	198,801
Income (loss) from operations	18,614	(36,105)
Interest income	273	213
Interest expense	(2,315)	(1,192)
Foreign exchange and other gains (losses)	3,439	(1,835)
Income (loss) before income taxes	20,011	(38,919)
Income tax expense (benefit)	5,655	(1,258)
Losses from equity method investments	(3,085)	(2,717)
Net income (loss)	\$ 11,271	\$ (40,378)

Net Sales

The table below illustrates net sales by operating segment (in thousands, except for percentages):

	Three Months Ended March 31,		% Change
	2017	2016	
Cardiac Surgery	\$ 139,204	\$ 143,443	(3.0)%
Neuromodulation	87,159	81,358	7.1 %
Cardiac Rhythm Management	58,280	61,731	(5.6)%
Other	462	437	5.7 %
	\$ 285,105	\$ 286,969	(0.6)%

The table below illustrates net sales by market geography (in thousands):

	Three Months Ended March 31,		% Change
	2017	2016	
Cardiac Surgery			
United States	\$ 38,245	\$ 40,920	(6.5)%
Europe ⁽¹⁾	40,956	42,864	(4.5)%
Rest of World	60,003	59,659	0.6%
	<u>139,204</u>	<u>143,443</u>	<u>(3.0)%</u>
Neuromodulation			
United States	73,659	70,242	4.9%
Europe ⁽¹⁾	7,929	6,355	24.8%
Rest of World	5,571	4,761	17.0%
	<u>87,159</u>	<u>81,358</u>	<u>7.1%</u>
Cardiac Rhythm Management			
United States	2,444	2,966	(17.6)%
Europe ⁽¹⁾	47,461	50,018	(5.1)%
Rest of World	8,375	8,747	(4.3)%
	<u>58,280</u>	<u>61,731</u>	<u>(5.6)%</u>
Other	462	437	5.7%
	<u>\$ 285,105</u>	<u>\$ 286,969</u>	<u>(0.6)%</u>

(1) Includes those countries in Europe where LivaNova has a direct sales presence. Countries where sales are made through distributors are included in Rest of World.

Analysis of sales for the three months ended March 31, 2017, as compared to the three months ended March 31, 2016:

Cardiac Surgery sales decreased by 3.0% due to increased sales of the INSPIRE family of oxygenators, increased sales in Perceval, our new sutureless valve, offset by lower heart lung machine sales in all geographies and decreased sales in traditional mechanical heart valves

Sales for Neuromodulation increased by 7.1%. U.S. sales increased by 4.9% and Europe sales increased by 24.8% due to increased demand and improved pricing for the Aspire SR. Rest of World sales increase by 17.0% due primarily due to a change in our sales distribution model from indirect to direct, in Canada and Australia, during the second and third quarters of fiscal year 2016, respectively.

Cardiac Rhythm Management sales decreased by 5.6% primarily due to pricing pressure in the U.S. and Europe. Sales remained relatively flat in Rest of World, as increased sales of cardiac resynchronization therapy devices ("CRT-D"), due to the SonR study positive outcome and IS-4 approval, and increased sales in Japan, due to the KORA 250 launch, were offset by declines in other areas.

Cost of Sales and Expenses

The table below illustrates our comparative cost of sales and major expenses as a percentage of sales:

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016	% Change
Cost of sales	35.6 %	43.1%	(7.5)%
Product remediation	(0.3)%	0.2%	(0.5)%
Gross profit	64.7 %	56.7%	8.0 %
Selling, general and administrative	39.4 %	40.4%	(1.0)%
Research and development	10.4 %	11.0%	(0.6)%
Merger and integration expenses	0.8 %	2.4%	(1.6)%
Restructuring expenses	3.6 %	10.0%	(6.4)%
Amortization of intangibles	4.0 %	5.5%	(1.5)%
Total operating expenses	58.2 %	69.3%	(11.1)%

Cost of Sales

Cost of sales consisted primarily of direct labor, allocated manufacturing overhead, the acquisition cost of raw materials and components. Our cost of sales as a percentage of net sales decreased by 7.5% to 35.6% for the three months ended March 31, 2017 as compared to the prior year period. This decrease was primarily due to the amortization of the step-up in inventory basis at the Mergers of \$21.3 million that accounted for 7.4% of our cost of sales as a percent of net sales for the three months ended March 31, 2016. The amortization of the step-up in inventory basis was fully amortized in 2016.

Merger and Integration Expenses

Merger and integration expenses consisted primarily of consulting costs associated with: computer systems integration efforts, organization structure integration, synergy and tax planning, as well as the integration of internal controls for the two legacy organizations. In addition, integration expenses include retention bonuses, branding and renaming efforts and lease cancellation penalties in Milan and Brussels.

Merger and integration expenses as a percentage of net sales decreased by 1.6% to 0.8% of net sales for the three months ended March 31, 2017 as compared to the prior year period as a result of a decrease in merger related activities, partially offset by an increase in integration expenses.

Restructuring Expenses

Restructuring expenses were primarily due to our efforts under our 2015 and 2016 Reorganization Plans to leverage economies of scale, eliminate duplicate corporate expenses and streamline distributions, logistics and office functions in order to reduce overall costs. Restructuring expenses as a percentage of net sales decreased by 6.4% to 3.6% of net sales for the three months ended March 31, 2017 as compared to the prior year period, due to a decrease in restructuring activities.

Restructuring expenses for the three months ended March 31, 2017 included \$5.1 million in expenses related to our plan to sell our Suzhou, China facility.

Interest Expense

We incurred interest expense of \$2.3 million for the three months ended March 31, 2017, primarily related to our bank debt and income tax related interest expense for our inter-company sale of intellectual property, as compared to \$1.2 million of interest expense for the prior year period, primarily related to bank debt.

Foreign Exchange and Other Gains (Losses)

Foreign exchange and other gains (losses) for the three months ended March 31, 2017 included a \$3.2 million gain on a sale of a cost-method investment. During the three months ended March 31, 2016, we incurred net FX losses of \$1.8 million, primarily related to losses from freestanding FX forward currency contracts and FX losses on commercial transactions, partially offset by net FX gains on intercompany loans and third party assets and liabilities.

Income Taxes

LivaNova PLC is domiciled and resident in the U.K. Our subsidiaries conduct operations and earn income in numerous countries and are subject to the laws of taxing jurisdictions within those countries, and the income tax rates imposed in the tax jurisdictions in which our subsidiaries conduct operations vary. As a result of the changes in the overall level of our income, the deployment of various tax strategies and the changes in tax laws, our consolidated effective income tax rate may vary from one reporting period to another.

During the three months ended March 31, 2017 and March 31, 2016, we recorded income tax expense of \$5.7 million and income tax benefit of \$1.3 million, respectively, with effective income tax rates of 28.3% and 3.2%, respectively.

Our consolidated effective income tax rate for the three months ended March 31, 2017, includes the impact of various discrete tax items, including the recognition of a \$3.0 million deferred tax asset related to a reserve for an uncertain tax position recognized in a prior year. Excluding the impact of discrete tax items, our consolidated effective income tax rate for the three months ended March 31, 2017 and March 31, 2016 was 41.6% and 3.2%, respectively.

Our consolidated effective tax rate, excluding discrete tax items, for the three months ended March 31, 2017, includes the full year impact in 2017 of the consolidation of our intangible assets into an entity organized under the laws of England and Wales, which was not effective until the end of the second quarter of 2016. Our consolidated effective income tax rate, excluding discrete tax items, for the three months ended March 31, 2016 was impacted by \$32.0 million of unbenefited net operating losses in certain tax jurisdictions.

On October 13, 2016, the U.S. IRS and U.S. Treasury Department released final and temporary regulations under section 385. In response to comments, the final regulations significantly narrow the scope of the proposed regulations previously issued on April 4, 2016. Like the proposed regulations, the final regulations establish extensive documentation requirements that must be satisfied for a debt instrument to constitute debt for U.S. federal tax purposes and re-characterizes a debt instrument as stock if the instrument is issued in one of a number of specified transactions. Moreover, while these new rules are not retroactive, they will impact our future intercompany transactions and our ability to engage in future restructuring.

Losses from Equity Method Investments

We recognized losses of \$3.1 million during the three months ended March 31, 2017 from our share of investee losses at Highlife, Caisson and MicroPort and \$2.7 million during the three months ended March 31, 2016 due to losses from the same private medical start-up companies as well as Respicardia. We accounted for Respicardia as an equity method investment through November 2016, and then due to a loss of our significant influence over Respicardia, we began accounting for our investment in Respicardia as a cost method investment.

Liquidity and Capital Resources

Based on our current business plan, we believe that our existing cash and cash equivalents and future cash generated from operations will be sufficient to fund our expected operating needs, working capital requirements, R&D opportunities, capital expenditures and debt service requirements over the next 12 months. We regularly review our capital needs and consider various investing and financing alternatives to support our requirements. Refer to “Note 6. Financing Arrangements” in the condensed consolidated financial statements in this Quarterly Report on Form 10-Q for additional information regarding our debt. Our liquidity could be adversely affected by the factors affecting future operating results, including those referred to in “Part II - Item 1A. Risk Factors” in this Quarterly Report on Form 10-Q.

