This document comprises a prospectus (the "**Prospectus**") relating to the ordinary shares of £1.00 each in the capital of LivaNova PLC ("**LivaNova**" and the "**LivaNova Shares**") and has been prepared in accordance with the Prospectus Rules (the "**Prospectus Rules**") of the Financial Conduct Authority (the "**FCA**") made under section 73A of the Financial Services and Markets Act 2000 (as amended) (the "**FSMA**"). This Prospectus has been approved by the FCA in accordance with section 87A of the FSMA and has been made available to the public as required by Rule 3.2.1 of the Prospectus Rules. This Prospectus has been prepared in order to provide details of the LivaNova Shares to be admitted to the Official List ("**Official List**") maintained by the FCA and to listing on the Main Market for listed securities of the London Stock Exchange plc ("**LSE**").

LivaNova, the Current Directors, and the Proposed Directors (whose names appear on page 51 of this Prospectus) accept responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of LivaNova, the Current Directors and the Proposed Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and contains no omission likely to affect the import of such information.

No LivaNova Shares or any other securities in LivaNova have been marketed to, nor are any such LivaNova Shares or other securities available for purchase, in whole or in part, by, the public in the United Kingdom or elsewhere in connection with the admission of the LivaNova Shares to the Official List and the Main Market of the LSE. This document does not constitute or form part of any invitation to purchase, subscribe for, sell or issue, or any solicitation of any offer to purchase, subscribe for, sell, or issue LivaNova Shares.

YOU SHOULD READ THE WHOLE OF THIS PROSPECTUS AND ALL DOCUMENTS INCORPORATED INTO IT BY REFERENCE IN THEIR ENTIRETY. IN PARTICULAR, YOU SHOULD TAKE ACCOUNT OF THE SECTION ENTITLED "RISK FACTORS" OF THIS PROSPECTUS FOR A DISCUSSION OF THE RISKS THAT MIGHT AFFECT THE VALUE OF A SHAREHOLDING IN LIVANOVA. YOU SHOULD NOT RELY SOLELY ON INFORMATION SUMMARISED IN THE SUMMARY.

LIVANOVA PLC

a public limited company incorporated and registered in England and Wales under number 09451374

Application for admission of up to 48,822,316 ordinary shares to the standard listing segment of the Official List and to trading on the Main Market of the London Stock Exchange

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Investors should only rely on the information contained in this Prospectus and contained in any documents incorporated into this Prospectus by reference. No person has been authorised to give any information or make any representations other than those contained in this Prospectus and any document incorporated by reference and, if given or made, such information or presentation must not be relied upon as having been so authorised by LivaNova, the Current Directors or the Proposed Directors. LivaNova will comply with its obligation to publish supplementary prospectuses containing further updated information required by law or by any regulatory authority but assumes no further obligation to publish additional information. Without prejudice to any legal or regulatory obligation on LivaNova to publish a supplementary prospectus under section 87G of the FSMA and the Prospectus Rules, neither the delivery of this document nor Admission shall, under any circumstances, create any implication that there has been no change in the business or affairs of the Sorin, Cyberonics and/or Combined Group since the date of this Prospectus or that the information in it is correct as of any time after the date of this Prospectus.

Applications have been made to the FCA for the LivaNova Shares, in issue and to be issued pursuant to the Mergers, to be admitted to the standard listing segment of the Official List of the FCA and to the LSE for the LivaNova Shares to be admitted to trading on its Main Market for listed securities (together "**Admission**"). It is expected that Admission will become effective, and that dealings in the LivaNova Shares will commence at 14:30 on the Closing Date which, subject to the satisfaction of certain conditions, is expected to be on 19 October 2015. An application has been made or is currently intended to be made for the LivaNova Shares to be admitted to listing or dealt with on NASDAQ with effect from the Closing Date.

Persons who come into possession of this Prospectus should inform themselves about and observe any applicable restrictions and legal, exchange control or regulatory requirements in relation to the distribution of this document and the Mergers. Any failure to comply with such restrictions or requirements may constitute a violation of the securities laws of any such jurisdiction. The contents of this Prospectus should not be construed as legal, business or tax advice.

Notice to overseas shareholders

The release, publication or distribution of this Prospectus in certain jurisdictions may be restricted by law. Persons who are not resident in the United Kingdom or who are subject to the laws of other jurisdictions should inform themselves of, and should observe, any applicable requirements. Any failure to comply with these requirements may constitute a violation of the securities laws of any such jurisdiction. To the fullest extent permitted by applicable law, the companies and persons involved in the Mergers disclaim any responsibility or liability for the violation of such requirements by any person.

The availability of the LivaNova Shares to holders of Sorin Shares and shares in Cyberonics Common Stock who are not resident in the United Kingdom may be affected by the laws of the relevant jurisdictions in which they are located. Persons who are not resident in the United Kingdom should inform themselves of, and observe, any applicable requirements.

TABLE OF CONTENTS

SUMMARY

Summaries are made up of disclosure requirements known as "Elements". The Elements are numbered in Sections A - E (A.1 - E.7).

This summary contains all the Elements required to be included in a summary for this type of security and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements.

Even though an Element may be required to be inserted in the summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the Element. In this case, a short description of the Element is included in the summary with the mention of the words "not applicable".

Section A - Introduction and warnings		
A.1	**Introduction**	This summary should be read as an introduction to this Prospectus. Any decision to invest in the LivaNova Shares should be based on consideration of this Prospectus as a whole. Where a claim relating to the information contained in this Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the relevant member state of the EEA, have to bear the costs of translating this Prospectus before the legal proceedings are initiated. Civil liability attaches only to those persons who are responsible for the summary, including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the document or if it does not provide, when read together with the other parts of this Prospectus, key information in order to aid investors when considering whether to invest in the LivaNova Shares.
A.2	**Consent for intermediaries**	Not applicable. LivaNova is not engaging any financial intermediaries for any resale of securities or final placement of securities after the publication of this document.

Section B - Issuer		
B.1	**Legal and commercial name**	The Company's legal name is LivaNova PLC.
B.2	**Domicile and legal form, applicable legislation and country of incorporation**	LivaNova is incorporated in England and Wales as a public company limited by shares. Its registered number is 09451374. The principal legislation under which LivaNova operates is the Companies Act 2006, and regulations made thereunder.
B.3	**Current operations/ principal activities and markets**	The Combined Group is expected to be a global leader in the large and growing markets for cardiac surgery and neuromodulation and a leading innovator in cardiac rhythm dysfunctions with a diversified product portfolio that can leverage product technologies with complementary marketing capabilities. Sorin is a multinational corporation and global leader in the field of medical devices for the treatment of cardiovascular diseases. Sorin develops, produces and distributes medical devices for cardiac surgery and the treatment of cardiac rhythm dysfunctions. Through steady growth and expansion, Sorin has become a market leader in medical technologies for treating cardiovascular disease, and has become the global leader in the cardiopulmonary market.

Section B - Issuer		
		Cyberonics is a medical device company, incorporated in 1987, engaged in the design, development, sale and marketing of an implantable medical device, the VNS Therapy® System, that delivers a unique therapy, vagus nerve stimulation therapy, using pulsed electrical signals applied to the vagus nerve for the treatment of refractory epilepsy and treatment-resistant depression. Cyberonics has also obtained CE Mark approval to sell its VNS Therapy System in the EEA for the treatment of chronic heart failure, or CHF. The device remains investigational, therefore Cyberonics has permission to provide the device prior to receiving marketing approval, for CHF elsewhere in the world, including in the U.S.
B.4a	**Significant recent trends affecting the Combined Group and its industry**	**Sorin** Sorin announced its results for the six months ended 30 June 2015 on 30 July 2015. Sorin's revenues for the six month period were €405.0 million, an increase of 3.0 per cent. at comparable foreign exchange rates and 10.4 per cent. as reported, in each case, compared with the same period in 2014. This revenue growth was in part attributable to the growth in the Cardiac Surgery unit, which saw revenues total €272.9 million, up by 12.7 per cent. (3.1 per cent. at constant exchange rates) compared with the same period in 2014, primarily resulting from the higher than expected growth in the HLM product segment, particularly in China, Europe and emerging markets, as well as strong sales of oxygenators following the launch of INSPIRE™ in the U.S. and Japan. The CRM unit reported revenues of €130.8 million for the six months ended 30 June 2015, which represented a 6.0 per cent. growth (2.7 per cent. at constant exchange rates) against the corresponding period in 2014. Growth in the CRM unit was boosted by strong sales to its Japanese distribution partner following the launch of the KORA 100 pacemaker, which received approval from the Japanese Pharmaceuticals and Medical Devices Agency in February 2015. Adjusted net profit (net profit before after-tax non-recurring income and expenses (special items)) was €24.2 million, up 8.1 per cent. compared to €22.4 million in the first half of 2014, including a €3.5 million negative impact from Sorin's New Ventures unit and also reflecting a €5.2 million unfavourable foreign exchange effect. The medical device industry is showing a positive trend in terms of volumes, due to the increase of procedures in emerging markets, especially in cardiac surgery, and to the aging of the population worldwide. However the industry is nonetheless also facing challenges such as the combination of pricing reductions, mainly in cardiac rhythm management, and an increased cost required to launch new products, which is putting operating margins under pressure. Overall, there is still a large set of unmet clinical needs that should create opportunities for Sorin's innovative product portfolio. **Cyberonics** As announced in the Cyberonics Q1 2016 results, Cyberonics delivered record worldwide net sales in the last fiscal quarter ended 24 July 2015 of US$81 million. In particular, Cyberonics' net sales in the U.S. reached a new record of US$67.7 million, which was an increase of 15 per cent. against the corresponding period in Cyberonics' fiscal year 2015. This increase was primarily driven by the strong demand for the AspireSR generator following receipt of the U.S. FDA's approval for the device in the U.S. market in

<table>
<tr><th colspan="3">Section B - Issuer</th></tr>
<tr><td></td><td></td><td>June 2015. The AspireSR generator accounted for 38 per cent. of all units sold in the United States, and 27 per cent. of all international unit sales, in the fiscal quarter ended 24 July 2015.

The healthcare industry is characterised by extensive research efforts and rapid technological progress. Cyberonics believes that existing and future drug therapies are the primary competition for the VNS Therapy System in the near term for epilepsy and depression, and existing device therapies are the primary competition in heart failure. There have been no material changes to the trends facing the medical device industry since the date of Cyberonics' announcement of the Cyberonics Q1 2016 results.</td></tr>
<tr><td>B.5</td><td>Description of the Combined Group</td><td>If the Mergers become effective, the Company will become the ultimate holding company of the Combined Group.</td></tr>
<tr><td>B.6</td><td>Major shareholders</td><td>As at 9 October 2015 (being the latest practicable date prior to publication of this Prospectus), insofar as is known to LivaNova, the following persons are interested directly and indirectly in Sorin Shares or shares in Cyberonics Common Stock in such proportion that they would be interested directly or indirectly in 3 per cent. or more of the voting rights in respect of the issued ordinary share capital of LivaNova immediately following completion of the Mergers:

<table>
<tr><th>Name+</th><th>Number of LivaNova Shares*</th><th>Percentage of issued LivaNova Shares*</th></tr>
<tr><td>Bios S.p.A.** . . . . . .</td><td>4,262,286</td><td>8.7%</td></tr>
<tr><td>Paulson & Co., Inc . . . . . .</td><td>2,880,807</td><td>5.9%</td></tr>
<tr><td>BlackRock Fund Advisor . . . . . .</td><td>2,221,538</td><td>4.6%</td></tr>
<tr><td>Renaissance Technologies LLC . . . . . .</td><td>2,203,094</td><td>4.5%</td></tr>
<tr><td>The Vanguard Group, Inc. . . . . .</td><td>2,100,457</td><td>4.3%</td></tr>
<tr><td>Tower 6 S.A.R.L.** . . . . . .</td><td>1,486,084</td><td>3.0%</td></tr>
</table>
* Immediately following completion of the Mergers.
** Mittel, S.P.A and Equinox Two S.C.A are the 50:50 beneficial shareholders of the shares in special purpose vehicles, Bios S.p.A and Tower 6 S.A.R.L.. Mittel S.p.A. and Equinox Two S.C.A are, at the date of this Prospectus, party to a shareholders' agreement, which will terminate 15 days after the Closing Date, upon which Bios S.p.A and Tower 6 S.A.R.L. will be dissolved, and the LivaNova Shares held by both companies will be transferred directly to Mittel S.p.A and Equinox Two S.C.A, respectively, in the same proportions as their respective interests in Bios S.p.A and Tower 6 S.A.R.L..
+ The above disclosure is as at 30 June 2015, the latest practicable date in respect of Cyberonics, and as at 9 October 2015, the latest practicable date in respect of Sorin.

None of the LivaNova Shareholders will have different voting rights attached to the shares they hold in LivaNova.