No provision has been made for income taxes on unremitted earnings of our foreign controlled subsidiaries (non-U.K. locations) as of March 31, 2017. In the event of the distribution of those earnings in the form of dividends, a sale of the subsidiaries or certain other transactions, we may be liable for income taxes. However, the tax liability on future distributions should not be significant as most jurisdictions with unremitted earnings have various participation exemptions or no withholding tax.

Cash Flows

Net cash and cash equivalents provided by (used in) operating, investing and financing activities and the net increase (decrease) in the balance of cash and cash equivalents were as follows (in thousands):

	Three Months Ended March 31,	
	2017	2016
Operating activities	\$ 33,207	\$ 9,600
Investing activities	(4,735)	(8,948)
Financing activities	(6,026)	(27,069)
Effect of exchange rate changes on cash and cash equivalents	484	1,272
Net increase (decrease)	\$ 22,930	\$ (25,145)

Operating Activities

The increase in cash provided by operating activities, during the three months ended March 31, 2017 as compared to the same prior year period, is primarily the result of an increase in net income partially offset by cash payments for prior period restructuring activities during the three months ended March 31, 2017.

Investing Activities

The decrease in cash used in investing activities during the the three months ended March 31, 2017, as compared to the same prior year period, is primarily the result of proceeds of \$3.2 million received from the sale of a cost method investment during the quarter.

Financing Activities

The decrease in cash used in financing activities during the three months ended March 31, 2017 as compared to the same prior year period is primarily the result of the repayment of trade receivable advances and the net repayment of short-term borrowings during the same prior year period.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to certain market risks as part of our ongoing business operations, including risks from foreign currency exchange rates, interest rate risks and concentration of procurement suppliers that could adversely affect our consolidated financial position, results of operations or cash flows. We manage these risks through regular operating and financing activities and, at certain times, derivative financial instruments. Quantitative and qualitative disclosures about these risks are included in our 2016 Form 10-K in "Part II, Item 7A Management's Discussion and Analysis of Financial Condition and Results of Operations." There have been no material changes from the information provided therein.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

We maintain a system of disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act, that are designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. This information is also accumulated and communicated to management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate, to allow timely decisions regarding required disclosure. Our management, under the supervision and with the participation of our CEO and CFO, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the most recent fiscal quarter reported herein. Based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of March 31, 2017.

(b) Changes in Internal Control Over Financial Reporting

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-5(f) under the Exchange Act) occurred during the quarter ended March 31, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For a description of our material pending legal and regulatory proceedings and settlements, refer to “Note 8. Commitments and Contingencies – *Litigation and Regulatory Proceedings*” in our condensed consolidated financial statements included in this Report on Form 10-Q.

ITEM 1A. RISK FACTORS

Our business faces many risks. Any of the risks referenced below or elsewhere in this Report on Form 10-Q or our other SEC filings could have a material impact on our business and consolidated financial position or results of operations. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also impair our business operations.

For additional detailed discussion of risk factors that should be understood by any investor contemplating investment in our stock, please refer to “Part I. Item 1A. Risk Factors” in our 2016 Form 10-K and elsewhere as described in this Report on Form 10-Q.

The results of the United Kingdom’s referendum on withdrawal from the European Union may have a negative effect on global economic conditions, financial markets and our business, which could reduce the price of our ordinary shares.

On June 23, 2016, the United Kingdom (the “UK”) held a referendum in which voters approved an exit from the European Union (the “EU”), commonly referred to as “Brexit.” On March 29, 2017, the UK Government gave formal notice of its intention to leave the EU, formally commencing the negotiations regarding the terms of withdrawal between the UK and the EU. The withdrawal must occur within two years, unless the deadline is extended or a withdrawal agreement is negotiated sooner. The negotiation process will determine the future terms of the UK’s relationship with the EU. The notification does not change the application of existing tax laws, and does not establish a clear framework for what the ultimate outcome of the negotiations and legislative process will be.

Various tax reliefs and exemptions that apply to transactions between EU Member States under existing tax laws may cease to apply to transactions between the UK and EU Member States when the UK ultimately withdraws from the EU. It is unclear at this stage if or when any new tax treaties between the UK and the EU or individual EU Member States will replace those reliefs and exemptions. It is also unclear at this stage what financial, trade and legal implications the withdrawal of the U.K. from the EU will have and how Brexit may affect us, our customers, suppliers, vendors, or our industry.

Several of our wholly owned subsidiaries that are domiciled either in the UK, various EU Member States, or in the United States, and our holding company, LivaNova PLC, are party to intercompany transactions and agreements under which LivaNova receives various tax reliefs and exemptions. If certain treaties applicable to our transactions and agreements are not renegotiated or replaced with new treaties containing terms, conditions and attributes similar to those of the existing treaties, the departure of the UK from the EU may have a material adverse impact on our future financial results and results of operations. During the two-year negotiation period, LivaNova will monitor and assess the potential impact of this event and explore possible tax planning strategies that may mitigate or eliminate any such potential adverse impact. LivaNova will not account for the impact of Brexit in our income tax provisions until changes in tax laws or treaties between the UK and the EU or individual EU Member States are enacted or the withdrawal becomes effective.

Our failure to attract and retain qualified personnel and any changes in our key personnel, including officers, could adversely affect our operations.

Our employees are vital to our success and our ability to grow in the future will depend upon our ability to attract, hire and retain highly qualified employees. On March 31, 2017, we announced the resignation of Vivid Sehgal, our Chief Financial Officer, effective May 31, 2017. We are currently engaged in an ongoing effort to identify and hire a successor. We believe that we have thus far been successful in attracting and retaining qualified personnel in a highly-competitive labor market due, in large part, to our competitive compensation and benefits and our rewarding work environment, fostering employee professional training and development and providing employees with opportunities to contribute to our continued growth and success. However, our failure to attract and retain qualified personnel and any changes in our key personnel, including officers, could adversely affect our operations.

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

None.

ITEM 6. EXHIBITS

The exhibits marked with the asterisk symbol (*) are filed or furnished (in the case of Exhibit 32.1) with this Report on Form 10-Q. The exhibits marked with the cross symbol (†) are management contracts or compensatory plans or arrangements filed pursuant to Item 601(b)(10)(iii) of Regulation S-K.

Exhibit Number	Document Description	Report or Registration Statement	SEC File or Registration Number	Exhibit Reference
2.1	Transaction Agreement, dated March 23, 2015, by and among LivaNova PLC (f/k/a Sand Holdco Limited), Cyberonics, Inc., Sorin S.p.A. and Cypher Merger Sub, Inc.	LivaNova PLC Registration Statement on Form S-4, filed on April 20, 2015, as amended	333-203510	2.1
3.1	Articles of Association of LivaNova PLC	LivaNova PLC Current Report on Form 8-K, filed on October 19, 2015	001-37599	3.1
10.62†	CEO Employment Agreement effective January 1, 2017 between LivaNova Plc and Mr. Damien McDonald	LivaNova Plc Current Report on Form 8-K filed on February 28, 2017	001-37599	10.2
10.63†	Side Letter dated January 1, 2017 between LivaNova Plc and Mr. Damien McDonald	LivaNova Plc Current Report on Form 8-K filed on February 28, 2017	001-37599	10.3
10.64†	LivaNova Plc 2017 Short-Term Incentive Plan	LivaNova Plc Current Report on Form 8-K filed on February 28, 2017	001-37599	10.1
10.65†	Termination Agreement dated April 3, 2017 between LivaNova Plc and Mr. Jacques Gutedel	LivaNova Plc Current Report on Form 8-K filed on April 6, 2017	001-37599	10.1
10.66†	Description of Payment Under the 2016 Bonus Plan	LivaNova Plc Current Report on Form 8-K filed on April 25, 2017	001-37599	
10.67†*	Mutual termination agreement of the employment contract and full settlement, effective February 8, 2017, between LivaNova PLC - Italian branch and Mr. Brian Sheridan			
10.68†*	Consultancy Agreement, effective February 8, 2017, between LivaNova Plc and Mr. Brian Sheridan			
10.69†*	Settlement Agreement effective May 31, 2017 between LivaNova PLC and Vivid Sehgal			
21.1*	List of Subsidiaries of LivaNova PLC			
31.1*	Certification of the Chief Executive Officer of LivaNova PLC pursuant to Section 302 of the Sarbanes-Oxley Act of 2002			
31.2*	Certification of the Chief Financial Officer of LivaNova PLC pursuant to Section 302 of the Sarbanes-Oxley Act of 2002			
32.1*	Certification of the Chief Executive Officer and Chief Financial Officer of LivaNova PLC pursuant to Section 906 of the Sarbanes-Oxley Act of 2002			

101* Interactive Data Files Pursuant to Rule 405 of Regulation S-T: (i) the Condensed Consolidated Statement of Income (Loss) for the three months ended March 31, 2017 and March 31, 2016, (ii) the Condensed Consolidated Statement of Comprehensive Income for the three months ended March 31, 2017 and March 31, 2016, (iii) the Condensed Consolidated Balance Sheet as of March 31, 2017 and December 31, 2016, (iv) the Condensed Consolidated Statement of Cash Flows for the three months ended March 31, 2017 and March 31, 2016, and (vi) the Notes to the Condensed Consolidated Financial Statements.

SIGNATURE

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.

LIVANOVA PLC

By: /s/ DAMIEN MCDONALD
Damien McDonald
Chief Executive Officer
(Principal Executive Officer)

LIVANOVA PLC

By: /s/ VIVID SEHGAL
Vivid Sehgal
Chief Financial Officer
(Principal Financial Officer)

Date: May 3, 2017

Mutual termination agreement of the employment contract and full settlement

This agreement is entered into on 8 February 2017 (the “**Effective Date**”), in Milan

Between

LivaNova PLC - Italian branch, with registered office in Milan, Via Benigno Crespi 17, in person of Giorgio Cottura, as legal representative

hereinafter, «The Company»

and

Mr. Brian Sheridan, born in Hastings, UK on 27/09/1970, resident in Milan, Tax Code C.F. SHRBND70P27Z114V

hereinafter, «The Executive»

This contract sets forth the terms and conditions of the mutual termination and the full settlement of the employment contract between the Company and the Executive.

Whereas:

- a) the parties entered into an employment contract as *dirigente* (the “**Employment**”) effective from 17 November 2003, pursuant to the CBA for executives of the industry sector (the “**CBA**”). In the course of the Employment, the Executive has been appointed as Director Corporate Legal Affairs and, finally, General Counsel, Chief Compliance Officer and Company Secretary. The Executive has also been appointed as member of the BoD of Cardiosolutions Inc., in July 2012, of Caisson Inc in July 2012, of LivaNova IP Ltd, on 23 May 2016, and as proxy holder of LivaNova Italia S.r.l from 30 september 2015, of Sorin S.p.A. from January 2004 to October 2015 (the “**Existing Offices**”). The Executive has been also appointed as member of the BoD of Sorin Group UK Limited from 29 March 2012 until 26 August 2015, of Sorin CRM Sas from 13 December 2007 to 21 December 2016 and as member of the BoD of Sand Holdco Limited from 20 February 2015 to 14 September 2015 (the “**Offices**”);
 - b) in performing the Employment, the Executive has been entitled to participate in the incentive plans of the Company.
 - c) the parties have declared their will to find an agreement for the termination of the Employment and to settle, once and for all, and to avoid any present or future claims which may arise in connection with the termination of the Employment and the Offices as regulated below, thus avoiding any legal claim in this respect.
-

1. **Preamble**

1. The preamble shall form an integral part of this agreement (the "**Agreement**").

2. **Mutual termination of the Employment**

1. In consideration of the obligation under clause 5 and 6 below, the parties hereby declare and agree that the employment will terminate on a mutual consent basis on 30 June, 2017 (the "**Termination Date**") with mutual waiver to the notice period and/or the payment of the indemnity in lieu of notice.

2. Should the Executive intend to start a new employment before the Termination Date, the Executive will be entitled to resign from the Employment with 15 days written notice (the "**Date of Early Termination**"). Without prejudice to the obligations under this Agreement, all the mutual obligations related to the Employment will be terminated at the Termination Date or the Date of Early Termination.

3. Between the Effective Date of this Agreement and the Termination Date or the Date of Early Termination, the Executive will perform the Employment towards the Company and the other companies of the Group, in relation to the specific projects which will be communicated from time to time. Lacking any communication from the Company and/or other companies belonging to the Group, the Executive will be exempt from work and presence at the office. It is hereby expressly agreed that, until the Termination Date, the Executive will not be permitted to perform any activities of subordinate nature, even if not in competition with the Company's business for any other employer. During the Employment the Executive will be permitted to perform activities of autonomous or as an entrepreneur, towards third parties not in competition with the Company.

4. The Executive will collect his personal belongings from LivaNova PLC London office and from the Company's offices in Milan, not later than February 24, 2017.

5. No event, including - but not limited to - the Executive's sickness, will have an impact on the Termination Date.

3. **Payments up to the Termination Date**

1. The Executive will receive his ordinary salary until the Termination Date.

2. The Executive shall receive after (and due to) the termination:

- the TFR;
 - portion of the monthly instalments;
 - payment in lieu of any unused holidays and leaves accrued at the Termination Date.
-

3. The amounts under clause 3.2 above will be calculated at the Termination Date. The Executive reserves his right to verify and check the correct calculation of the above amounts pursuant to the law and the CBA.
 4. Together with the payment of the April monthly salary, the Company will pay to the Executive the bonus granted to the ELT executives, in compliance with the terms and conditions set forth by the relevant plans and subject to the verification of the targets achieved.
 4. **Full settlement**
 1. Without prejudice to the full and correct execution of the Agreement by the Company, the Executive, pursuant to the «*general and novative settlement agreement*» as provided for by Article 1975 and 1976 of the Italian Civil Code, waives towards the Company, and towards any other company of the group to which the Company belongs, all claims or rights of any nature or kind whatsoever relating to or caused by the Employment and its termination, including those related to the letter issued by Sorin S.p.A. on February 26, 2015 re the severance agreement, claims relating a different skill or length of service, salary differences, bonus and commissions, indemnity in lieu of holidays, fringe benefits, travel allowances, reimbursement of expenses, changing in job positions as well as any kind of incidence on direct and indirect remuneration. The Executive also waives any prospective claims for damages including extra-contractual and/or non-material in terms of articles 2043, 2059, 2087, 2103 of the Italian Civil Code. The parties expressly acknowledge that the following rights are not covered by (and thus not waived according to) the Agreement: (i) the obligations of the Company according to the Agreement; (ii) the calculation check under point 3.3. above; (iii) the application of point 6.2; (iii) section 15 of the CBA; (iv) Sorin S.p.A. indemnification letter issued on October 5, 2010, "*Irrevocable Indemnification and Hold Harmless for Performance of Your Duties to Sorin S.p.A. and its affiliates with particular regard to USA affiliation*", whose provisions will remain fully valid and enforceable.
 2. The Company accepts the above mentioned waivers and, in connection with such waivers, waives - also on behalf of any company belonging to the Group - to any claim whatsoever vis-à-vis the Executive related to the Employment and the Offices, excluding the case of fraud by the Executive ascertained with a final judgement.
 3. Furthermore the Company, excluding the case of fraud by the Executive ascertained with a final judgement, undertakes (i) not to start any liability action towards the Executive in relation to the Existing Offices; (ii) not to start any judicial action towards the Executive in relation to the Offices; (iii) to hold harmless the Executive in respect of any claims (irrespective of the relevant amount) by the companies (including their shareholders and third parties) where the Executive was appointed pursuant to the Offices, including claims by public authorities (irrespective of the nationality). The Company will bear any legal expenses borne by the Executive in relation to legal proceedings referred to the above claims.
 4. The Company, as a payment for the «*general novative settlement agreement*», undertakes to pay the Executive the gross amount of EUR 15.000,00 (fifteen thousand/00). The Executive accepts the above waivers and the amount offered by the Company.
 5. **Incentive to leave**
 1. The Company, to obtain mutual agreement on the termination undertakes to pay the Executive the gross amount of EUR 1.025,000 (one million twenty five thousand /00).
 2. The amount under point 5.1 above, is not subject to social security charges, as provided for by Article 12(4.b) of the law 30 April 1969, No. 153, as modified by Article 6 of D.Lgs. 2 September 1997, No. 314, it shall be subject to I.R.Pe.F., calculated according to Articles 17 and 19 T.U.I.R., with the limitations set forth by Article 24, par. 31, D.L. 6 December 2011 n. 201, as converted in law 22 December 2011, n. 214.
 6. **LTI**
 1. As to the LTI plans currently granted to the Executive the parties agree that:
 - 6.1.1 The 2069 RSU related to the "legacy Sorin" plans will vest on February 27, 2017.
 - 6.1.2 The 5,209 RSU related to the first tranche of the RSU grant of March 11, 2016 will vest on March 11, 2017.
 - 6.1.3 the remaining tranches related to the RSU grant of March 11, 2016 will vest at the dates set forth by the relevant plans, in the course of the performance of the Consultancy Contract under par. 9 below. Should the Consultancy Contract be terminated, the unvested RSU will be cancelled.
 - 6.1.4 The 6,262 SARs with strike price 51.34 USD related to the "legacy Sorin", already vested, will be exercisable until 28 February 2018.
-

6.1.5 The 29,717 SARs with strike price 69.39 USD will vest on October 19, 2017 and will be exercisable until the date set forth by the relevant plan, in the course of the performance of the Consultancy Contract under par. 9 below. Should the Consultancy Contract be terminated at the expiration of the initial 24 months, the unexercised SAR will be exercisable for a maximum period of 12 months following the termination of the Consultancy Contract or the third anniversary, whichever occurs first.