As at 9 October 2015 (being the latest practicable date prior to publication of this Prospectus), LivaNova was not aware of any person or persons who directly or indirectly, jointly or severally, exercise or could exercise control over Sorin or Cyberonics or would exercise control over LivaNova following completion of the Mergers.</td></tr>
</table>

Section B - Issuer		
B.7	**Selected historical key financial information**	**Financial information on Sorin** Sorin's consolidated selected financial information set out below has been extracted from Sorin's annual reports for the years ended 31 December 2014 and 31 December 2013 and from the consolidated unaudited interim financial statements for the six months ended 30 June 2015 that Sorin has previously filed with CONSOB in Italy, as the competent authority of Sorin's home member state, in accordance with the requirements of that competent authority, which are incorporated by reference herein. The comparative figures for the year ended 31 December 2012 have been restated. Accordingly, the financial information for the year ended 31 December 2012 shown below has been extracted without adjustment from the consolidated unaudited restated comparatives for the year ended 31 December 2012 included in the audited consolidated financial statements for the year ended 31 December 2013. The financial information relating to Sorin contained in this Prospectus has been prepared in accordance with IFRS. **Summarised consolidated income statement for the three years ended 31 December 2014, 2013 and 2012**

	Year ended 31 December		
(in millions of Euro, except per share data)	**2014**	**2013**	**2012 (restated)**
	€	**€**	**€**
Net revenues	**746.9**	**738.5**	**731.1**
Other revenues and income	27.9	14.3	25.1
Change in inventory of work in process, semifinished goods and finished goods	10.8	(2.3)	0.2
Increase in Company-produced additions to non-current assets	42.3	36.1	28.4
Cost of raw materials and other materials	(215.5)	(197.6)	(183.0)
Cost of services used	(189.5)	(182.6)	(189.9)
Personnel expense	(286.9)	(273.5)	(280.6)
Miscellaneous operating costs	(13.0)	(5.3)	(34.6)
Depreciation, amortisation and writedowns	(46.9)	(49.4)	(50.7)
Additions to provisions for risks and charges	(0.8)	(2.4)	(1.2)
Restructuring charges and provisions	(1.5)	(7.2)	(7.9)
Operating profit	**73.7**	**68.6**	**36.9**
Financial expense	(9.1)	(9.6)	(9.9)
Financial income	1.3	1.3	2.1
Currency translation differences	—	1.5	(5.0)
Share of loss of investments in associates accounted for using the equity method	(4.9)	(3.5)	(1.5)
Profit (Loss) before taxes	**61.0**	**58.2**	**22.6**
Income taxes	(9.0)	(9.4)	(2.3)
Net profit (loss)	**52.0**	**48.9**	**20.3**
Earnings per share (in euros)			
- basic as per reported net profit	0.109	0.102	0.04
- diluted, as per reported net profit	0.108	0.102	0.04

Section B - Issuer		

Summarised consolidated balance sheet for 31 December 2014, 2013 and 2012

(in millions of Euro)	31 December 2014	2013	2012 (restated)
	€	€	€
ASSETS			
Non-current assets			
Property, plant and equipment	134.2	108.1	98.0
Intangible assets	225.3	191.2	187.3
Goodwill	195.8	194.3	193.1
Investments in associates accounted for using the equity method	48.8	22.1	17.7
Non-current financial assets	3.7	3.7	1.0
Deferred-tax assets	55.4	41.2	38.0
Other non-current assets	1.2	1.2	0.9
Total non-current assets	**664.5**	**561.8**	**536.0**
Current assets			
Inventories	146.1	127.8	135.1
Trade receivables	175.0	165.1	160.8
Other receivables	37.7	20.5	22.9
Assets from financial derivatives	1.2	10.1	7.4
Other current financial assets	7.1	1.9	2.2
Tax credits	26.6	30.5	22.4
Cash and cash equivalents	21.1	51.8	26.7
Total current assets	**414.8**	**407.7**	**377.5**
Total assets	**1,079.2**	**969.5**	**913.5**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Consolidated shareholders' equity	**639.8**	**582.4**	**540.0**
Non-current liabilities			
Liabilities from financial derivatives	2.2	0.6	4.9
Non-current financial liabilities	114.1	20.7	101.7
Other liabilities	3.5	2.5	0.9
Provisions	0.4	0.4	0.2
Provision for employee severance indemnities and other provisions for employee benefits	29.7	26.4	27.5
Government grants	2.2	2.4	2.1
Deferred-tax liabilities	33.9	27.7	30.7
Total non-current liabilities	**186.0**	**80.6**	**168.0**
Current liabilities			
Trade payables	109.3	95.3	87.7
Other payables	82.3	73.2	78.6
Liabilities from financial derivatives	1.3	1.6	—
Other current financial liabilities	36.3	109.8	17.5
Provisions	6.1	8.0	7.3
Government grants	—	1.6	—
Taxes payable	18.1	17.0	14.4
Total current liabilities	**253.4**	**306.5**	**205.5**
Total liabilities and shareholders' equity	**1,079.2**	**969.5**	**913.5**

Section B - Issuer

Summarised consolidated cash flow statement for the three years ended 31 December 2014, 2013 and 2012

(in millions of Euro)	Year ended 31 December 2014	2013	2012 (restated)
	€	€	€
Cash flow from operating activities			
Net profit (loss) for the year	52.0	48.9	20.3
Adjustments to reconcile the profit (loss) for the year to the net cash flow from operating activities:			
Depreciation and amortisation	46.2	43.3	42.0
Writedowns of property, plant and equipment	0.1	—	0.2
Writedowns of intangibles	—	2.2	7.5
(Gains) Losses on disposal of property, plant and equipment	0.3	0.5	0.9
Share of loss of investments in associates accounted for using the equity method	4.9	3.5	1.5
Non-cash stock option and stock grant costs	1.4	4.0	4.5
Amortised costs of medium - and long-term borrowings	0.1	—	—
Non-cash hedging (income) costs	(2.9)	(0.1)	1.3
Change in inventories and in receivables and payables generated by operating activities	(21.6)	(7.8)	4.9
Change in provisions for risks, provision for employee severance indemnities and other provisions for employee benefits	(2.6)	—	(3.6)
Other changes	—	—	—
Net cash from (used in) operating activities	**77.8**	**94.5**	**79.5**
Cash flow from investing activities			
Investments in property, plant and equipment	(44.3)	(33.2)	(22.7)
Investments in intangibles	(38.0)	(30.5)	(29.9)
Investments in associates	(23.8)	(8.5)	(13.1)
Acquisition of CalMed, net of acquired liquid assets	—	—	(10.5)
Acquisition of the bradycardia leads business of Oscor, net of cash acquired	(11.9)	—	—
Acquisition of Neurotech S.A, net of acquired assets	—	—	(6.1)
Acquisition of BEL cardiovascular cannulae activities	(2.3)	—	—
Acquisition of the Alcard Industria Mecanica Ltda, subsidiary, net of acquired liquid assets	—	(3.1)	—
Proceeds from the sale of property, plant and equipment	0.3	0.2	0.5
Proceeds from the sale of intangible assets	0.0	0.1	0.1
Net cash from (used in) investing activities	**(119.9)**	**(75.0)**	**(81.7)**
Cash flow from financing activities			
Purchase of treasury shares	(5.3)	(1.1)	(1.3)
Proceeds from new medium - and long-term borrowings	99.9	14.3	3.0
Repayments of medium - and long-term borrowings	(94.5)	(0.5)	(0.3)
Change in indebtedness under finance leases	—	—	—
Net change in financial receivables/payables	11.0	(6.1)	(14.4)
Net cash from (used in financing activities	**11.1**	**6.6**	**(13.0)**

Section B - Issuer

(in millions of Euro)	Year ended 31 December 2014	2013	2012 (restated)
	€	€	€
Increase (Decrease) in cash and cash equivalents	(31.0)	26.1	(15.2)
Change in cash and cash equivalents attributable to currency translation differences	0.2	(1.0)	—
Cash and cash equivalents at the beginning of the year	**51.8**	**26.7**	**41.9**
Cash and cash equivalents at the end of the year	**21.1**	**51.8**	**26.7**
Additional disclosures:			
Income taxes paid	16.5	15.6	17.4
Interest expense paid	2.6	2.3	1.8
Interest income earned	0.6	0.6	1.9

Summary consolidated income statement for the six months ended 30 June 2015 and 2014

(in millions of Euro, except per share data)	Six months ended 30 June 2015	2014
	(Unaudited)	
	€	€
Net revenues	**405.0**	**366.9**
Other revenues and income	9.6	6.3
Change in inventory of work in process, semifinished goods and finished goods	(4.1)	11.8
Increase in Company-produced additions to non-current assets	19.3	21.0
Cost of raw materials and other materials	(111.9)	(107.6)
Cost of services used	(95.0)	(94.7)
Personnel expense	(158.8)	(145.4)
Miscellaneous operating costs	(31.1)	(5.2)
Depreciation, amortisation and writedowns	(26.5)	(22.5)
Additions to provisions for risks and charges	(0.5)	(0.5)
Restructuring charges and provisions	(3.0)	(0.1)
Operating profit	**3.0**	**30.1**
Financial expense	(2.8)	(4.7)
Financial income	0.6	0.7
Currency translation differences	(3.1)	0.4
Share of loss of investments in associates accounted for using the equity method	(3.9)	(1.3)
Profit (Loss) before taxes	**(6.2)**	**25.2**
Income taxes	6.8	(5.3)
Net profit (loss)	**0.6**	**19.9**
Earnings per share (in euros)		
- basic as per reported net profit	0.00	0.04
- diluted, as per reported net profit	0.00	0.04

Section B - Issuer

Summary consolidated balance sheet for 30 June 2015 and 31 December 2014

(in millions of Euro)	At 30 June 2015 (Unaudited)	At 31 December 2014
	€	€
ASSETS		
Non-current assets		
Property, plant and equipment	136.7	134.2
Intangible assets	234.6	225.3
Goodwill	196.8	195.8
Investments in associates accounted for using the equity method	55.9	48.8
Non-current financial assets	3.7	3.7
Deferred-tax assets	71.1	55.4
Other non-current assets	1.1	1.2
Total non-current assets	**699.9**	**664.5**
Current assets		
Inventories	148.1	146.1
Trade receivables	202.9	175.0
Other receivables	17.1	37.7
Assets from financial derivatives	0.5	1.2
Other current financial assets	7.8	7.1
Tax credits	18.9	26.6
Cash and cash equivalents	15.1	21.1
Total current assets	**410.4**	**414.8**
Total assets	**1,110.3**	**1,079.2**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Consolidated shareholders' equity	**654.7**	**639.8**
Non-current liabilities		
Liabilities from financial derivatives	2.6	2.2
Non-current financial liabilities	114.1	114.1
Other liabilities	2.6	3.5
Provisions	0.3	0.4
Provision for employee severance indemnities and other provisions for employee benefits	29.1	29.7
Government grants	2.3	2.2
Deferred-tax liabilities	36.6	33.9
Total non-current liabilities	**187.6**	**186.0**
Current liabilities		
Trade payables	111.5	109.3
Other payables	75.8	82.3
Liabilities from financial derivatives	1.4	1.3
Other current financial liabilities	58.9	36.3
Provisions	6.9	6.1
Taxes payable	13.5	18.1
Total current liabilities	**268.0**	**253.4**
Total liabilities and shareholders' equity	**1,110.3**	**1,079.2**

Section B - Issuer

Summarised consolidated cash flow statement for the six months ended 30 June 2015 and 2014

(in millions of Euro)	Six months ended 30 June 2015 (Unaudited) €	Six months ended 30 June 2014 (Unaudited) €
Cash flow from operating activities		
Net profit (loss) for the year	0.6	19.9
Adjustments to reconcile the profit (loss) for the year to the net cash flow from operating activities:		
Depreciation and amortisation	25.2	22.3
Writedowns of property, plant and equipment	0.2	—
Writedowns of intangibles	—	—
(Gains) Losses on disposal of property, plant and equipment	—	0.1
(Gains) Losses on disposal of intangible assets	—	—
Share of loss of investments in associates accounted for using the equity method	3.9	1.3
Non-cash stock option and stock grant costs	1.7	1.2
Amortised costs of medium - and long-term borrowings	—	—
Non-cash hedging (income) costs	—	(0.1)
Change in inventories and in receivables and payables generated by operating activities	(21.6)	(22.3)
Change in provisions for risks, provision for employee severance indemnities and other provisions for employee benefits	(0.2)	(1.5)
Other changes	—	—
Net cash from (used in) operating activities	**9.8**	**20.9**
Cash flow from investing activities		
Investments in property, plant and equipment	(12.3)	(20.4)
Investments in intangibles	(18.7)	(16.4)
Investments in associates	(9.5)	(5.3)
Acquisition of BEL cardiovascular cannula activities	—	(2.3)
Acquisition of Oscor electro-catheter activities	—	(8.1)
Proceeds from the sale of property, plant and equipment	0.2	0.2
Proceeds from the sale of intangible assets	0.00	0.1
Net cash from (used in) investing activities	**(40.3)**	**(52.2)**
Cash flow from financing activities		
Purchase of treasury shares	(0.1)	(0.2)
Proceeds from new medium - and long-term borrowings	9.4	22.0
Repayments of medium - and long-term borrowings	(0.6)	(94.2)
Change in indebtedness under finance leases	—	—
Net change in financial receivables/payables	15.5	70.8
Net cash from (used in) financing activities	**24.2**	**(1.6)**
Increase (Decrease) in cash and cash equivalents	(6.3)	(32.9)
Change in cash and cash equivalents attributable to currency translation differences	0.4	0.1
Cash and cash equivalents at the beginning of the year	**21.0**	**51.8**
Cash and cash equivalents at the end of the year	**15.1**	**19.0**
Additional disclosures:		
Income taxes paid	11.4	9.8
Interest expense paid	0.5	0.9
Interest income earned	0.4	0.3

Section B - Issuer		
		The following significant changes to the financial condition and operating results of Sorin occurred during these periods. Sorin's net revenues increased from €731.1 million (restated) in the year ended 31 December 2012 to €746.9 million in the year ended 31 December 2014. Net profit increased from €20.3 million (restated) in the year ended 31 December 2012 to €52.0 million in the year ended 31 December 2014. The growth in revenue was principally due to the growth of Sorin's cardiopulmonary product lines and the continued growth of the CRM business. Sorin's total assets increased from €913.5 million (restated) as at 31 December 2012 to €1,079.2 million as at 31 December 2014, principally as a result of the increase in property, plant and equipment in connection with the modernisation and expansion of production capacity, as well as the acquisition and investments of other companies during this time, including BEL and Oscor. Sorin's net revenues increased from €366.9 million in the six months ended 30 June 2014 to €405.0 million in the six months ended 30 June 2015. This increase was, among other things, due to the performance of Sorin's cardiopulmonary product lines. Net profit decreased from €19.9 million in the six months ended 30 June 2014 to €0.6 million in the six months ended 30 June 2015 primarily as a result of certain Mergers-related costs amounting to €22.7 million. Save as set out below, there has been no significant change in the financial condition or operating results of Sorin since 30 June 2015, being the date to which Sorin's latest unaudited interim results were published. Sorin's loss before tax (based on unaudited management accounts) for the two months ended 31 August 2015 was a loss of €14.4 million, compared to a loss of €4.6 million in the two months ended 31 August 2014. This increase in loss before tax was principally due to the incurrence of expenses of €5.1 million relating to the Mergers, a negative €1.0 million effect of foreign exchange rates and weaker than expected operating performance in Sorin's CRM segment. **Financial information on Cyberonics** Cyberonics' consolidated selected financial information set out below has been extracted from Cyberonics' consolidated audited financial statements for the 52 weeks ended 24 April 2015, 25 April 2014 and 26 April 2013, and the consolidated unaudited quarterly financial statements for the period beginning on 25 April 2015 and ending 24 July 2015, which are included herein without material change beginning on page 246 of this Prospectus. The financial information relating to Cyberonics contained in this Prospectus has been prepared in accordance with U.S. GAAP.