6.1.6 the 29,718 SAR already vested on October 19, 2016, will be exercisable until the date set forth by the relevant plan, in the course of the performance of the Consultancy Contract under par. 9 below. Should the Consultancy Contract be terminated at the expiration of the initial 24 months, the unexercised SAR will be exercisable for a maximum period of 12 months following the termination of the Consultancy Contract or the third anniversary, whichever occurs first.

2. Except as provided by the preceding points 6.1.; 6.1.1; 6.1.2; 6.1.3; 6.1.4; 6.1.5; 6.1.6; the Executive will retain any other rights related to participation in the plans indicated in the table attached to this Agreement (Annex A).
3. The parties agree that, after the date of this agreement, the Executive will not be eligible to receive any new long-term incentive award, including, but not limited to, any stock option, stock appreciation right, restricted stock, restricted stock unit, cash award, or any other award contemplated by the LivaNova 2015 Incentive Award Plan on top of what is stated in points 6.1.1. to 6.1.6. of this agreement.

7. **Miscellaneous**

1. Within 30 days of the Termination Date or the Date of Early Termination, the company will pay to the Executive 60,000 EUR net as overall reimbursement for the school fees of his children for academic years 2017/2018 and 2018/2019. The Company will pay directly to the relevant schools the unpaid balance related to the school fees agreed for the on-going academic year.
2. After the Effective Date of this Agreement, the Company will notify the withdrawal from the lease of the apartment currently used by the Executive in London. The Executive will be allowed to use the apartment until the lease terminates at the existing conditions. The Company will bear the costs of the Executive's travels Milan/London and London/Milan only to the extent that these travels are expressly requested by this Agreement or by the Company for the performance of the Employment and duly documented by the Executive.
3. The Company will pay to the Executive 5,000 EUR net as reimbursement for his relocation costs.
4. The Executive will be allowed to use the company car until the Termination Date, at the existing conditions.

8. **Payments terms**

1. The amounts under point 4.4 and 5.1 above shall be paid, by bank transfer to the account specified by the Executive, within maximum 30 days from the Termination Date or the Date of Early Termination, subject to the previous execution of the *Verbale di conciliazione* under point 11 below.
2. The amount under point 7.3 above will be paid, by bank transfer to the account specified by the Executive, within 30 days from the execution of the *Verbale di conciliazione* under point 11 below.

9. **Confidentiality**

1. Following the Termination Date or the Date of Early Termination and compatibly with the obligations arising from the performance of the Consultancy Contract, the Executive (except for the obligations set forth by the law) shall not use, disclose or communicate to any person any confidential information which he shall have come to know or have received or obtained at any time by reason of or in connection with his service with the Company or any other company of the group the Company belongs to, or copy, reproduce or store in any form or by any media or device or allow others access to or to copy or reproduce recorded information whether or not in documentary form containing or referring to confidential information.
2. «Confidential Information» in point 9.1 and 9.3 includes any information that may have been given in confidence or be of a confidential nature related to the business or prospective business or internal affairs of the Company or other companies of the group which the Company belongs to, not of public domain.
3. The Executive undertakes not to disclose confidential information regarding the organization of the Company, nor misuse such information so as to cause damage.
4. The parties also agree not to disclose to any third parties, except to the extent required by applicable Law, the terms of this Agreement.

10. **Legal fees**

1. The Company undertakes to pay Mr. Renato Scorcelli, as a contribution towards legal fees borne by the Executive, the amount of Euro 20.000,00 plus VAT, deducted of withholding tax (R.A.), within maximum 30 days from the signing of the *Verbale di conciliazione* under clause 11 below.

11. **Agreement in accordance with Section 2113 the Italian Civil Code**

1. The Parties undertake to execute (as soon as possible and in any case within 60 days from the Effective Date of this Agreement) a *Verbale di conciliazione* - in line with applicable Law, and having the same content of the Agreement - before the competent provincial labor office or any other competent venue. The Company

undertakes to request the relevant meeting by 28 February 2017.

12. **Final provisions**

Consequently, with the signing of this Agreement, the parties declare that they no longer have any claim against each other, for any reason or cause.

LivaNova PLC - Italian branch

Mr. Brian Sheridan

LIVANOVA PLC
AND
BRIAN SHERIDAN

CONSULTANCY AGREEMENT

THIS AGREEMENT is made on 9th February 2017.

BETWEEN

- (1) **LIVANOVA PLC**, a company registered in England with registered number 09451374 and having its registered office at 20 Eastbourne Terrace, London, England W2 6LG (the “**Company**”); and
- (2) **BRIAN SHERIDAN**, born in Hastings (UK), on 27th September 1970, residing at via Panfilo Castaldi 33, Milan, Italy, C.F: SHRBND70P27Z114V (the “**Consultant**”).

BACKGROUND

The Company wishes to benefit from the skills and abilities of the Consultant and the Consultant is an independent contractor who has agreed to provide his services to the Company, upon the terms and subject to the conditions set out in this Agreement.

IT IS AGREED as follows:

1. **DEFINITIONS AND INTERPRETATION**

1. **Definitions**

In this Agreement, unless the context otherwise requires:

“Agreement”	means this contract
“Appointment”	means the engagement of the Consultant under this Agreement, or, as the context requires, the duration of that engagement
“Commencement Date”	means 30 th June 2017, or such earlier date on which Consultant’s employment by LivaNova PLC - Italian Branch terminates, simultaneous with the termination of employment
“Confidential Information”	means all information which is identified or treated by the Company or any Group Company or any of the Group’s clients or customers as confidential or which by reason of its character or the circumstances or manner of its disclosure is evidently confidential including any information about the personal affairs of any of the directors (or their families) of the Company or any Group Company, business plans, proposals relating to the acquisition or disposal of a company or business or proposed expansion or contraction of activities, maturing new business opportunities, research and development projects, designs, secret processes, trade secrets, product or services development and formulae, know-how, inventions, sales statistics and forecasts, marketing strategies and plans, costs, profit and loss and other financial information (save to the extent published in audited accounts), prices and discount structures and the names, addresses and contact and other details of: employees and their terms of employment; customers and potential customers, their requirements and their terms of business with the Company/Group; and suppliers and potential suppliers and their terms of business (all whether or not recorded in writing or in electronic or other format)
“Group”	means the Company, any presently existing holding company or undertaking of the Company and subsidiaries and subsidiary undertakings of the Company or such holding company or undertaking
“Group Company”	means any company within the Group
“Initial Period”	means the period beginning on the Commencement Date and ending on the second anniversary of the Commencement Date
“Minority Holder”	means a person who either solely or jointly holds (directly or through nominees) any shares or loan capital in any company whose shares are listed or dealt in on a recognised investment exchange (as that term is defined by section 285 Financial Services and Markets Act 2000) provided that such holding does not, when aggregated with any shares or loan capital held by the Consultant’s partner and/or his or his partner’s children under the age of 18, exceed 3% of the shares or loan capital of the class concerned for the time being issued
“Protected Business”	means any business pertaining to (i) a product marketed and sold or under substantial development by the Company during the term of this Agreement, and (ii) trans-catheter mitral valve repair and replacement
“Restricted Area”	means any country in the world where, during the term of this Agreement, the Company is engaged in a Protected Business
“Services”	means the services, work and other tasks to be provided by the Consultant to the Company in accordance with this Agreement as described in Clause 3
“Termination Date”	means the date of termination of the Appointment

2. **Interpretation and construction**

Save to the extent that the context or the express provisions of this Agreement require otherwise, in this Agreement:

- (a) words importing the singular shall include the plural and vice versa;
-

- (b) words importing any gender shall include all other genders;
- (c) any reference to a Clause, the Schedule or Part of the Schedule is to the relevant Clause, Schedule or part of the Schedule of or to this Agreement unless otherwise specified;
- (d) references to this Agreement or to any other document shall be construed as references to this Agreement or to that other document as modified, amended, varied, supplemented, assigned, novated or replaced from time to time;
- (e) references to any statute or statutory provision (including any subordinate legislation) includes any statute or statutory provision which amends, extends, consolidates or replaces the same, or which has been amended, extended, consolidated or replaced by the same, and shall include any orders, regulations, instruments or other subordinate legislation made under the relevant statute or statutory provision;
- (f) references to a “person” includes any individual, firm, company, corporation, body corporate, government, state or agency of state, trust or foundation, or any association, partnership or unincorporated body (whether or not having separate legal personality) or two or more of the foregoing;
- (g) general words shall not be given a restrictive meaning because they are followed by words which are particular examples of the acts, matters or things covered by the general words and “including”, “include” and “in particular” shall be construed without limitation; and
- (h) the words “other” and “otherwise” shall not be construed *eiusdem generis* with any foregoing words where a wider construction is possible.