Section B - Issuer

Summarised consolidated income statement for the fiscal years ended 24 April 2015, 25 April 2014 and 26 April 2013

	52 weeks ended 24 April 2015	52 weeks ended 25 April 2014	52 weeks ended 26 April 2013
	US$	US$	US$
Net sales	**291,557,998**	**282,014,160**	**254,320,417**
Cost of sales	27,310,869	27,354,891	21,907,264
Gross profit	264,247,129	254,659,269	232,413,153
Operating expenses:			
SG&A	123,618,907	120,641,897	112,515,262
Research and development	43,284,432	46,562,775	41,551,444
Merger related expenses	8,692,072	—	—
Litigation settlement	—	7,442,847	—
Total operating expenses	**175,595,411**	**174,647,519**	**154,066,706**
Income from operations	88,651,718	80,011,750	78,346,447
Interest income, net	162,888	162,218	(35,016)
Impairment of investment	—	—	(4,058,768)
Gain on warrants' liability	—	—	1,325,574
Other income (expense), net	479,471	(295,272)	(303,612)
Income before income taxes	89,294,077	79,878,696	75,274,625
Income tax expense	31,446,543	24,988,439	28,917,123
Net income	**57,847,534**	**54,890,257**	**46,357,502**
Basic income per share	2.19	2.02	1.68
Diluted income per share	2.17	2.00	1.66
Shares used in computing basic income per share	26,391,064	27,142,597	27,604,006
Shares used in computing diluted income per share	26,625,721	27,466,474	28,008,960

Summarised consolidated balance sheet for 24 April 2015, 25 April 2014 and 26 April 2013

	24 April 2015	25 April 2014	26 April 2013
	US$	US$	US$
ASSETS			
Current assets:			
Cash and cash equivalents	124,187,094	103,299,116	120,708,572
Short-term investments	27,019,597	25,028,957	15,000,000
Accounts receivable, net	50,569,375	50,674,041	39,450,113
Inventories	23,963,303	17,630,111	17,718,454
Deferred tax assets current, net	7,198,726	17,208,365	10,297,991
Other current assets	7,782,875	6,590,612	4,183,213
Total current assets	**240,720,970**	**220,431,202**	**207,358,343**
Property, plant and equipment, net	40,286,676	39,534,873	28,555,742
Intangible assets, net	10,168,239	11,654,690	9,219,999
Investments in equity securities	17,126,927	15,944,427	10,588,202
Deferred tax assets non-current, net	6,077,854	5,770,644	7,825,286
Other assets	1,563,529	855,558	495,738
Total assets	**315,944,195**	**294,191,394**	**264,043,310**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	7,251,213	7,569,784	8,025,512
Accrued liabilities	24,197,963	22,327,913	20,999,966
Total current liabilities	31,449,176	29,897,697	29,025,478
Long-term liabilities	7,921,288	5,193,853	5,449,604
Total liabilities	**39,370,464**	**35,091,550**	**34,475,082**
Total stockholders' equity	276,573,731	259,099,844	229,568,228
Total liabilities and stockholders' equity	**315,944,195**	**294,191,394**	**264,043,310**

Section B - Issuer

Summarised consolidated cash flow statement for the fiscal years ended 24 April 2015, 25 April 2014 and 26 April 2013

	52 weeks ended 24 April 2015	52 weeks ended 25 April 2014	52 weeks ended 26 April 2013
	US$	US$	US$
Cash Flows From Operating Activities:			
Net income	57,847,534	54,890,257	46,357,502
Non-cash items included in net income:			
Depreciation	5,768,119	4,288,184	3,770,756
Amortisation of intangible assets	1,486,450	1,314,309	867,613
Stock-based compensation	11,939,894	11,239,987	11,683,249
Deferred income tax expense (benefit)	9,399,511	(5,200,888)	22,421,044
Deferred license revenue amortisation	—	(1,467,869)	(1,493,968)
Loss from impairment of investment	—	—	4,058,768
Gain on warrants' liability	—	—	(1,325,574)
Unrealised (gain) loss in foreign currency transactions and other	(433,894)	72,287	136,344
Changes in operating assets and liabilities:			
Accounts receivable, net	(2,654,488)	(10,656,327)	(10,184,633)
Inventories	(7,113,182)	254,190	(3,395,899)
Other current and non-current assets	(2,111,958)	(2,626,110)	(405,072)
Current and non-current liabilities	5,547,130	2,087,796	6,563,629
Net cash provided by operating activities	**79,675,116**	**54,195,816**	**79,053,759**
Cash Flow From Investing Activities:			
Restricted cash	—	—	(99,573)
Purchase of short-term investments	(31,984,889)	(39,984,639)	(15,000,000)
Maturities of short-term investments	30,088,978	29,990,389	—
Purchase of property, plant and equipment	(6,686,589)	(15,222,440)	(9,705,446)
Intangible asset purchase	—	(3,839,000)	(4,600,000)
Investment in equity securities	(1,182,500)	(5,356,225)	(6,588,201)
Net cash used in investing activities	**(9,765,000)**	**(34,411,915)**	**(35,993,220)**
Cash Flows From Financing Activities:			
Purchase of treasury stock	(55,015,419)	(72,358,863)	(33,009,394)
Proceeds from exercise of options for common stock	3,184,093	9,737,212	9,742,948
Cash settlement of compensation-based stock units	(1,170,612)	(1,323,369)	—
Realised excess tax benefits - stock-based compensation	4,746,377	26,678,199	4,416,583

Section B - Issuer					
			52 weeks ended 24 April 2015	**52 weeks ended 25 April 2014**	**52 weeks ended 26 April 2013**
			US$	**US$**	**US$**
		Net cash used in financing activities	(48,255,561)	(37,266,821)	(18,849,863)
		Effect of exchange rate changes on cash and cash equivalents	(766,577)	73,464	(156,379)
		Net increase (decrease) in cash and cash equivalents	20,887,978	(17,409,456)	24,054,297
		Cash and cash equivalents at beginning of period	103,299,116	120,708,572	96,654,275
		Cash and cash equivalents at end of period	**124,187,094**	**103,299,116**	**120,708,572**
		Supplementary Disclosures of Cash Flow Information:			
		Cash paid for interest	1,272	4,034	95,729
		Cash paid for income taxes	15,576,973	4,295,774	3,517,787
		Supplementary disclosure of non-cash activity in operating			
		Reclassification from common stock warrants to warrants' liability	—	—	(3,649,637)
		Reclassification from common stock warrants to additional paid-in-capital	—	—	(21,550,363)
		PP&E and intangible assets obtained in NeuroVista foreclosure	—	—	1,450,000
		Settlement of the NeuroVista note	—	—	(1,450,000)

Section B - Issuer

Summarised consolidated income statement for Cyberonics Q1 2016 and Cyberonics Q1 2015

	For the Thirteen Weeks Ended	
	24 July 2015	25 July 2014
	(Unaudited)	
	US$	US$
Net sales	**81,010,801**	**72,003,966**
Cost of sales	9,433,096	6,410,392
Gross profit	71,577,705	65,593,574
Operating expenses:		
SG&A	33,705,749	33,027,606
Research and development	10,061,267	10,562,754
Merger related expenses	6,548,842	—
Total operating expenses	**50,315,858**	**43,590,360**
Income from operations	21,261,847	22,003,214
Interest income, net	24,846	37,666
Impairment of investment	(2,064,283)	—
Other income (expense), net	(3,948)	171,455
Income before income taxes	19,218,462	22,212,335
Income tax expense	6,799,294	8,693,513
Net income	**12,419,168**	**13,518,822**
Basic income per share	0.48	0.51
Diluted income per share	0.47	0.50
Shares used in computing basic income per share	25,995,664	26,674,134
Shares used in computing diluted income per share	26,227,801	26,915,388

Summarised consolidated balance sheet for 24 July 2015 and 24 April 2015

	24 July 2015	24 April 2015
	(Unaudited)	
	US$	US$
ASSETS		
Current assets:		
Cash and cash equivalent	162,358,675	124,187,094
Short-term investments	6,995,800	27,019,597
Accounts receivable, net	54,991,188	50,569,375
Inventories	24,737,577	23,963,303
Deferred tax assets current, net	7,785,835	7,198,726
Other current assets	6,745,856	7,782,875
Total current assets	**263,614,931**	**240,720,970**
Property, plant and equipment, net	40,735,064	40,286,676
Intangible assets, net	9,911,467	10,168,239
Investments in equity securities	15,062,643	17,126,927
Deferred tax assets non-current, net	6,895,311	6,077,854
Other assets	2,007,970	1,563,529
Total assets	**338,227,386**	**315,944,195**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	5,792,435	7,251,213
Accrued liabilities	30,510,268	24,197,963
Total current liabilities	36,302,703	31,449,176
Long-term liabilities	8,741,476	7,921,288
Total liabilities	**45,044,179**	**39,370,464**
Total stockholders' equity	293,183,207	276,573,731
Total liabilities and stockholders' equity	**338,227,386**	**315,944,195**

Section B - Issuer

Summarised consolidated cash flow statement for Cyberonics Q1 2016 and Cyberonics Q1 2015

	For the Thirteen Weeks Ended	
	24 July 2015	25 July 2014
	(Unaudited)	
	US$	US$
Cash Flows From Operating Activities:		
Net income	12,419,168	13,518,822
Non-cash items included in net income:		
Depreciation	1,240,806	1,235,902
Amortisation of intangible assets	256,772	324,712
Stock-based compensation	3,108,138	3,512,443
Deferred income tax (benefit) expense	(1,384,639)	3,402,023
Loss from impairment of investment	2,064,283	—
Unrealised (gain) loss in foreign currency transactions and other	236,118	(160,061)
Changes in operating assets and liabilities:		
Accounts receivable, net	(4,544,652)	2,129,438
Inventories	(707,677)	(1,057,344)
Other current and non-current assets	602,096	238,129
Current and non-current liabilities	5,447,710	(5,046,273)
Net cash provided by operating activities	**18,738,123**	**18,097,791**
Cash Flow From Investing Activities:		
Purchase of short-term investment	(6,995,139)	(4,993,541)
Maturities of short-term investment	27,033,367	5,000,000
Purchase of property, plant and equipment	(1,683,892)	(1,815,500)
Net cash provided by (used in) investing activities	**18,354,336**	**(1,809,041)**
Cash Flows from Financing Activities		
Purchase of treasury stock	(2,230,154)	(13,782,231)
Proceeds from exercise of options for common stock	3,458,205	1,509,758
Cash settlement of compensation-based stock units	(708,264)	(786,361)
Realised excess tax benefits - stock-based compensation	518,769	1,264,795
Net cash provided by (used in) financing activities	1,038,556	(11,794,039)
Effect of exchange rate changes on cash and cash equivalents	40,566	(114,465)
Net increase in cash and cash equivalents	38,171,581	4,380,246
Cash and cash equivalents at beginning of period	124,187,094	103,299,116
Cash and cash equivalents at end of period	**162,358,675**	**107,679,362**
Supplementary Disclosures of Cash Flow Information:		
Cash paid for interest	14,338	242
Cash paid for income taxes	3,917,014	1,115,197