3. **Headings**

The table of contents and the headings in this Agreement are included for convenience only and shall be ignored in construing this Agreement.

2. **TERM**

The Appointment shall commence on the Commencement Date and shall continue for a fixed period of five years, unless earlier terminated by one party giving to the other not less than one month's prior written notice of termination; provided, however, that the Appointment shall not be terminable by the Company during the Initial Period, except as provided otherwise in Clause 9.1. No fees shall accrue and be payable after the date of termination of the Appointment.

3. **SERVICES**

1. **Provision of Services**

- (a) With effect from the Commencement Date, the Consultant shall, on request by any representative of the Company, designated as such by the Company's Chief Executive Officer, provide with regard to litigation brought by or against a Group Company the Services, including holding himself available to act as a witness if called so to serve, together with such other services as the Company and the Consultant may from time to time mutually agree including, providing services to any Group Company. Save with regard to the Services with regard to litigation any specific Services to be provided shall be determined by mutual consent and may include support on projects that may be assigned by the Company.
- (b) The Consultant may engage another person to perform any administrative, clerical or secretarial functions that are reasonably incidental to the provision of the Services provided that the Consultant accepts all liability for the terms of engagement and shall indemnify the Company from and against any claims or liability arising from that engagement. The Company will not provide the Consultant with any administrative, clerical or secretarial functions, unless agreed expressly with the CEO from time to time.
- (c) The Consultant will perform the Services in compliance with all applicable laws, rules and regulations and, in addition, the Consultant will comply with all internal policies and regulations of the Group as are identified to the Consultant from time to time in writing, including, but not limited to, the Company's Code of Conduct and its supporting policies and procedures.

4. **FEES**

1. **Fee rate**

- 2. In consideration of the Consultant providing the Services referred to in Clause 3.1 in accordance with this Agreement, the Company agrees to pay the Consultant the following fees:
-

- (a) During the Initial Period, the Company agrees to compensate the Consultant at an hourly rate of 250 euros for the first 40 hours of Services each month, and an hourly rate of 275 euros for each hour in excess of 40 hours of Services each month, with a maximum of eight billable hours on any one day. Also during the Initial Period, the Company will pay Consultant a monthly, non-refundable retainer in the amount of 10,000 euros (the “Retainer”) to remunerate Consultant for his first 40 hours of Services each month.
- (b) After the Initial Period, the Company agrees to compensate the Consultant at an hourly rate of 275 euros for each hour of Services each month, with a maximum of eight billable hours on any one day.

3. **Expenses**

The Company shall reimburse to the Consultant monthly (against receipts or other appropriate evidence) the amount of all out-of-pocket expenses approved in advance by the Company and reasonably and properly incurred by the Consultant in the proper discharge of the Services.

4. **Invoices**

The Consultant shall invoice the Company monthly for Services, including a brief description of the Services and the hours worked each day. The Company shall pay the Consultant’s invoice for Services in excess of the Retainer within 60 days of receipt of the invoice.

5. **Obligation to pay tax**

The Consultant shall at all times pay any income tax, National Insurance contributions, VAT and other contributions required by law to be paid by him in relation to the provision of the Services, or receipt by him of the fees, or both (including any interest or penalties imposed in respect of such payments).

6. **Tax indemnity**

The Consultant shall indemnify and keep indemnified the Company and each Group Company for all time on demand from and against any and all costs, claims, penalties, liabilities and expenses incurred in respect of income tax, National Insurance or other contributions due by the Consultant in relation to the provision of the Services.

7. **Deductions**

Without prejudice to the indemnity in Clause 4.6, if for any reason, the Company or any Group Company shall become liable to pay, or shall pay, any taxes or other payments referred to in Clause 4.5, the Company shall be entitled to deduct from any amounts payable to the Consultant all amounts so paid or required to be paid by or in respect of it or any Group Company in that respect.

5. **NO EMPLOYMENT OR AGENCY**

1. **No employment, agency or partnership**

The Consultant warrants and represents to the Company that he is an independent contractor. Nothing contained in this Agreement shall be construed or have effect as constituting any relationship of employer and employee, partnership or joint venture between the Company or any Group Company and the Consultant, nor shall it constitute the Consultant acting as an agent or a worker of the Company or any Group Company. Unless expressly authorised to do so, the Consultant shall not have any right or power whatsoever to contract on behalf of any Group Company or bind any Group Company in any way in relation to third parties and will not hold itself out as having such authority. The Consultant is supplying the Services to the Company and any Group Company as part of the Consultant’s business undertaking. The Company and any Group Company receiving the Services is/are the Consultant’s clients for these purposes.

2. **Payment of Other Persons**

The Consultant shall be responsible for the payment and/or provision of all remuneration and any benefits due to or in respect of any person whom the Consultant involves in the provision of the Services under their contract of employment or engagement with the Consultant or otherwise, including any national insurance, income tax and any other form of taxation or social security costs in respect of such person's remuneration or benefits, as well as any pension benefits to be provided to or in respect of such person.

6. **indemnity AND INSURANCE**

1. **Consultant's undertaking**

The Consultant acknowledges that the Company will rely upon his skills and judgement in relation to the Services and undertakes that in providing the Services he will exercise all reasonable skill, care and attention in all matters.

2. **Indemnification of the Company**

The Consultant shall indemnify and keep indemnified the Company and each Group Company for all time on demand from any and all direct or indirect damages, loss, costs, claims, liabilities and expenses incurred in respect of the Consultant's performance (or non-performance) of the Services including in respect of any act, neglect or default of the Consultant or any person authorised by the Consultant to act on his behalf.

3. **Consultant to insure**

The Consultant shall maintain, at his own cost, a comprehensive policy of insurance to cover the Consultant's liability in respect of any act, omission or default for which he may become liable himself, or become liable to indemnify the Company under this Agreement (including, insurance to cover third party, employer's and professional liability claims).

7. **OTHER INTERESTS**

1. **Restrictions on other activities and interests**

During the Appointment, save with regard to the Services related to litigation as provided in Section 3 above, the Consultant may accept to perform engagements from or be employed by other persons, provided that;

- (a) during the Initial Period, with regard to projects that the Consultant has been offered and accepted to undertake, the Consultant shall not within the Restricted Area be employed or engaged or at all interested (except as a Minority Holder) in that part of a business which is involved in the Protected Business if it is or seeks to be in competition with the Company or any Group Company; and
- (b) such employment or engagement does not (in the reasonable opinion of the Company) impinge on the Consultant's ability to provide the Services.

2. **Severance**

It is agreed that if the restriction in Clause 7.1 shall be adjudged to go beyond what is reasonable in all the circumstances for the protection of the legitimate interests of the Company or a Group Company but would be adjudged reasonable if some part of it were deleted, the restriction shall apply with such deletion(s) as may be necessary to make it valid and enforceable.

3. **Conflicts**

During the Initial Period, the Consultant shall immediately disclose to the Company any conflict of interest that arises in relation to the provision of the Services as a result of any present or future appointment, employment or other interest of the Consultant and any and all appointments that the Consultant accepts that may impact his ability to perform the Services or dedicate the time necessary to achieve same.

8. **CONFIDENTIAL INFORMATION**

1. **Restrictions on disclosure/use of Confidential Information**

The Consultant must not either during the Appointment (except in the proper performance of the Services) or at any time (without limit) after the Termination Date:

- (a) divulge or communicate to any person;
 - (b) use for his own purposes or for any purposes other than those of the Company or any Group Company; or
 - (c) through any failure to exercise due care and diligence, cause any unauthorised disclosure of any Confidential Information. The Consultant must at all times use his best endeavours to prevent publication or disclosure of any Confidential Information. These restrictions shall cease to apply to any information that shall become available to the public generally otherwise than through the default of the Consultant.
-

2. **Protection of Company documents and materials**

All notes, records, lists of customers, suppliers and employees, correspondence, computer and other discs or tapes, data listings, codes, keys and passwords, designs, drawings and other documents or material whatsoever (whether made or created by the Consultant or otherwise and in whatever medium or format) relating to the business of the Company or any Group Company or any of its or their clients (and any copies of the same):

- (a) shall be and remain the property of the Company or the relevant Group Company or client; and
- (b) shall be handed over by the Consultant to the Company or relevant Group Company or client on demand and in any event on the termination of the Appointment.

3. The Consultant undertakes that, he will not at any time during the Appointment or at any time (without limit) after the Termination Date make or publish or cause to be made or published to anyone in any circumstances any disparaging remarks concerning the Company or any Group Company or any of its or their respective shareholders, officers, employees or agents. The Company undertakes not to make or publish or cause to be made or published to anyone in any circumstances any disparaging remarks concerning the Consultant.