Section B - Issuer		
		The following significant changes to the financial condition and operating results of Cyberonics occurred during these periods. Cyberonics' net sales increased from US$254.3 million in the 52 weeks ended 26 April 2013 to US$291.6 million in the 52 weeks ended 24 April 2015, primarily resulting from a 12.2 per cent. increase in generator unit sales and a 3.1 per cent. increase in average selling price. In fiscal years 2013 and 2014, net sales included licensing revenue of US$1.5 million and US$1.5 million respectively. Cyberonics' net income increased from US$46.4 million in the 52 weeks ended 26 April 2013 to US$57.8 million in the 52 weeks ended 24 April 2015, principally due to the revenue increase and the reduction of SG&A expenses (excluding US$8.7 million in transaction expenses incurred in connection with the Mergers) as a percent of sales from 44.2 per cent. in fiscal year 2013 to 42.4 per cent. in fiscal year 2015 primarily due to more efficient use of Cyberonics' sales and marketing expenditures and a reduction in stock-based compensation expense. R&D expenses as a percentage of sales decreased from 16.3 per cent. to 14.8 per cent. due to completion of work, adaption to longer developmental schedules or cancellation of work. These reductions were partially offset by write-offs of certain obsolete inventory items, production equipment and software related to a re-design of certain aspects of Cyberonics' wireless Centro™ generator. In addition, Cyberonics decided to abandon its pursuit of neurological signal feedback and processing technology, and as a result, it fully impaired certain intellectual property and wrote-off obsolete software in fiscal year 2015. Cyberonics' total assets increased from US$264.0 million as at 26 April 2013 to US$315.9 million as at 24 April 2015, primarily as a result of an increase in business activities and retained earnings over the period. Cyberonics' net sales increased from US$72.0 million in Cyberonics Q1 2015 to US$81.0 million in Cyberonics Q1 2016. U.S. sales reached a new record of US$67.7 million, an increase of 15 per cent. from Cyberonics Q1 2015. This increase was driven by very strong demand for the AspireSR® generator following its approval in June 2015. Cyberonics' net income declined slightly from US$13.5 million in Cyberonics Q1 2015 to US$12.4 million in Cyberonics Q1 2016 due to higher cost of goods sold, the incurring of expenses related to the Mergers of US$6.5 million in the quarter and the partial impairment of Cyberonics' investment in Cerbomed of US$2.1 million. Cost of goods sold increased as a percentage of revenue by 2.7 per cent. primarily due to the higher cost of the AspireSR generator, including higher royalties as well as the cost of the new programming tablet. There has been no significant change in the financial condition or operating results of Cyberonics since 24 July 2015, being the date to which Cyberonics' latest unaudited interim results were published.
B.8	**Key pro forma financial information**	The unaudited consolidated *pro forma* income statement of the Combined Group has been prepared based on the consolidated income statement of Sorin for the year ended 31 March 2015 and the consolidated income statement of Cyberonics for the 52 weeks ended 24 April 2015 to illustrate how the Mergers might have affected the results of operations of the Combined Group had they taken place on

Section B - Issuer		
		26 April 2014. An unaudited consolidated *pro forma* income statement of the Combined Group has also been prepared for the most recent fiscal quarter of both Sorin and Cyberonics based on the consolidated income statement of Sorin for the three months ended 30 June 2015 and the consolidated income statement of Cyberonics for the period from 25 April 2015 to 24 July 2015 to illustrate how the Mergers might have affected the results of operations of the Combined Group had they taken place on 25 April 2015. The unaudited consolidated *pro forma* balance sheet of the Combined Group has been prepared based on the consolidated balance sheet of Sorin as at 30 June 2015 and the consolidated balance sheet of Cyberonics as at 24 July 2015 to illustrate how the Mergers might have affected the statement of net assets of the Combined Group had they taken place on 24 July 2015. As a result of their nature, the unaudited *pro forma* income statements and balance sheet address a hypothetical situation, and therefore, do not represent Sorin's, Cyberonics' or the Combined Group's actual financial position or results following completion of the Mergers.
B.9	**Profit forecast**	Not applicable. No profit forecast or estimate is included in this Prospectus.
B.10	**Description of the nature of any qualifications in the audit report on the historical financial information**	Not applicable. The audit reports on the historical financial information contained in, or incorporated by reference into, this Prospectus are not qualified.
B.11	**Explanation in respect of insufficient working capital**	Not applicable. In the opinion of LivaNova, taking into account the committed facilities available to the Combined Group, the working capital available to the Combined Group is sufficient for the Combined Group's present requirements, that is, for the next 12 months following the date of this Prospectus.

Section C - Securities		
C.1	**Type and class of the securities being offered and admitted to trading, including the security identification number**	LivaNova will issue up to 48,822,316 LivaNova Shares of £1.00 each pursuant to the Mergers. When trading on the LSE, the ISIN the LivaNova Shares will trade under is GB00BYMT0J19. The LivaNova Shares are also expected to be admitted to trading on the NASDAQ. When admitted to trading on the NASDAQ, the LivaNova Shares will trade under the ticker symbol "LIVN".
C.2	**Currency of the securities**	The LivaNova Shares are denominated in pounds sterling. The LivaNova Shares have a nominal value of £1.00.
C.3	**Number of issued and fully paid LivaNova shares, and par value**	As at 9 October 2015 (being the latest practicable date prior to the publication of this Prospectus), LivaNova has in issue one fully paid ordinary share of £1.00 and 50,000 fully paid Redeemable Shares, all of which are owned by Sorin. Immediately following completion of the Mergers, LivaNova expects to have up to 48,822,316 fully paid ordinary shares of £1.00 in issue. All of the Redeemable Shares in issue are expected to be redeemed and cancelled on, or after, the Closing Date, but prior to Admission.

Section C - Securities		
C.4	**Rights attached to the LivaNova shares**	All of the LivaNova Shares to be issued pursuant to the Mergers will be issued credited as fully paid and will rank *pari passu* in all respects with the LivaNova Shares in issue at that time, including in relation to any dividends or other distributions with a record date falling after the Closing Date. Subject to any special rights, restrictions or prohibitions as regards voting for the time being attached to any LivaNova Shares (for example, in the case of joint holders of a share, the only vote which will count is the vote of the person whose name is listed before the other voters on the register for the share), LivaNova Shareholders shall have the right to receive notice of, and to attend, speak and vote at the general meetings of LivaNova. Subject to the provisions of the Companies Act 2006, LivaNova may from time to time declare dividends and make other distributions on the LivaNova Shares. LivaNova Shareholders are entitled to participate in the assets of LivaNova attributable to their shares in a winding-up of LivaNova or other return of capital, but they have no rights of redemption.
C.5	**Restrictions on the transfer of the LivaNova shares**	Not applicable. There are no restrictions on the transferability of LivaNova Shares.
C.6	**Application for admission to trading on regulated market**	An application has been made for the LivaNova Shares to be admitted to trading on the LSE's Main Market for listed securities. The LSE's Main Market is a regulated market. The LivaNova Shares have been registered for issuance with the SEC and an application has also been made for the LivaNova Shares to be listed and traded on NASDAQ.
C.7	**Dividend policy**	There is no immediate intention for LivaNova to pay dividends upon or after Admission. The declaration and payment by LivaNova of any future dividends and the amounts of any such dividends will depend upon LivaNova's results, financial condition, future prospects, profits being available for distribution and any other factors deemed by the LivaNova Directors to be relevant at the time, subject always to the requirements of applicable laws.

Section D - Risks		
D.1	**Key information on the key risks specific to the or its industry**	Key risks related to Sorin, Cyberonics and the Combined Group are: • The Combined Group may not realise the cost savings, synergies and other benefits that the parties expect to achieve from the Mergers, or may incur unanticipated costs associated with the Mergers. • The IRS may not agree with the conclusion that LivaNova should be treated as a foreign corporation for U.S. federal tax purposes and LivaNova would then be treated as a domestic corporation for all federal income tax purposes, including being subject to tax on its worldwide income at the relatively high U.S. tax rates which can exceed 40 per cent. In addition, LivaNova's status as a foreign corporation for U.S. federal tax purposes could be affected by a future change in law. • LivaNova intends to operate so as to be treated exclusively as a resident of the U.K. for tax purposes, but the relevant tax authorities, including in Italy, may treat it as also being a resident of another jurisdiction for tax purposes. Should LivaNova be treated as an Italian tax resident, it would be subject to taxation in

Section D - Risks		
		Italy on its worldwide income and may be required to comply with withholding tax and/or reporting obligations provided under Italian tax law, which could result in additional costs and expenses. • Sorin and Cyberonics operate, and the Combined Group will operate, in the medical device industry, which is highly competitive, and Sorin, Cyberonics and/or the Combined Group may not be able to compete effectively against current and future competitors, including new products and technologies, which could significantly harm their respective businesses. • The industry in which Sorin and Cyberonics operates, and the Combined Group will operate, are subject to rigorous regulation by numerous government agencies, including the U.S. FDA. The process of obtaining regulatory clearances or approvals to market a medical device or modify an existing product can be costly and time-consuming and the failure to obtain such clearance or approval in any relevant jurisdiction could have a material adverse effect on Sorin's, Cyberonics' and/or the Combined Group's operations. • If the medical devices of Sorin, Cyberonics or the Combined Group are defective or otherwise pose safety risks, the U.S. FDA and similar governmental authorities in other jurisdictions could require their recall, or a voluntary recall may be initiated, which could harm their reputation with customers and negatively affect their revenue. In addition, if Sorin's or Cyberonics' products cause or contribute to a death or serious injury, they will be subject to medical device reporting regulations, which can result in voluntary corrective actions or agency enforcement actions, and/or product liability claims, which could have a material adverse effect on Sorin's, Cyberonics' and/or the Combined Group's business, reputation and ability to attract and retain customers. • The medical device industry is experiencing greater scrutiny and regulation by governmental authorities and is the subject of numerous investigations, often involving marketing and other business practices. In the U.S., federal government health care laws apply when a customer submits a claim for an item or service that is reimbursed under a U.S. federal government-funded health care programme, such as Medicare or Medicaid. Any actual or alleged violation of these regulations may subject Sorin, Cyberonics and/or the Combined Group to government scrutiny, severe criminal or civil sanctions and other liabilities, including exclusion from government contracting or government health care programmes, and could have a material adverse effect on their business, reputation, operating results and financial condition. • Sorin and Cyberonics operate, and the Combined Group will operate, in an industry categorised by extensive patent litigation. Patent litigation against Sorin, Cyberonics, or the Combined Group could result in significant damage awards and injunctions that could prevent the manufacture and sale of affected products or require the payment of significant royalties in order to continue to manufacture or sell affected products. In addition, if Sorin, Cyberonics or the Combined Group is unable to protect its technology from unauthorised use, that could diminish the value of their products and impair their ability to compete.

Section D - Risks		
		• Cyberonics may not develop the VNS Therapy System for the treatment of indications beyond drug-resistant epilepsy and, as such, the Combined Group may not experience revenue growth from these other indications. In addition, Cyberonics may not be able to maintain or expand market acceptance for the VNS Therapy System, which could cause the Combined Group's sales to be lower than expectations. • If Sorin or Cyberonics is unable to obtain appropriate reimbursement for services and products they provide from government and Third Party Payers, this could have a significant negative impact on the Combined Group's business. In particular, Cyberonics' ability to commercialise the VNS Therapy System successfully depends, in large part, on whether Third Party Payers agree to cover the VNS Therapy System and associated procedures and services, and to reimburse the costs at adequate levels. • If Sorin's or Cyberonics' suppliers and manufacturers are unable to meet the demand for materials, components or contract services, they may be forced to engage new vendors or change product design, which could impair their ability to deliver products on a timely basis. • Sorin was created as a result of a spin-off from SNIA, which became effective on 2 January 2004. In January 2012, SNIA filed a civil action against Sorin in the Civil Court of Milan on the basis of the Italian Civil Code's provisions for potential joint liability of a parent and a spun-off company in the context of a spin-off, seeking to determine Sorin's joint liability with SNIA for damages allegedly related to the Caffaro Chemical Operations. A finding that Sorin is liable in damages in connection with the SNIA litigation could have a material adverse effect on the financial position, results of operations and/or cash flows of Sorin and, following completion of the Mergers, the Combined Group.
D.3	**Key information on the key risks specific to the LivaNova Shares**	Key information on the key risks specific to the LivaNova Shares are: • Following completion of the Mergers, the LivaNova Shares are expected to be publicly traded on both the LSE and the NASDAQ. Sales of LivaNova Shares may take place promptly following the Mergers and could have the effect of decreasing the market price for the LivaNova Shares. • Prior to the Mergers, there has been no trading market for the LivaNova Shares and there can be no assurance that an active trading market will develop, or be sustained. • The market price of the LivaNova Shares could be subject to significant fluctuations due to various factors. • Any future issue of LivaNova Shares will dilute the holdings of LivaNova Shareholders and could adversely affect the market price of the LivaNova Shares.