9. **TERMINATION**

1. **Termination events**

Notwithstanding the provisions of Clause 2, the Company shall be entitled, but not bound, to terminate the Appointment with immediate effect (and without giving any period of notice or pay in lieu of notice) by giving to the Consultant notice in writing at any time after the occurrence of any one or more of the following events:

- (a) if the Consultant commits any material or persistent breach of this Agreement, or fails to perform the Services to the standard required by the Company; or
- (b) if the Consultant becomes insolvent or bankrupt or compounds with or grants a trust deed for the benefit of his creditors; or
- (c) if the Consultant's behaviour (whether or not in breach of this Agreement) can reasonably be regarded as materially prejudicial to the interests of the Company or any Group Company, including if he is found guilty of any criminal offence punishable by imprisonment (whether or not such sentence is actually imposed).

10. **DATA PROTECTION**

By signing this Agreement, the Consultant acknowledges and agrees that the Company is permitted to hold and process personal (and sensitive) information and data about him and any other employees of or service providers to the Consultant who provide the Services from time to time as part of its personnel and other business records; and may use such information in the course of the Company's business. The Consultant agrees that the Company may disclose such information to third parties, including where they are situated outside the European Economic Area, in the event that such disclosure is in the Company's view required for the proper conduct of the Company's business or that of any associated company. This Clause applies to information held, used or disclosed in any medium. The Consultant will procure the consent of any other relevant employee or service provider of the Consultant to the terms of this clause.

11. **AMENDMENTS, WAIVERS AND REMEDIES**

1. **Amendments**

No amendment or variation of this Agreement or any of the documents referred to in it shall be effective unless it is in writing and signed by or on behalf of each of the parties.

2. **Waivers and remedies cumulative**

- (a) The rights of each party under this Agreement:
 - (i) may be exercised as often as necessary;
 - (ii) are cumulative and not exclusive of its rights under the general law; and
 - (iii) may be waived only in writing and specifically.
 - (b) Delay in exercising or non-exercise of any right is not a waiver of that right.
 - (c) Any right of rescission conferred upon the Company by this Agreement shall be in addition to and without prejudice to all other rights and remedies available to it.
-

12. **ENTIRE AGREEMENT**

- (a) This Agreement, the documents referred to in it and the settlement agreement executed between the Company and the Consultant on even date hereof, constitute the entire agreement and understanding of the parties and supersede and extinguish all previous agreements, promises, assurances, warranties, representations and understandings between the parties, whether written or oral, relating to the subject matter of this Agreement.
- (b) Each party acknowledges that in entering into this Agreement it does not rely on, and shall have no remedies in respect of, any statement, representation, assurance or warranty (whether made innocently or negligently) that is not set out in this Agreement.
- (c) Each party agrees that it shall have no claim for innocent or negligent misrepresentation or negligent misstatement based on any statement in this Agreement.
- (d) Nothing in this clause shall limit or exclude any liability for fraud.

13. **NO OUTSTANDING CLAIMS**

The Consultant hereby acknowledges that he has no outstanding claims of any kind against the Company or any Group Company.

14. **SEVERANCE**

If any provision of this Agreement is or becomes illegal, invalid or unenforceable in any jurisdiction, that shall not affect:

- (a) the legality, validity or enforceability in that jurisdiction of any other provisions of this Agreement; or
- (b) the legality, validity or enforceability in any other jurisdiction of that or any other provision of this Agreement.

15. **NOTICE**

1. **Notices and deemed receipt**

Any notice hereunder shall be given by either party to the other either personally to its Company Secretary or sent to its registered office for the time being. Any such notice shall be in writing and shall be given by letter delivered by hand or sent by first class prepaid recorded delivery or registered post or by email. Any such notice shall be deemed to have been received:

- (a) if delivered personally, at the time of delivery;
- (b) in the case of pre-paid recorded delivery or registered post, 48 hours from the date of posting; and
- (c) in the case of registered airmail, five days from the date of posting; and
- (d) in the case of email, at the time of transmission;

provided that if deemed receipt occurs before 9am on a business day the notice shall be deemed to have been received at 9am on that day and if deemed receipt occurs after 5pm on a business day, or on a day which is not a business day, the notice shall be deemed to have been received at 9am on the next business day. For the purpose of this Clause, "**business day**" means any day which is not a Saturday, a Sunday or a public holiday in the place at or to which the notice is left or sent.

16. **Third party rights**

Nothing in this Agreement is intended to confer on any person any right to enforce any term of this Agreement which that person would not have had but for the Contracts (Rights of Third Parties) Act 1999. No right of any Party to agree any amendment, variation, waiver or settlement under or arising from or in respect of this Agreement, or to terminate this Agreement, shall be subject to the consent of any person who has rights under this Agreement by virtue of the Contracts (Rights of Third Parties) Act 1999.

17. **Assignment**

No Party may assign the benefit of its rights under this Agreement, whether absolutely or by way of security, or deal in any way with any interest it has under this Agreement.

18. **GOVERNING LAW AND JURISDICTION**

1. **Governing law**

This Agreement shall be governed by and to be construed in accordance with English law.

2. **Jurisdiction**

Each party hereby submits to the exclusive jurisdiction of the English courts as regards any claim, dispute or matter arising out of or in connection with this Agreement and its implementation and effect.

IN WITNESS of which this Agreement has been executed and delivered as a deed on the first date written above.

EXECUTED by

Brian Sheridan

In the presence of:

Witness Signature:

Full Name:

Address:

EXECUTED as a Deed
by LivaNova PLC acting by
Damien McDonald,
Chief Executive Officer

In the presence of:

Witness Signature:

Full Name:

Address:

Dated ___ April 2017

LIVANOVA PLC

Vivid Sehgal

SETTLEMENT AGREEMENT

WITHOUT PREJUDICE AND SUBJECT TO CONTRACT

THIS AGREEMENT is made on ___ April 2017

BETWEEN

- (1) **LIVANOVA PLC**, a company registered in England with registered number 09451374 and having its registered office at 20 Eastbourne Terrace, London W2 6LG, England (the “**Company**”); and
- (2) **VIVID SEHGAL**, residing at 35 Kent Avenue, Ealing, London W13 8BE, England (the “**Executive**”).

BACKGROUND

- (A) The Executive’s employment with the Company will terminate on 31 May 2017;
- (B) The Executive believes he has the Claims (as that term is defined below) arising out of the termination of his employment or otherwise;
- (C) The parties have entered into this Agreement for the purposes of recording and implementing the terms that they have agreed as full and final settlement of the Claims and any and all other claims that the Executive has and/or may have against the Company and any Group Company (as defined below) whether or not they are or could be in the contemplation of the parties at the date of this Agreement;
- (D) The parties agree that the conditions regulating settlement agreements under the Acts (as defined below) are satisfied by this Agreement; and
- (E) The Company is entering into this Agreement for itself and for all Group Companies, and is duly authorised to do so in that respect.

IT IS AGREED as follows:

- 1. **Definitions and interpretation**
 - 1. Definitions
-

In this Agreement, unless the context otherwise requires:

“the Acts”	means the Employment Rights Act 1996 section 203(3) and the Equality Act 2010, section 147
“Claims”	means the claims that the Executive believes that he has against the Company or any Group Company or against any of its or their respective shareholders, officers, employees or agents, being: for breach of contract arising out of his employment, or termination of the employment, or otherwise; for unfair dismissal under the Employment Rights Act 1996; in relation to unauthorized deductions from wages; for discrimination, harassment or victimisation on the grounds of age, sex, race or nationality or any other unlawful ground, pursuant to the Equality Act 2010; for breach of contract or any other rights to or in respect of shares or other securities or securities based incentives in the Company or any Group Company; for unlawful detriment under the Employment Rights Act 1996; and under the Public Interest Disclosure Act 1998.
“Compensation Committee”	means the duly appointed compensation committee of the board of directors of the Company
“Group”	means the Company, any presently existing or future holding company or undertaking of the Company and any presently existing or future subsidiaries and subsidiary undertakings of the Company or such holding company or undertaking (and the words “subsidiary” and “holding company” shall have the meanings given to them in section 1159 in the Companies Act 2006)
“Group Company”	means any company within the Group
“Schedule”	means a schedule to this Agreement
“Termination Date”	means the 31 May 2017

2. Interpretation and Construction

Save to the extent that the context or the express provisions of this Agreement require otherwise, in this Agreement:

- (a) words importing the singular shall include the plural and vice versa;
- (b) words importing any gender shall include all other genders;
- (c) references to any statute or statutory provision (including any subordinate legislation) include any statute or statutory provision which amends, extends, consolidates or replaces the same, or which has been amended, extended, consolidated or replaced by the same, and shall include any orders, regulations, instruments or other subordinate legislation made under the relevant statute or statutory provision;
- (d) references to a “person” includes any individual, firm, company, corporation, body corporate, government, state or agency of state, trust or foundation, or any association, partnership or unincorporated body (whether or not having separate legal personality) or two or more of the foregoing;
- (e) general words shall not be given a restrictive meaning because they are followed by words which are particular examples of the acts, matters or things covered by the general words and “including”, “include” and “in particular” shall be construed without limitation; and
- (f) the words “other” and “otherwise” shall not be construed *eiusdem generis* with any foregoing words where a wider construction is possible.