Section E - Offer		
E.1	**Total net proceeds and estimate of total expenses**	There is no offer of LivaNova's securities so there are no net proceeds receivable by LivaNova. The total costs and expenses relating to the Mergers are estimated to be €23.9 million in respect of Sorin and US$34 million in respect of Cyberonics, with each party bearing their own respective costs, pursuant to the terms of the Merger Agreement.
E.2a	**Reasons for the offer, use of proceeds and estimated net amount of proceeds**	Not applicable. There is no offer of LivaNova securities. This Prospectus and the Mergers do not constitute an offer or invitation to any person to subscribe for or purchase any shares in LivaNova, Sorin or Cyberonics. LivaNova, Sorin and Cyberonics will not receive any proceeds as a result of the Mergers. The Mergers will be effected by way of the Sorin Merger, where Sorin will merge with and into LivaNova, with LivaNova continuing as the surviving company, followed by the Cyberonics Merger, where Merger Sub will merge with and into Cyberonics, with Cyberonics continuing as the surviving company and as a wholly-owned subsidiary of LivaNova. Cyberonics and Sorin believe that the Mergers will create a global leader in the large and growing markets for cardiac surgery and neuromodulation and a leading innovator in CRM with a diversified product portfolio, that can leverage product technologies, with complementary marketing capabilities. It is expected that the Mergers will lead to enhanced geographic diversification and benefits of scale, and that the financial profile of the Combined Group will drive growth and build shareholder value.
E.3	**Terms and conditions of the offer**	Not applicable. There is no offer of LivaNova securities. This Prospectus and the Mergers do not constitute an offer or invitation to any person to subscribe for or purchase any shares in LivaNova, Sorin or Cyberonics. LivaNova, Sorin and Cyberonics will not receive any proceeds as a result of the Mergers. On 26 February 2015, it was announced that Cyberonics, Sorin, LivaNova and Merger Sub had entered into a binding Letter of Intent, providing that, subject only to completion of the employee consultation procedures required under French law, the parties would enter into a definitive merger agreement providing for a business combination transaction between Cyberonics and Sorin. On 23 March 2015, Cyberonics, Sorin, LivaNova and Merger Sub entered into the Merger Agreement providing for the business combination transaction by way of the Sorin Merger and Cyberonics Merger. All of the conditions to the completion of the Mergers have been satisfied prior to the date of this Prospectus. In particular: • Sorin Shareholder Approval was received on 26 May 2015; • Cyberonics Stockholder Approval was received on 22 September 2015; and • the Sorin Merger Order was obtained on 23 September 2015, fixing the Sorin Merger Effective Time as 00.01 on 19 October 2015.
E.4	**Material interests**	Not applicable. There are no interests, known to LivaNova, material to the issue of the LivaNova Shares or which are conflicting interests.

Section E - Offer		
E.5	**Selling shareholders and lock-up arrangements**	Not applicable. There is no offer of LivaNova's securities and there are no selling shareholders. Certain lock-up arrangements will apply in relation to Sorin's and Cyberonics' share incentive plans, as follows: **Sorin** Each individual who holds performance shares under the Sorin 2012-2014 LTIP will be entitled to receive a number of LivaNova Shares equal to the product (rounded down to the nearest whole number) obtained by multiplying (i) 69.43 per cent. of the number of Sorin Shares that would have been payable to such individual with respect to such performance shares pursuant to the terms of the Sorin 2012-2014 LTIP if the respective target levels of performance had been achieved at 100 per cent. with respect to such awards by (ii) the Sorin Merger Exchange Ratio. Pursuant to the Merger Agreement, unless otherwise agreed by Cyberonics and Sorin, with respect to each Sorin 2012-2014 Participant who holds Modified Sorin 2012-2014 LTI Awards, 50 per cent. of the LivaNova Shares to be issued to such individuals will be subject to an 18-month lock-up period. Notwithstanding the 18-month specified lock-up period, the lock-up will terminate on the termination of employment of any of such individuals. **Cyberonics** At the Cyberonics Merger Effective Time, each outstanding Cyberonics Restricted Stock will accelerate and fully vest and will be converted into or settled in LivaNova Shares at the Cyberonics Merger Exchange Ratio. Pursuant to the Merger Agreement, except as otherwise agreed to by Cyberonics and Sorin, 50 per cent. of the LivaNova Shares to be issued in connection with the vesting of the Cyberonics Restricted Stock at the Cyberonics Merger Effective Time to each of the executive officers of Cyberonics, other than Darren Alch (Cyberonics' Vice President, General Counsel and Assistant Secretary), shall be subject to an 18-month lock-up period. Notwithstanding the 18-month specified lock-up period, the lock-up will terminate on the termination of employment of any of such executive officers.
E.6	**Dilution**	If the Mergers become effective, it is anticipated that existing Cyberonics securityholders will own approximately 54 per cent. of LivaNova on a fully-diluted basis and existing Sorin securityholders will own approximately 46 per cent. of LivaNova on a fully-diluted basis, in each case immediately following completion of the Mergers.
E.7	**Estimated expenses charged to the investors**	Not applicable. No expenses will be directly charged to the investor by LivaNova.

RISK FACTORS

Investing in and holding the LivaNova Shares involves financial and other risks. Prospective investors should carefully consider all of the information contained in this Prospectus, paying particular attention to the risk factors set out below. Prospective investors should note that the risk factors set out below do not purport to be a complete list or explanation of all risk factors which may affect Sorin, Cyberonics, LivaNova, the Combined Group, the LivaNova Shares or the Mergers. Additional risks and uncertainties not currently known to LivaNova or which LivaNova currently deems immaterial may arise or become material in the future. The occurrence of any of these risks may have a material adverse effect on Sorin's, Cyberonics' and, following the Effective Times, the Combined Group's, business, results of operations, financial condition and/or prospects and/or the price of the LivaNova Shares to the detriment of LivaNova, the Combined Group, and the LivaNova Shareholders, and investors could lose all of their investment.

Prospective investors should note that the risks relating to the Mergers, the Combined Group, Sorin, Cyberonics, and the LivaNova Shares summarised in the section of this document headed "Summary" are the risks that LivaNova, the Current Directors and the Proposed Directors believe to be the most essential to an assessment by a prospective investor of whether to consider an investment in the LivaNova Shares. However, as the risks which Sorin, Cyberonics and the Combined Group face relate to events and depend on circumstances that may or may not occur in the future, prospective investors should consider not only the information on the key risks summarised in the section of this document headed "Summary" but also, among other things, the risks and uncertainties described below.

You should consult a legal adviser, an independent financial adviser duly authorised under the FSMA or a tax adviser for legal, financial or tax advice.

PART A RISKS RELATING TO THE MERGERS

The Combined Group may not realise the cost savings, synergies and other benefits that the parties expect to achieve from the Mergers

The Combined Group will be required to devote significant management attention and resources to integrating the business practices and operations of Sorin and Cyberonics. The integration process may disrupt the business of either or both of the companies and, if implemented ineffectively, could preclude realisation of the full benefits of the Mergers expected by LivaNova. The failure of the Combined Group to meet the challenges involved in successfully integrating the operations of Sorin and Cyberonics or otherwise to realise the anticipated benefits of the Mergers could cause an interruption of the activities of the Combined Group and could seriously harm its results of operations. In addition, the overall integration of the two companies may result in material unanticipated problems, expenses, liabilities, competitive responses, loss of client relationships and diversion of management's attention, and may cause LivaNova's share price to decline. The difficulties of combining the operations of the companies are expected to include, amongst others: managing a significantly larger company; co-ordinating geographically separate organisations; the potential diversion of management focus and resources from other strategic opportunities and from operational matters; integrating two unique business cultures, which may be incompatible; consolidating corporate and administrative infrastructures and eliminating duplicative operations; co-ordinating distribution and marketing efforts; and integrating information technology, communications and other systems. These factors could result in increased costs, decreased revenues and diversion of management's time and focus, which could materially impact the Combined Group's business, financial condition and results of operations.

In addition, even if the operations of Sorin and Cyberonics are integrated successfully, the Combined Group may not realise the full benefits of the Mergers, including the synergies, cost savings or sales or growth opportunities that LivaNova expects. These benefits may not be achieved within the anticipated time frame, or at all. If such synergies, cost savings or sales or growth opportunities are not achieved, or are materially lower than anticipated, this could have an adverse effect on the Combined Group's financial position and performance.

Sorin and Cyberonics will incur significant transaction and merger-related costs in connection with the Mergers

Sorin and Cyberonics have incurred and expect to incur a number of non-recurring direct and indirect costs associated with the Mergers. These costs and expenses include fees paid to financial, legal and accounting advisors, facilities and systems consolidation costs, severance and other potential employment-related costs,

including payments that may be made to certain Sorin and Cyberonics executives, filing fees, printing expenses and other related charges. Sorin currently estimates the aggregate amount of expenses for legal, financial, accounting and other professional advisors and equity issuance costs to equal approximately €23.9 million, and Cyberonics currently estimates the aggregate amount of these expenses to equal approximately US$34 million. There are also processes, policies, procedures, operations, technologies and systems that must be integrated in connection with the Mergers and the integration of the two companies' businesses. While both Sorin and Cyberonics have assumed that a certain level of expenses would be incurred in connection with the Mergers and the other transactions contemplated by the Merger Agreement and continue to assess the magnitude of these costs, there are many factors beyond their control that could affect the total amount or the timing of the integration and implementation expenses. If such expenses are higher than anticipated, this could adversely affect the Combined Group's financial position and performance.

Sorin, Cyberonics and the Combined Group may have difficulty attracting, motivating and retaining executives and other key employees due to uncertainty associated with the Mergers

The Combined Group's success after the Mergers have been completed will depend in part upon the ability of the Combined Group to retain key employees of Sorin and Cyberonics. Competition for qualified personnel can be intense. Current and prospective employees of Sorin and/or Cyberonics may experience uncertainty with regard to the effect of the Mergers, which may impair Sorin's and Cyberonics' ability to attract, retain and motivate key management, sales, marketing, technical and other personnel prior to and following the Mergers. In addition, pursuant to change of control provisions in Cyberonics' and Sorin's employment and transition agreements, certain key employees of Cyberonics and Sorin are entitled to receive severance payments upon a constructive termination of employment. Certain key Cyberonics and Sorin employees could potentially terminate their employment following specified circumstances set forth in the applicable employment or transition agreement, including certain changes in such key employees' title, status, authority, duties, responsibilities or compensation, and become entitled to severance payments. Such circumstances could occur in connection with the Mergers as a result of changes in roles and responsibilities. If key employees of Sorin or Cyberonics depart, the integration of the companies may be more difficult to achieve and the Combined Group's business following the Mergers may be harmed. Furthermore, the Combined Group may have to incur significant costs in identifying, hiring and retaining replacements for departing employees and may lose significant expertise and talent relating to the businesses of Sorin or Cyberonics, and the Combined Group's ability to realise the anticipated benefits of the Mergers may be adversely affected. In addition, there could be disruptions to, or distractions for, the workforce and management associated with activities of labour unions or works councils, or integrating employees into the Combined Group.

Sorin's and Cyberonics' business relationships may be subject to disruption due to uncertainty associated with the Mergers

Parties with which Sorin or Cyberonics do business may experience uncertainty associated with the Mergers, including with respect to current or future business relationships with Sorin, Cyberonics or the Combined Group. Sorin's and Cyberonics' business relationships may be subject to disruption as customers, distributors, suppliers, vendors and others may attempt to negotiate changes in existing business relationships or consider entering into business relationships with parties other than Sorin, Cyberonics or the Combined Group. These disruptions could have an adverse effect on the businesses, financial condition, results of operations or prospects of the Combined Group, including an adverse effect on the Combined Group's ability to realise the anticipated benefits of the Mergers.

PART B RISKS RELATING TO SORIN, CYBERONICS AND THE COMBINED GROUP FOLLOWING COMPLETION OF THE MERGERS

The medical devices industry is highly competitive and the Combined Group may be unable to compete effectively

The medical devices industry is characterised by rapid change resulting from technological advances and scientific discoveries, new product introductions, technological improvements, changes in physician requirements and evolving industry standards. In the product lines in which Sorin and Cyberonics compete, and the Combined Group will compete, they face a mixture of competitors ranging from large manufacturers with multiple business lines to small manufacturers that offer a limited selection of specialised products. Development by other companies of new or improved products, processes, technologies or treatment methods may make Sorin's, Cyberonics' or the Combined Group's products or proposed products less competitive. In addition, Sorin

and Cyberonics face, and the Combined Group will face, competition from providers of alternative medical therapies such as pharmaceutical companies. Sorin's and Cyberonics' products are technologically complex and require significant research, planning, design, development and testing before they may be marketed. This could take up to several years. In addition, product life cycles are relatively short because medical device manufacturers continually develop smaller, more effective and less expensive versions of existing devices in response to physician demand. The competitive factors that the Combined Group will face include the reliability, performance, technology and quality of products, breadth of product lines, product services, customer support, price and reimbursement approval from governmental payers and private health care insurance providers. If the Combined Group fails to develop or market new products and enhance existing Sorin or Cyberonics products, it could lose market share to its competitors. The Combined Group may not be able to compete successfully against current and future competitors, including new products and technology, which could severely harm its business, financial position and results of operations.

Shifts in industry market share may occur in connection with product issues, physician advisories, safety alerts, and publications about the Combined Group's products reflecting the importance of product quality, product efficacy, and quality systems in the medical device industry. In the current environment of managed care, consolidation among health care providers and increased competition, industry participants may try to use their market power to negotiate price concessions or reductions for medical devices that incorporate components produced by the Combined Group and it is anticipated that the Combined Group will be increasingly required to compete on the basis of price. In order to continue to compete effectively, the Combined Group must continue to create, invest in, or acquire, advanced technology, incorporate this technology into their proprietary products, obtain regulatory approvals in a timely manner and manufacture and successfully market their products. Market acceptance of Sorin's, Cyberonics' and the Combined Group's products depends in part on their ability to demonstrate that their products are cost-effective and easier to use, and that they offer technological advantages. Additionally, Sorin, Cyberonics or the Combined Group may experience design, manufacturing, marketing or other difficulties that could delay or prevent the development, introduction or marketing of new products or new versions of existing products. As a result of such difficulties and delays, development expenses may increase and, as a consequence, the Combined Group's results of operations could suffer.