3. Headings

The headings in this Agreement are included for convenience only and shall be ignored in construing the Agreement.

2. **Termination of Employment and offices**

1. The employment of the Executive with the Company will terminate on the Termination Date. Up to and including the Termination Date, the Executive will continue to be bound by his current service agreement and his duties will include working to deliver a smooth transition to any successor as Chief Financial Officer of the Company appointed prior to the Termination Date. The Company acknowledges that the Executive has already made holiday arrangements for the last two weeks of May and confirms that he will not be required to change those.
2. The Executive will immediately deliver to the Company the letter of resignation in terms of the draft letter set out at Schedule 1 confirming his resignation from his employment and from all directorships and other offices which the Executive holds in the Company and the Group.
3. The Executive will do all such acts and things as the Company may require to effect his resignation from all offices to which the Executive was appointed in connection with or by reason of his employment by or appointment with the Company or any Group Company, including all trusteeships.

3. **Payments**

1. Subject to compliance by the Executive with the terms of this Agreement, the Company will (without admission of liability) pay to the Executive the following sums (the “**Severance Payments**”):
 - (a) £239,067 as a payment in lieu of notice comprising four months of base salary, supplemental pension contribution and auto allowance and five months of 2017 target bonus; and (the “**PILON**”);
 - (b) provision of seven months of supplemental health insurance coverage (1 June 2017 through 31 December 2017) at a cost of approximately £42,000; and
 - (c) £100 in respect of the undertakings given in Clause 10.
2. The Company shall pay the PILON in a single payment no later than 30 June 2017. No Severance Payments will be paid prior to the Company’s receipt of this Agreement duly executed by the Executive and his solicitor.
3. The Severance Payments set out above are gross amounts and will be made after deduction of all payments or deductions required by law or owed by the Executive to the Company or any Group Company, including tax due on any benefits or payments made or to be made to the Executive in respect of his employment with the Company.
4. Following the production of an appropriate copy VAT invoice identifying the Company as third party payor, the Company shall pay to the Adviser (as defined in clause 13(b)) up to a maximum of £10,000 in respect of the Executive's legal expenses incurred only in connection with the termination of his employment.

4. **Taxation**

1. The Company understands that the Severance Payments under Clauses 3.1(a) and 3.1(d) (together the “**Taxable Amount**”) will be subject to deduction by the Company of tax at the appropriate rate and employee’s National Insurance contributions before payment is made to the Executive. The Company will account to HMRC for the tax and National Insurance contributions deducted.
2. The Executive will be responsible and liable for the payment of any tax and employee’s National Insurance contributions and any social security contributions and other employment related taxes wherever in the world arising (including any interest, penalties, costs and expenses) due in respect of the Severance Payments and the benefits and incentives (if any) set out in this Agreement (excluding the tax and National Insurance contributions deducted by the Company from the Taxable Amount) (the “**Additional Tax**”). The Executive will indemnify the Company and each Group Company and keep them indemnified on a continuing basis against all and any liability for Additional Tax that the Company or any Group Company may incur. No payment of Additional Tax will be made to HMRC or other relevant tax authority without first particulars of the proposed payment being given to the Executive so that he is given the opportunity, at his own expense, to dispute any such payment or liability with HMRC or other relevant authority.

5. **Payment of Accrued Sums and Expenses**

1. The Company will pay the Executive his basic salary and continue to provide any contractual benefits in respect of the period up to the Termination Date and pay in lieu of unused days of holiday which have accrued up to the Termination Date. For the purposes of calculating unused holiday, the Company acknowledges that the Executive has carried over 6 days from his 2016 annual holiday entitlement. The sums will be paid via payroll in the normal way and will be paid after deduction of tax and National Insurance contributions.
-

2. The Executive will submit his final expenses claim made up to the Termination Date within 10 days after the Termination Date. The Company will reimburse the Executive for all expenses reasonably incurred in the proper performance of his duties in accordance with Company guidelines.
 3. Notwithstanding the termination of his employment, the Executive will continue to be eligible to receive a payment under the Company's annual discretionary bonus plan (the "**Bonus Plan**") in respect of the 2016 bonus year. The amount of any bonus will be calculated by reference to the same percentage of the target amount used to calculate the bonus awarded to other executives under the Bonus Plan. Any payment of bonus under the Bonus Plan will be paid in 2017 at the same time that bonus payments are made to other executives under the Bonus Plan.
 6. **share incentives**
 1. The Compensation Committee has determined, in accordance with its power under the LivaNova Plc 2015 Incentive Award Plan, that the 5,208 RSUs of the Executive's RSUs granted pursuant to his award agreement dated 11 March 2016 that would have vested on 11 March 2018 shall vest on the Termination Date.
 2. All other RSU and SAR awards (or other awards that are linked to shares in the Company or any Group Company) granted to the Executive and not vested as of the Termination Date will lapse on that date.
 7. **Warranties**
 1. The Executive warrants that:
 - (a) he has not raised any legal proceedings against the Company or any Group Company or against any of its or their respective shareholders, officers, employees or agents; and
 - (b) other than the Claims, as of the date of this Agreement, he has no further or outstanding claims or rights of action, being any further or outstanding claims or rights of action, whether under statute or common law (including contractual, tortious or other claims) and whether before an Employment Tribunal, court or otherwise and whether in the UK or any other jurisdiction in the world against the Company or any Group Company or any of its or their respective shareholders, officers, employees or agents including in respect of or arising out of his employment, or the holding of any office with or investment in the Company or any Group Company or the termination of that employment or office (such claims or rights of action referred to as "**Further Claims**").
 2. The Executive warrants as a strict condition to payment under this Agreement that there are no circumstances of which he is aware or of which he ought to be aware which could constitute a repudiatory breach by him of his contract of employment which would entitle or have entitled the Company to terminate his employment without notice.
 3. The Company warrants that as at the date of this Agreement it is not aware of any claims or circumstances giving rise to any claims against the Executive personally relating to the period in which he was an employee of the Company.
 8. **Settlement**
 1. Subject to clause 8.3, the Executive accepts the terms of this Agreement in full and final settlement of the Claims and all and any Further Claims, whether such claims are known or unknown to the parties and whether or not they are or could be in the contemplation of the parties at the date of this Agreement, which are waived and released in full. The Company accepts the terms of this Agreement in full and final settlement of any claims it or any Group Company has or may have, known or unknown, arising out of the Executive's services to the Company or any Group Company.
 2. The Executive undertakes not to institute or pursue any proceedings against the Company or any Group Company or against any of its or their respective shareholders, officers, employees or agents before an Employment Tribunal, court or any other judicial body anywhere in the world in respect of the Claims or for any remedy arising from any Further Claims.
 3. The Executive does not waive his right to bring a claim for accrued rights under any pension scheme or damages for latent personal injuries and/or any latent industrial disease arising out of the course of his employment with the Company and/or the Group that are currently unknown to him. The Executive warrants that he is not aware of having any such personal injuries. These exceptions are the only claims which have not been settled by this Agreement.
 4. Subject to the terms of Clause 8.3, if any other claim emerges in law or in fact anywhere in the world based on anything done or omitted to be done during the period of the Executive's employment by the Company which was not previously known or foreseeable by the Executive, then the Executive agrees that there should
-

be no recourse to any remedy for the claim against the Company or any Group Company. The Executive acknowledges and accepts that in agreeing to the level of the Severance Payments he has taken into account that he has waived the right to pursue any such claims, whether foreseeable or not previously known, against the Company or any Group Company.

9. **Acknowledgement**

The Executive acknowledges that the Company has entered into this Agreement and made the Severance Payments in reliance on the warranties and the undertakings given by him in Clause 7 and Clause 8 respectively. In the event of any breach by the Executive of any of those warranties or undertakings, the Severance Payments shall be repaid by him to the Company immediately and shall be recoverable by the Company as a debt.

10. **Confidentiality**

1. The Executive agrees he continues to owe a duty of confidentiality to the Company and to the Group after the Termination Date.
2. The Executive undertakes not to do any act or thing that might reasonably be expected would damage the business, interests or reputation of the Company or any Group Company and will not make or publish or cause to be made or published to anyone in any circumstances any disparaging remarks concerning the Company or any Group Company or any of its or their respective shareholders, officers, employees or agents.
3. Neither the Company nor any Group Company will authorise anyone to make or publish or cause to be made or published to anyone any statement or do any act or thing which it or they might reasonably expect would damage the interests or reputation of the Executive.
4. The Executive acknowledges and agrees that whilst the consideration paid pursuant to Clause 3.1(d) represents valuable consideration it does not amount to an estimate of or cap on the loss or damage which the Company or any Group Company would suffer were the Executive to breach any of the obligations set out in this Clause.