Cyberonics' indication-specific patent for the VNS Therapy System for epilepsy and depression indications has expired. As a result, Cyberonics and the Combined Group following completion of the Mergers could be subject to wider competition in respect of the VNS Therapy System from medical devices without legal recourse to challenge competitors based on patent infringement. For example, in November 2013, the U.S. FDA approved NeuroPace, Inc.'s responsive neurostimulation device for the treatment of refractory epilepsy. This device includes electrodes placed in pre-determined areas in the brain where seizures are thought to originate. NeuroPace, Inc. has commenced commercial activity in the U.S. In addition, a company based in Europe, Neurotech, SA, which is now owned by Sorin, has obtained CE Mark approval for a device capable of VNS, and CerebralRx Ltd., based in Israel also has CE Mark approval for an implantable device capable of VNS. CerebralRx Ltd. has engaged in tender offers in Italy, subjecting Cyberonics to competition in that market. In addition, it is possible that a company in China may be developing an implantable device that provides neuromodulation therapy to the vagus nerve; however, Cyberonics is not privy to details regarding any such device, including its possible commercial launch.

Reduction or interruption in supply and an inability to develop alternative sources for supply may adversely affect the Combined Group's manufacturing operations and related product sales

Sorin manufactures most of its products at nine manufacturing facilities located throughout the world. Sorin purchases many of the components and raw materials used in manufacturing these products from numerous suppliers in various countries. Generally, Sorin has been able to obtain adequate supplies of such raw materials and components. However, for reasons of quality assurance, cost effectiveness, or availability, Sorin may procure certain components and raw materials from primary or main suppliers or, in some cases, a sole supplier. A close collaborative relationship between a manufacturer and its suppliers is typical in the medical device industry. While this approach can produce economic benefits in terms of lower costs, it also causes Sorin to rely heavily on its suppliers. As a result, any problem affecting a supplier (whether due to external or internal causes) could have a negative impact on Sorin.

Cyberonics relies upon sole-source suppliers for certain of the key components, materials and contract services used in manufacturing its products. Cyberonics periodically experiences discontinuation or unavailability of components, materials and contract services, which may require it to qualify alternative sources or, if no such alternative sources are identified, change its product design.

Sorin and Cyberonics work closely with their respective suppliers to try to ensure continuity of supply and quality, however these efforts may not always be successful. Pursuing and qualifying alternative sources and/or redesigning specific components of Sorin's, Cyberonics' and/or the Combined Group's products, if or when necessary, could consume significant resources. In addition, such changes generally require regulatory submissions and approvals, which may mean that Sorin, Cyberonics and the Combined Group may not be able to quickly establish additional or replacement sources for certain components or materials. A reduction or interruption in supply, and an inability to develop alternative sources for such supply, could adversely affect Sorin's, Cyberonics' and the Combined Group's ability to manufacture their products in a timely or cost-effective manner and, ultimately, to sell the products, which could significantly harm the Combined Group's business.

The Combined Group will be subject to numerous legal and regulatory requirements governing its activities, which may increase further in the future

The Combined Group's medical devices and business activities will be subject to extensive and rigorous regulation by numerous governmental authorities worldwide. To varying degrees, these authorities will require the Combined Group to comply with laws and regulations governing the development, pre-clinical and clinical design, testing, manufacturing, labelling, packaging, marketing, sale, distribution, servicing, advertising and promotion of their medical devices. These laws and regulations, including the requirements for approvals, certifications or registrations and the time required for regulatory review, vary from country to country. For example, as a condition of approval for the depression indication, the U.S. FDA required Cyberonics to conduct a post-approval patient dosing study and a patient registry. The results of the dosing study have been included in Cyberonics' product labelling, and the results of the patient registry may be included in Cyberonics' product labelling. If Cyberonics fails to complete the patient registry in a timely manner, it may be subject to regulatory action, including withdrawal of its depression indication approval.

In the United States, generally before a new medical device, or a new use of, or new claim for, an existing medical device can be marketed, the U.S. FDA must first either grant a premarket clearance under Section 510(k) of the FDCA, or grant a pre-market approval. Modifications to cleared or approved devices may require a new clearance or approval. In the EEA, the Combined Group's devices are required to comply with the EU Medical Devices Directive, compliance with which will entitle it to affix the CE Mark to its medical devices, and without which they cannot be commercialised in the EEA. In other jurisdictions, the Combined Group may be required to perform additional pre-clinical or clinical studies even if the U.S. FDA clearance or approval, or the right to bear the CE Mark, has been obtained. The process of obtaining and maintaining such regulatory clearances, approvals, certifications or registrations to market a medical device, or modify an existing device, can be costly and time-consuming and may involve stringent clinical and pre-clinical testing, as well as post-market surveillance. In addition, such clearances, approvals, certifications or registrations, if obtained, may involve modifications, repairs or replacements of the products and result in limitations on the proposed use of the products. The failure to receive approvals, clearances, certifications or registrations for significant new products or modifications to existing products on a timely basis, or to maintain such approvals, clearances, certifications or registrations once received, could have a material adverse effect on the Combined Group's financial condition and results of operations.

In addition, Sorin and Cyberonics and certain of their respective third-party manufacturers are, and the Combined Group will be, required to comply with applicable laws and regulations which cover the design, testing, production, manufacturing, control, quality assurance, labelling, marketing, packaging, sterilisation, storage, distribution, importing and exporting of medical device products. In the United States, these include the U.S. FDA's current Good Manufacturing Practice requirements, as embodied in the QSR, which are enforced through periodic announced (routine) and unannounced (for cause or directed) inspections of manufacturing facilities, during which the U.S. FDA may issue listing inspectional observations which, if not addressed to the U.S. FDA's satisfaction, can result in further enforcement action. Equivalent requirements apply in other jurisdictions in which the Combined Group will do business. Failure to comply with these requirements, or the failure to respond timely and adequately to any adverse inspectional observations or product safety issues could result in: untitled letters, warning letters, fines, injunctions or consent decrees; customer notifications or repair, replacement, refund, recall, detention or seizure of products; operating restrictions or partial suspension or total shutdown of production; refusal to grant or delay in granting 510(k) clearance of new products or modified products; withdrawing 510(k) clearances or PMA approvals that have already been granted; refusal to grant export approval for the Combined Group's products; or civil penalties or criminal prosecution. In recent years, the U.S. FDA, in particular, has significantly increased its oversight of companies subject to its regulations, including medical device companies, by hiring new investigators and increasing the number of inspections of

manufacturing facilities. The U.S. FDA has recently also significantly increased the number of warning letters issued to companies. Any of these actions could impair the Combined Group's ability to produce its products in a cost-effective and timely manner in order to meet customers' demands. The Combined Group may also be required to bear other costs or take other actions that may have a negative impact on future revenue and ability to generate profits. Furthermore, the Combined Group's key component suppliers may not be in compliance with all applicable regulatory requirements, which could result in failure to produce products on a timely basis and in the required quantities, if at all.

In addition, device manufacturers are permitted to promote products solely for the uses and indications set forth in the approved product labelling. A number of enforcement actions have been taken against manufacturers that promote products for "off-label" uses, including actions alleging that United States federal health care programme reimbursement of products promoted for "off-label" uses are false and fraudulent claims to the government. The failure to comply with "off-label" promotion restrictions could result in significant administrative obligations and costs and potential regulatory or enforcement actions including the issuance of an untitled letter, a warning letter, injunction, seizure, civil fine and/or criminal penalties against the Combined Group or its officers or employees.

The Combined Group will be subject to laws and regulations regarding the sales and marketing practices of healthcare companies

Sorin and Cyberonics are, and the Combined Group will be, subject to certain laws and regulations which govern the sales and marketing practices of healthcare companies. In the United States, such laws and regulations include the federal Anti-Kickback Statute, the federal False Claims Act, the federal HIPAA, federal criminal laws, the federal U.S. Physician Payments Sunshine Act of 2010, the federal FCPA and analogous state laws, which contain civil and criminal sanctions. Over the past several years, the U.S. government has accused an increasing number of pharmaceutical and medical device manufacturers of violating the federal Anti-Kickback Statute and the FCPA based on certain marketing and sales practices and compensation arrangements with referral sources. Pharmaceuticals and medical device manufacturers have also been accused of alleged violations of the False Claims Act, which imposes civil liability (including substantial monetary penalties and damages) on any person or corporation that (i) knowingly presents a false or fraudulent claim for payment to the U.S. government, (ii) knowingly uses a false record or statement to obtain payment, or (iii) engages in a conspiracy to defraud the federal government to obtain allowance for a false claim. Under the whistleblower provisions of the False Claims Act, private parties may bring actions on behalf of the U.S. government and these private parties are entitled to share in any amounts recovered by the government through trial or settlement. Cyberonics is currently subject to a qui tam action filed by a former employee under the False Claims Act, which alleges that Cyberonics has submitted or caused the submission of false claims; this claim is being contested by Cyberonics. Both direct enforcement activity by the government and whistleblower lawsuits have increased significantly in recent years and have increased the risk that the Combined Group may be forced to defend a prosecution under the Anti-Kickback Statute or the FCPA, be forced to defend against a false claims action, be liable for monetary fines, or be excluded from the Medicare and Medicaid programmes as a result of an investigation resulting from an enforcement action or a whistleblower case. In addition to the federal government, certain U.S. state governments have enacted legislation aimed at increasing transparency of healthcare companies' interactions with health professionals. As a result, Sorin and Cyberonics is, and the Combined Group will be, required by law to disclose payments and other transfers for value to healthcare professionals licensed by certain U.S. states and at the U.S. federal level in the future.

There are similar laws and regulations outside the United States, all of which are subject to evolving interpretations. Global enforcement of anti-corruption laws has increased substantially in recent years, with more frequent voluntary self-disclosures by companies, aggressive investigations and enforcement proceedings by governmental agencies, and assessment of significant fines and penalties against companies and individuals. It is anticipated that governments will continue to scrutinise the medical devices industry closely and that the Combined Group will continue to be subject to rigorous regulation by governmental authorities in the future. The risk of the Combined Group being found in violation of such laws is increased by the fact that many of these laws have not been fully interpreted by the regulatory authorities or the courts, and their provisions are open to a variety of interpretations by the regulatory authorities or courts. Due to the breadth of these laws and the potential narrowness of the statutory exceptions and safe harbours available under such laws, it is possible that some of the Combined Group's business activities, including its relationships with physicians and other healthcare providers, some of whom will recommend, purchase and/or prescribe the Combined Group's devices, group purchasing organisations and independent sales agents and distributors, could be subject to challenge under one or more of such laws.

The Combined Group will also be exposed to the risk that its employees, independent contractors, principal investigators, consultants, vendors, independent sales agents and distributors, being parties that are not always subject to the Combined Group's control, may engage in fraudulent or other illegal activity. While the Combined Group will have policies and procedures in place prohibiting such activity, misconduct by these parties could include, among other infractions or violations, intentional, reckless and/or negligent conduct or unauthorised activity that violates U.S. FDA regulations, including those laws that require the reporting of true, complete and accurate information to the U.S. FDA, manufacturing standards, federal and state healthcare fraud and abuse laws and regulations, laws that require the true, complete and accurate reporting of financial information or data, or other commercial or regulatory laws or requirements. It will not always be possible to identify and deter misconduct by employees and other third parties, and the precautions the Combined Group takes to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting Sorin, Cyberonics and the Combined Group from governmental investigations or other actions or lawsuits stemming from a failure to comply with such laws or regulations. In 2010, Sorin CRM USA, Inc. (formerly known as ELA Medical, Inc.) entered into a CIA in connection with a US$10 million settlement regarding the sales and marketing practices of one of its independent sales representative groups in the state of Florida in the U.S. In general, CIAs require the subject company to adopt compliance policies, undertake training and implement various administrative procedures, such as tracking all arrangements with, and payments to, health care professionals. Sorin has established a compliance programme that covers such activities, and plans to continue its compliance programme when the CIA expires in October 2015.

Any alleged or actual violation of these regulations may subject the Combined Group, or its employees or officers, to government scrutiny, severe criminal or civil sanctions and other liabilities, including exclusion from government contracting or government health care programmes, and entry into CIAs with governmental agencies or amendments to existing CIAs, which typically involve the imposition of additional and costly compliance obligations. In addition, a governmental authority may seek to hold the Combined Group liable for successor liability violations committed by any companies in which Sorin, Cyberonics or the Combined Group invests or has acquired. If the Combined Group is excluded from participation based on such an interpretation it could adversely affect the Combined Group's reputation and business operations. Any action against the Combined Group for violation of these laws, even if successfully defended, could cause the Combined Group to incur significant legal expenses and divert management's attention from the operation of its business. Any of the foregoing could have a material adverse effect on the Combined Group's business, reputation, results of operations and financial condition.

Cost containment pressures and legislative or administrative reforms impacting the reimbursement practices of Third Party Payers could negatively impact the Combined Group

Most of Sorin's customers and the healthcare providers to whom Sorin's customers supply medical devices rely on government programmes and private health insurance plans to reimburse some or all of the costs of the procedures in which Sorin's medical devices are used. Similarly, Cyberonics' products are principally purchased by healthcare providers that typically invoice various Third Party Payers, such as governmental programmes (Medicare and Medicaid), private insurance plans and merged care plans, for the healthcare services provided to their patients. In addition, Cyberonics' ability to commercialise the VNS Therapy System successfully depends, in large part, on whether such Third Party Payers agree to cover the VNS Therapy System and associated procedures and services and to reimburse at adequate levels for the costs of the VNS Therapy System and the related services. Cyberonics currently has reimbursement approval for epilepsy, but does not have any meaningful reimbursement coverage for the treatment of depression.

The ability of customers to obtain appropriate reimbursement for their services and the products that they provide from government and Third Party Payers is critical to the success of medical technology companies, such as the Combined Group. The availability of adequate reimbursement affects which procedures customers perform, the products customers purchase and the prices customers are willing to pay. Reimbursement varies from country to country and can significantly impact the acceptance of new technology. If payment approval cannot be obtained by patients, sales of finished medical devices that include the Combined Group's components may decline significantly, and the Combined Group's customers may reduce or eliminate purchases of the Combined Group's components. Likewise, the Combined Group may find limited demand for its new products unless reimbursement approval is obtained from private and governmental Third Party Payers.

In response to perceived increases in healthcare costs in recent years, there have been and continue to be proposals from governments, regulators and Third Party Payers to control these costs. In particular, these proposals have been seen in efforts to reform the U.S. healthcare system through the Affordable Care Act, which

was enacted into law in 2010 and significantly impacts the medical device industry. Certain of these proposals could limit the prices the Combined Group is able to charge for its products and could limit the acceptance and availability of such products. In addition, periodic changes to reimbursement methodology for medical devices under the Medicare and Medicaid programmes and similar programmes in other jurisdictions occur and may reduce the risk of increase in federal expenditure for healthcare costs. Healthcare providers may respond to such cost-containment pressures by substituting lower cost products or other therapies for the Combined Group's products. Any of the foregoing could have a material adverse effect on the Combined Group's business, financial condition or results of operations.

Quality problems with the Combined Group's processes, goods, and services could harm its reputation for producing high-quality products and erode its competitive advantage, sales, and market share

Quality is extremely important to Sorin, Cyberonics, and, following completion of the Mergers, the Combined Group, as well as their respective customers, due to the serious and costly consequences of product failure. Sorin's and Cyberonics' quality certifications are critical to the marketing success of Sorin's and Cyberonics' goods and services. If Sorin, Cyberonics and/or, following completion of the Mergers, the Combined Group fail to meet these standards, their respective reputations could be damaged, they could lose customers, and their revenue and results of operations could decline. Aside from specific customer standards, Sorin's, Cyberonics', and, following completion of the Mergers, the Combined Group's success depends generally on their ability to manufacture to exact tolerances precision-engineered components, subassemblies, and finished devices from multiple materials. If such components fail to meet these standards or fail to adapt to evolving standards, the reputation of the Combined Group as a manufacturer of high-quality components will be harmed, and the Combined Group's competitive advantage could be damaged, which could result in it losing customers and market share.

Cyberonics may not be able to maintain or expand market acceptance for the VNS Therapy System, which could cause its sales to be lower than expectations

Market acceptance of the VNS Therapy System depends on Cyberonics' ability to convince the medical community and Third Party Payers of the clinical efficacy and safety of VNS and the VNS Therapy System. While the VNS Therapy System has been implanted in approximately 96,000 patients, many physicians are still unfamiliar with this form of therapy. Other therapies, including pharmacologic options, may be more attractive to patients or their physicians than the VNS Therapy System in terms of efficacy, cost or reimbursement availability. There can be no assurance that Cyberonics will ever receive broad reimbursement coverage for depression or that its sales will increase for either epilepsy or depression. Additionally, there can be no assurance that the VNS Therapy System will achieve expanded market acceptance for the treatment of epilepsy, depression, heart failure or for any other indication. Failure of the VNS Therapy System to gain additional market acceptance could severely harm the Combined Group's business, financial position and results of operations.

Product liability claims could adversely impact the Combined Group's financial condition and earnings and impair its reputation

Sorin's and Cyberonics' businesses expose them, and the Combined Group's business will expose it, to potential product liability risks that are inherent in the design, manufacture, and marketing of medical devices. In addition, many of the medical devices Sorin and Cyberonics manufacture and sell, and the Combined Group will manufacture and sell, are designed to be implanted in the human body for long periods of time, or indefinitely. Component failures, manufacturing defects, design flaws, or inadequate disclosure of product-related risks or product-related information with respect to Sorin's or Cyberonics' products, or following completion of the Mergers, the Combined Group's products, could result in an unsafe condition or injury to, or death of, a patient. The occurrence of such a problem could result in product liability claims or a recall or safety alert relating to one or more of such products and could ultimately result, in certain cases, in the removal of such products from the body and possible claims regarding costs associated therewith. Product liability claims or product recalls in the future, regardless of their ultimate outcome, could have a material adverse effect on the Combined Group's business and reputation and on the ability to attract and retain customers for its products.

Sorin maintains a global insurance policy against product liability risks. Cyberonics has historically elected to self-insure with respect to a portion of its product liability risks. While, based on historical loss trends, LivaNova believes that Sorin's insurance coverage will be adequate to cover future losses and Cyberonics' self-insured retention policy is not excessive and that accruals will be adequate to cover future losses, there can be no guarantee that this will remain the case. Furthermore, in the future, the Combined Group may not be able to

obtain insurance on acceptable terms against product liability and other operational risks such as property damage and business interruption, and any insurance the Combined Group does obtain may not provide adequate coverage against any asserted claims or other losses.

If the Combined Group's marketed medical devices are defective or otherwise pose safety risks, a mandatory or voluntary product recall may be required

The U.S. FDA and similar governmental authorities in other jurisdictions may require the recall of commercialised products in the event of material deficiencies or defects in design or manufacture or in the event that a product poses an unacceptable risk to health. Manufacturers, on their own initiative, may recall a product if any material deficiency in a device is found. Both Sorin and Cyberonics have initiated voluntary product recalls and corrections in the past. Component failures, manufacturing or shipping problems or hardware or software design defects could result in the product not delivering the therapy for which it is indicated or producing other unintended consequences. The occurrence of such problems or other adverse clinical reactions could result in a recall of Sorin's, Cyberonics', and following completion of the Mergers, the Combined Group's products, possibly requiring explanation and potential re-implantation of the products and associated costs, which may increase risk to the patient.

A government-mandated or voluntary recall by the Combined Group or one of its sales agencies could occur as a result of an unacceptable risk to health, component failures, manufacturing errors, design or labelling defects or other deficiencies and issues. Recalls of any of the Combined Group's products would divert managerial and financial resources and have an adverse effect on its financial condition and operating results. Any recall could impair the Combined Group's ability to produce its products in a cost-effective and timely manner in order to meet its customers' demands. The Combined Group also may be required to bear other costs or take other actions that may have a negative impact on its future revenue and its ability to generate profits. The Combined Group may initiate voluntary actions to withdraw or remove or repair its products in the future that it determines do not require notification of the U.S. FDA as a recall. If the U.S. FDA disagrees with the Combined Group's determinations, it could require the Combined Group to report those actions as recalls. In addition, the U.S. FDA could take enforcement action for failing to report the recalls when they were conducted. In the EEA, the Combined Group must comply with the EU Vigilance System, under which incidents must be reported to the competent authorities of the Member States of the EEA. The EU Vigilance System is further intended to facilitate a direct, early and harmonised implementation of FSCA, being an action taken by a manufacturer to reduce a risk of death or serious deterioration in the state of health associated with the use of a medical device that is already placed on the market. An FSCA may include the recall, modification, exchange, destruction or retrofitting of the device.

Any future recall announcement in the United States, the EEA or elsewhere could harm the Combined Group's reputation with customers and physicians and negatively affect its revenue. A product recall could also result in substantial litigation, with liabilities well in excess of the available insurance coverage limits, any or all of which could severely harm the Combined Group' business, financial position and results of operations.

If the Combined Group's products cause or contribute to a death or a serious injury, or malfunction in certain ways, the Combined Group will be subject to medical device reporting regulations, which can result in voluntary corrective actions or agency enforcement actions

Under the U.S. FDA medical device reporting regulations, the Combined Group is required to report to the U.S. FDA any incident in which its products have or may have caused or contributed to a death or serious injury or in which its products malfunctioned and, if the malfunction were to recur, would likely cause or contribute to death or serious injury. If the Combined Group fails to report these events to the U.S. FDA within the required time frames, or at all, the U.S. FDA could take enforcement action against the Combined Group. Any adverse event involving the Combined Group's products could result in future voluntary corrective actions, such as recalls or customer notifications, or agency action, such as inspection, mandatory recall or other enforcement action. Any corrective action, whether voluntary or involuntary, as well as defending against any potential lawsuits, will require the dedication of the Combined Group's time and capital, distract management from operating the business, and may harm the Combined Group's reputation and financial results.

The Combined Group will be substantially dependent on patent and other proprietary rights

Sorin relies on a combination of patents, trade secrets, and non-disclosure and non-compete agreements to protect Sorin's proprietary intellectual property, and will continue to do so. While Sorin intends to defend against

any threats to Sorin's intellectual property, these patents, trade secrets, or other agreements may not adequately protect Sorin's intellectual property. Further, pending patent applications owned by Sorin may not result in patents being issued to Sorin. Moreover, patents issued to or licensed by Sorin in the past or in the future may be challenged or circumvented by competitors and such patents may be found invalid, unenforceable or insufficiently broad to protect Sorin's technology or to provide Sorin with any competitive advantage. Third parties could obtain patents that may require Sorin to negotiate licenses to conduct Sorin's business, and the required licenses may not be available on reasonable terms or at all. Sorin also relies on non-disclosure and non-competition agreements with certain employees, consultants, and other parties to protect, in part, trade secrets and other proprietary rights. Sorin cannot be certain that these agreements will not be breached, that Sorin will have adequate remedies for any breach, that others will not independently develop substantially equivalent proprietary information, or that third parties will not otherwise gain access to Sorin's trade secrets or proprietary knowledge. In addition, the laws of certain countries in which Sorin markets some of its products are not uniform and may not protect Sorin's intellectual property rights equally.

Cyberonics' success depends in part on its ability to obtain and maintain patent and other intellectual property protection for its products and their improvements. To that end, it has acquired licenses under certain patents and has patented and intends to continue to seek patents on its own inventions used in its products and treatment methods. The process of seeking patent protection can be expensive and time-consuming, and there can be no assurance that patents will be issued from Cyberonics' currently pending or future applications or that, if patents are issued, they will be of sufficient scope or strength to provide meaningful protection for the technology or be of any commercial advantage to Cyberonics. Further, the protection offered by the licensed international patents may not be as strong as that offered by Cyberonics' licensed U.S. patents due to differences in patent laws. In particular, the European Patent Convention prohibits patents covering methods for treatment of the human body by surgery or therapy. Additionally, certain countries, including China, do not enforce compliance with laws that protect intellectual property rights with the same degree of vigour as is available under the U.S. judicial system. For this reason, there is a risk that Cyberonics' intellectual property may be subject to misappropriation in such countries. This may permit others to produce copies of its products. There is also a risk that such products may be exported from such countries to other countries. Cyberonics' electronically stored intellectual property and other proprietary data may also be subject to misappropriation through a breach of cybersecurity.

Without effective patent protection, the Combined Group may be subject to competition which may negatively affect its financial position and results of operations. Any misappropriation or misuse of its technology or proprietary information could have a material adverse effect on the Combined Group's business, financial condition and/or results of operations.

The Combined Group will operate in an industry characterised by extensive patent litigation

The Combined Group will operate, in an industry characterised by extensive litigation regarding patent and other intellectual property rights. There has been, and likely will continue to be, substantial litigation regarding patent and other intellectual property rights in the medical device industry. Litigation, which could result in substantial cost to and diversion of effort by the Combined Group, may be necessary to enforce patents issued or licensed to it, to protect trade secrets or know-how owned by the Combined Group to defend against claimed infringement of the rights of others or to determine the scope and validity of the proprietary rights of others. Expenses associated with such litigation could be very substantial, could divert resources from any planned expenditures, which could delay or undermine product development and other projects, and could severely harm the Combined Group's business, financial position and results of operations. In addition, adverse determinations in litigation could subject the Combined Group to significant liabilities to third parties, thus requiring it to seek licenses from third parties or require it to pay significant royalties in order to continue to manufacture and sell affected products, which could prevent it from manufacturing, selling or using its products, thereby severely harm its business, financial position and results of operations.

Loss of the Combined Group's key management and key employees could materially and adversely affect the Group's operations and business

The Combined Group's success will depend on the ability of its management team to manage its businesses and implement its strategies. The Combined Group's ability to compete effectively will also depend upon its ability to attract and retain other key employees, including people in technical, marketing, sales and research positions. Competition for experienced employees, particularly for people with specialised skills, can be intense. The Combined Group's ability to recruit such talent will depend on a number of factors, including compensation and

benefits, work location and work environment. The loss of the services of a senior manager or other key employee without an adequate replacement or the inability to attract and retain new and qualified resources could negatively impact the Combined Group's business outlook, activities and operating and financial results.

The Combined Group will be subject to laws and/or collective bargaining agreements with employees, which could impact its flexibility in managing its business

In many of the countries where Sorin and Cyberonics operate, and the Combined Group will operate, their employees are covered by various laws, and in the case of Sorin, collective bargaining agreements that endow such employees, through their local or national representatives, with the right to be consulted with regard to specific issues, including the downsizing or closing of departments and staff reductions. While Cyberonics is subject to applicable employment laws, no Cyberonics employee is covered by a collective bargaining agreement. The laws applicable to Sorin, Cyberonics and the Combined Group, and in the case of Sorin, collective bargaining agreements, could have an impact on the Combined Group's flexibility, as it applies to programmes to redefine and/or strategically reposition its activities. Their ability to implement staff downsizing programmes or even temporary interruptions of employment relationships is predicated on the approval of government entities and the consent of labour unions. Union-organised work stoppages by employees could have a negative impact on the Combined Group's business.