11. **INDEMNIFICATION**

1. In September 2015, the Company and the Executive entered into a deed of indemnity ("the Deed") relating to acts and omissions of the Executive while employed by the Company. The Deed shall continue in full force and effect according to its terms notwithstanding the termination of the Executive's employment and directorship.
2. The Company will, for a period of not less than six calendar years following the Termination Date, maintain directors' and officers' insurance for the benefit of the Executive in respect of those liabilities which he incurred as a director or officer of the Company or any Group Company and for which such insurance is normally available.

12. **Delivery Up**

1. The Executive will return to the Company's premises on or before the Termination Date all books, documents, papers, data (including copies or extracts and whether in printed or electronic format), materials, credit cards, keys, security cards or other property of or relating to the business of the Company or the Group or its or their respective clients or suppliers. The Executive shall be entitled to retain for his personal use his company-assigned iPhone, iPad, and Surface Pro laptop computer, in each case without a company-paid wireless service plan.
2. The Executive confirms that he will not, after the Termination Date, retain any confidential information relating to the Company or the Group, whether stored in electronic format or otherwise, except as may be retained with the express consent of the Company.

13. **Statutory settlement**

This Agreement is made in compliance with the Acts which have been satisfied both generally and in the following particulars:

- (a) the Executive confirms that he has received independent legal advice on the terms and effect of this Agreement, and in particular its effect on his ability to pursue his rights before an Employment Tribunal or court;
 - (b) the said legal advice has been given to the Executive by Jane Fielding whose address is Gowling WLG(UK) LLP, Two Snow Hill, Birmingham B4 6WR (the Adviser); and
 - (c) the Adviser has confirmed to the Executive that she is a qualified solicitor holding a current practising certificate and in respect of whom there is in force a policy of professional indemnity insurance covering the risk of a claim against her and the said firm in respect of loss arising in consequence of the said
-

advice and by signing the Certificate attached to this Agreement also confirms that she complies with the Acts.

14. **SERVICE AGREEMENT**

1. The Executive confirms that all clauses in his terms and conditions of employment with the Company that are described as applying after the termination of his employment including the restrictions set out in Clauses 15, 16 and 19, will continue to apply to him.

15. **counterparts**

This Agreement may be executed in any number of counterparts, including facsimiles, each of which is an original and all of which together evidence the same agreement.

16. **Governing Law and Jurisdiction**

1. This Agreement is governed and to be construed in accordance with English law and any dispute is subject to the exclusive jurisdiction of the English courts.

2. Any Group Company may enjoy the benefit of and enforce the terms of this Agreement in accordance with the provisions of the Contracts (Rights of Third Parties) Act 1999.

The “without prejudice” and “subject to contract” nature of this document shall cease to apply once executed by the parties.

Damien McDonald
LivaNova plc
20 Eastbourne Terrace
London, England
W2 6LG

[Date]

Dear Damien:

LivaNova plc (the “Company”) I hereby resign with effect from 31 May 2017 as an employee and from all other offices which I hold in any Group Company.

Yours faithfully

Vivid Sehgal

I Jane Fielding of Gowling WLG (UK) LLP whose address is Two Snow Hill, Birmingham B4 6WR confirm that I gave independent legal advice to Vivid Sehgal as to the terms and effect of the Agreement to which this certificate is attached (including the effect of Clauses 7, 8 and 9 in particular its effect on his ability to pursue his rights before a Court or Employment Tribunal.

I confirm that I am a solicitor of the Senior Courts holding a current practising certificate and that the statutory requirements relating to settlement agreements and compromise agreements set out in the Acts (as defined in the Agreement) have been met. Further, that there was in force at the time I gave the advice referred to above a policy of insurance covering the risk of a claim by Vivid Sehgal in respect of any loss arising in consequence of that advice.

Signed:

Dated:

IN WITNESS of which this Agreement has been executed and delivered as a deed on the first date written above.

EXECUTED as a Deed
by **LIVANOVA PLC**
acting by Damien McDonald,
Chief Executive Officer

Damien McDonald

in the presence of:

Witness's

Signature: _____

Full Name: _____

Address: _____

EXECUTED as a Deed
By **VIVID SEHGAL**

in the presence of:

Witness's

Signature: _____

Full Name: _____

Address: _____

LIST OF SUBSIDIARIES
LivaNova PLC and Subsidiaries
As of March 31, 2017

<u>Company</u>	<u>Jurisdiction of Formation</u>
LivaNova Plc	United Kingdom
LivaNova Plc (Italian Branch)	Italy
Sorin Group Italia S.r.l. (IT)	Italy
LivaNova Singapore Pte Ltd (SG)	Singapore
LivaNova Scandinavia AB (SE)	Scandinavia
LivaNova Finland OY (FI)	Finland
Sorin Group Deutschland GmbH (DE)	Germany
LivaNova Norway AS (NO)	Norway
MD START I KG (DE)	Germany
LivaNova Holding S.r.l. (IT)	Italy
Alcard Indústria Mecânica Ltda (Brazil)	Brazil
Reced Indústria Mecânica Ltda (Brazil)	Brazil
Sorin Medical (Shanghai) Co. Ltd	China
Sorin Group Czech Republic (Cz)	Czech Republic
Sorin Medical Devices (Suzhou) Co. Ltd	China
LivaNova Colombia Sas	Colombia
Sorin Group Rus LLC	Russia
Sorin CRM SAS (FR)	France
LivaNova Portugal, Lda (PT)	Portugal
Sorin Group France SAS (FR)	France
LivaNova Holding SAS (FR)	France
Sorin Group DR, SRL (Rep. Dominicana)	Dominican Republic
LivaNova Nederland N.V. (NL)	Netherlands
LivaNova Espana, S.L. (ES)	Spain
LivaNova Belgium SA (BE)	Belgium
LivaNova Japan K.K. (JP)	Japan
LivaNova UK Limited (GB)	United Kingdom
LivaNova Australia PTY Limited (AU)	Australia
LivaNova Austria GmbH (A)	Austria
LivaNova Poland Sp. Z o.o.	Poland
LivaNova India Private Limited (India)	India
Cyberonics France SARL (F)	France
Livn US 1, LLC (USA)	USA
Livn UK Holdco Limited (UK)	United Kingdom
Livn UK Limited 2 Co (UK)	United Kingdom
Livn Luxco 2 sarl (LU)	Luxembourg
Livn Irishco 2 UC (IRL)	Ireland
Sorin Group USA Inc. (US)	USA

Sorin CRM USA Inc. (US)	USA
California Medical Laboratories (CalMed) Inc. (US)	USA
Livn US Holdco, Inc. (USA)	USA
Livn UK Limited 3 Co. (UK)	United Kingdom
Livn US 3 Llc (USA)	USA
Livn US Lp (USA)	USA
Cyberonics Inc.	USA
Cyberonics Holdings LLC (USA)	USA
Cyberonics Netherlands CV (NL)	Netherlands
Cyberonics Spain SL (ES)	Spain
Cyberonics Latam SRL (Costa Rica)	Costa Rica
LivaNova Site Management S.r.l. (IT)	Italy
LivaNova Switzerland SA (CH)	Switzerland
Sobedia Energia (IT)	Italy
LivaNova Canada Corp. (CA)	Canada
Livn Luxco Sarl (LU)	Luxembourg
Livn Irishco Unlimited Company (IRL)	Ireland
Livn Irishco 3 Unlimited Company (IRL)	Ireland
LivaNova IP Limited (UK)	United Kingdom

CERTIFICATION

I, Damien McDonald, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2017, filed by LivaNova PLC and its consolidated subsidiaries;

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;

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: May 3, 2017

/s/ DAMIEN MCDONALD

Damien McDonald

Chief Executive Officer

(Principal Executive Officer)

CERTIFICATION

I, Vivid Sehgal, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2017, filed by LivaNova PLC and its consolidated subsidiaries;

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;

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: May 3, 2017

/s/ VIVID SEHGAL

Vivid Sehgal

Chief Financial Officer

(Principal Financial Officer)

**CERTIFICATION OF THE
CHIEF EXECUTIVE OFFICER AND
CHIEF FINANCIAL OFFICER
OF LIVANOVA PLC
PURSUANT TO 18 U.S.C. SECTION 1350**

Each of Damien McDonald, Chief Executive Officer of LivaNova PLC (the “Company”), and Vivid Sehgal, Chief Financial Officer of the Company, each hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of his knowledge:

(a) the Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 for LivaNova PLC and its consolidated subsidiaries, as filed with the Securities and Exchange Commission on the date hereof (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 3, 2017

/s/ DAMIEN MCDONALD

Damien McDonald
Chief Executive Officer
(Principal Executive Officer)

/s/ VIVID SEHGAL

Vivid Sehgal
Chief Financial Officer
(Principal Financial Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as a part of this report or on a separate disclosure document.