The Combined Group will be exposed to significant risks in relation to compliance with anti-corruption laws and regulations and economic sanctions programmes

Doing business on a worldwide basis will require the Combined Group to comply with the laws and regulations of various jurisdictions. In particular, the Combined Group's international operations will be subject to anti-corruption laws and regulations, such as the FCPA, the Bribery Act and economic sanctions programmes, including those administered by the United Nations, the EU and OFAC, and regulations set forth under the U.S. Comprehensive Iran Accountability Divestment Act of 2010. As a result of doing business in many countries, the Combined Group will be exposed to a risk of violating anti-corruption laws and sanctions regulations applicable in those countries where the Combined Group, its partners or agents will operate. Some of the international locations in which the Combined Group will operate lack a developed legal system and have high levels of corruption. The Combined Group's continued expansion and worldwide operations, including in developing countries, its development of joint venture relationships worldwide and the employment of local agents in the countries in which the Combined Group will operate increases the risk of violations of anti-corruption laws, OFAC regulations or similar laws. Violations of anti- corruption laws and sanctions regulations are punishable by civil penalties, including fines, denial of export privileges, injunctions, asset seizures, debarment from government contracts (and termination of existing contracts) and revocations or restrictions of licenses, as well as criminal fines and imprisonment. In addition, any major violations could have a significant impact on the Combined Group's reputation and consequently on its ability to win future business.

While Sorin and Cyberonics believe that the Combined Group will have a strong culture of compliance and adequate systems of control, Sorin and Cyberonics will seek to continuously improve the Combined Group's systems of internal controls and to remedy any weaknesses identified. There can be no assurance, however, that the policies and procedures will be followed at all times or effectively detect and prevent violations of the applicable laws by one or more of the Combined Group's employees, consultants, agents or partners and, as a result, the Combined Group could be subject to penalties and material adverse consequences on its business, financial condition or results of operations.

The Combined Group will be exposed to foreign currency exchange risks

The Combined Group will transact business in numerous countries around the world and expects that a significant portion of its business will continue to take place in international markets. LivaNova will prepare its consolidated financial statements in its functional currency (US dollars), while the financial statements of each of its subsidiaries will be prepared in the functional currency of that entity. Accordingly, fluctuations in the exchange rate of the functional currencies of the Combined Group's foreign currency entities against the functional currency of LivaNova will impact its results of operations and financial condition. As such, it is expected that the Combined Group's revenues and earnings will continue to be exposed to the risks that may arise from fluctuations in foreign currency exchange rates, which could have a material adverse effect on LivaNova's business, results of operation or financial condition.

The Combined Group will be exposed to interest rate risks

Sorin has certain financial liabilities which bear floating interest rates, in particular certain borrowings that bear floating rates of interest linked to Euribor and Libor, and is therefore exposed to movements in interest rates. Sorin's policy is to manage interest costs by using a mixture of fixed-rate and variable-rate debt and Sorin also uses interest rate based hedging instruments to manage interest rate exposures on its borrowings. As of 31 December 2014, Sorin had entered into interest rate swaps with a notional value of €96.5 million to swap from floating to fixed rate. After considering such interest rate swaps, approximately 34 per cent. of Sorin's debt profile was variable rate at the end of 2014. However, there can be no guarantee that such hedging arrangements, or any hedging activity that the Combined Group elects to carry out in the future, will be effective or that all interest rate exposures will be hedged. Movements in interest rates could have a material adverse effect on any unhedged borrowing exposure of Sorin, which could adversely affect the Combined Group's business, results of operations and financial condition.

Continuing worldwide economic instability could adversely affect the Combined Group's revenues, financial condition or results of operations.

Since 2008, the global economy has been impacted by the sequential effects of an ongoing global financial crisis. This global financial crisis, including the European sovereign debt crisis, has caused extreme disruption in the financial markets, including severely diminished liquidity and credit availability. There can be no assurance that there will not be further deterioration in the global economy. The Combined Group's customers and vendors may experience financial difficulties or be unable to borrow money to fund their operations, which may adversely impact their ability to purchase the Combined Group's products or to pay for such products on a timely basis, if at all. As with the Combined Group's customers and vendors, these economic conditions make it more difficult for the Combined Group to accurately forecast and plan its future business activities. In addition, a significant amount of Sorin's and Cyberonics' trade receivables are, and the Combined Group's will be, with national health care systems in many countries, and repayment of these receivables is dependent upon the financial stability of the economies of those countries. Failure to receive payment of all or a significant portion of the Combined Group's receivables could adversely affect the Combined Group's results of operations. Deterioration in the creditworthiness of the Eurozone countries, the withdrawal of one or more member countries from the EU or the failure of the Euro as a common European currency could adversely affect the Combined Group's revenues, financial condition or results of operations.

The Combined Group will be subject to a variety of market and financial risks due to its global operations that could adversely affect those operations or its profitability and operating results. The Combined Group's global operations will be accompanied by certain financial and other risks. LivaNova intends to continue to pursue growth opportunities in sales worldwide, including in emerging markets outside Europe and the U.S., which could expose the Combined Group to greater risks associated with sales and operations in these regions. Emerging economies have less mature product regulatory systems and can have more volatile financial markets. The Combined Group's ability to sell products in these economies is dependent on the ability to hire qualified employees or agents to represent its products locally and its ability to obtain the necessary regulatory approvals in a less mature regulatory environment. If the Combined Group is unable to retain qualified representatives or maintain the necessary regulatory approvals, it will not be able to continue to sell products in these markets. In addition, the Combined Group is exposed to a higher degree of financial risk if the Combined Group extends credit to customers in these economies.

Consolidation in the health care industry could have an adverse effect on the Combined Group's revenues and results of operations

Many health care industry companies, including health care systems, are consolidating to create new companies with greater market power. As the health care industry consolidates, competition to provide goods and services to industry participants will become more intense. These industry participants may try to use their market power to negotiate price concessions or reductions for medical devices that incorporate components produced by the Combined Group. In addition, the growth of group purchasing organisations in the U.S. has permitted hospital systems to increase bargaining power in negotiations with medical device manufacturers. If the Combined Group is forced to reduce its prices because of consolidation in the health care industry, its revenues would decrease and its consolidated earnings, financial condition, and/or cash flows would suffer.

The continuing development of many of the Combined Group's products depends upon it maintaining strong relationships with physicians and other health care professionals

If the Combined Group fails to maintain its working relationships with physicians and other health care professionals, many of its products may not be developed and marketed in line with the needs and expectations of the professionals who use and support its products. The research, development, marketing and sales of many of the Combined Group's new and improved products is dependent upon it maintaining working relationships with physicians and other health care professionals. Sorin and Cyberonics rely, and the Combined Group will rely, on these professionals to provide them with knowledge and experience regarding the development, marketing and sale of their products. Physicians and other health care professionals assist Sorin and Cyberonics as researchers, marketing and product consultants, inventors and public speakers. If the Combined Group is unable to maintain Sorin's and Cyberonics' strong relationships with these professionals and continue to receive their advice and input, the development and marketing of the Combined Group's products could suffer, which could have a material adverse effect on the Combined Group's consolidated earnings, financial condition and/or cash flows.

The Combined Group will be subject to various environmental laws and regulations

The Combined Group will be subject to various environmental laws and regulations worldwide. Sorin's and Cyberonics' operations involve the use of substances regulated under environmental laws, primarily those used in manufacturing and sterilisation processes. Failure to comply with environmental protection laws and regulations could have a material adverse impact on the Combined Group's earnings, financial condition and/or cash flows.

The Combined Group's information technology systems may be vulnerable to hacker intrusion, malicious viruses and other cybercrime attacks, which may harm its business and expose the Combined Group to liability

The Combined Group's operations will depend to a great extent on the reliability and security of its information technology system, software and network, which are subject to damage and interruption caused by human error, problems relating to the telecommunications network, software failure, natural disasters, sabotage, viruses and similar events. Any interruption in the Combined Group's systems could have a negative effect on the quality of products and services offered and, as a result, on customer demand and therefore volume of sales.

Natural disasters, war, acts of terrorism and other events could adversely affect the Combined Group's future revenues and operating income

Natural disasters (including pandemics), war, terrorism, labour disruptions and international conflicts, and actions taken by governmental entities or by the Combined Group's customers or suppliers in response to such events, could cause significant economic disruption and political and social instability in the areas in which the Combined Group will operate. The occurrence of one or more of such events could result in decreased demand for the Combined Group's products, adversely affect its manufacturing and distribution capabilities, or increase the costs for or cause interruptions in the supply of materials from its suppliers.

In particular, as its manufacturing is currently conducted at two sites, Cyberonics is vulnerable to damage from various types of disasters, including fires, terrorist acts, floods, power losses, communications failures and similar events. In September 2008, Hurricane Ike hit the Texas Gulf Coast and caused significant property damage and a number of fatalities near the area in which Cyberonics' primary facility is located. If any such disaster were to occur, Cyberonics may not be able to operate its business at the facility. Cyberonics' manufacturing facilities require U.S. FDA approval, which could result in significant delays before it can manufacture products from a replacement facility. The insurance maintained may not be adequate to cover the losses resulting from disasters or other business interruptions. Therefore, any such catastrophe could seriously harm the Cyberonics business and operations. Cyberonics constructed a manufacturing facility in Costa Rica that began manufacturing and shipping product late in fiscal year 2015, and this facility is subject to many of the same risks as the Houston, Texas facility.

In addition, Sorin manufactures its products at production facilities in Italy, France, Germany, the United States, Canada, Brazil and the Dominican Republic, all of which are exposed to the risk of production stoppages caused by exceptional or accidental events (fires, shutdowns of access roads, etc.) or natural calamities (floods, earthquakes, etc). In May 2012, Sorin's facility for the production of cardiopulmonary disposals, based in the Mirandola area of Northern Italy, suffered extensive damage from two serious earthquakes. This resulted in a

temporary disruption in the manufacture and shipment of oxygenators and autotransfusion disposable products. Whilst Mirandola was not previously recognised by competent authorities as being an area of seismic activity, the risk of further earthquakes in the vicinity cannot be excluded. Although Sorin has implemented what it believes to be appropriate crisis management, preventative actions and insurance coverage, the possibility that the occurrence of events of exceptional severity or duration, including earthquakes which may affect production facilities, and ultimately materially adversely affect the Combined Group's business, cannot be excluded.

The Combined Group's R&D efforts will rely upon investments and investment collaborations, and LivaNova cannot guarantee that any previous or future investments or investment collaborations will be successful

The Combined Group's strategy to provide a broad range of therapies to restore patients to fuller, healthier lives requires a wide variety of technologies, products, and capabilities. The rapid pace of technological development in the medical industry and the specialised expertise required in different areas of medicine make it difficult for one company alone to develop a broad portfolio of technological solutions. In addition to internally generated growth through Sorin's and Cyberonics' R&D efforts, historically, both companies have relied, and the Combined Group is expected to continue to rely, upon investments and investment collaborations to provide the Combined Group access to new technologies both in areas served by Sorin's and Cyberonics' existing businesses as well as in new areas. Cyberonics has also invested in ImThera Medical Inc., a privately-held, development-stage company developing an implantable neurostimulation device system for the treatment of obstructive sleep apnoea and Cerbomed, a privately-held European development-stage company developing a transcutaneous VNS device for several indications, including the treatment of drug-resistant epilepsy.

LivaNova expects to make future investments where it believes that the Combined Group can stimulate the development of, or acquire, new technologies and products to further its strategic objectives and strengthen its existing businesses. Investments and investment collaborations in and with medical technology companies are inherently risky, and LivaNova cannot guarantee that any of its previous or future investments or investment collaborations will be successful or will not materially adversely affect the Combined Group's consolidated earnings, financial condition and/or cash flows.

The Combined Group's products will be the subject of clinical trials, the results of which may be unfavourable, or perceived as unfavourable

As a part of the regulatory process of obtaining marketing clearance or approval for new products and modifications to or new indications for existing products, the Combined Group will conduct and participate in numerous clinical trials with a variety of study designs, patient populations, and trial endpoints. Unfavourable or inconsistent clinical data from existing or future clinical trials conducted by the Combined Group and/or by its competitors, or by third parties, or the market's or global regulatory bodies' perception of this clinical data, may adversely impact the Combined Group's ability to obtain product clearances or approvals, the Combined Group's position in, and share of, the markets in which it participates, and the Combined Group's business, financial condition, and results of operations. Success in pre-clinical testing and early clinical trials does not always ensure that later clinical trials will be successful, and LivaNova cannot be sure that later trials will replicate the results of prior trials and studies. Clinical studies must also be conducted in compliance with Good Clinical Practice. Requirements administered by the U.S. FDA and other foreign regulatory authorities, and global regulatory bodies may undertake enforcement action against the Combined Group based on a failure to adhere to these requirements. Any delay or termination of the Combined Group's clinical trials will delay the filing of product submissions and, ultimately, the Combined Group's ability to commercialise new products or product modifications. It is also possible that patients enrolled in clinical trials will experience adverse side effects that are not currently part of the product's profile, which could inhibit further marketing and development of such products.

Cyberonics has conducted or supported animal and human studies for the treatment of a number of therapeutic indications for the VNS Therapy System beyond drug-resistant epilepsy and TRD, including CHF. Additionally, Cyberonics has licensed intellectual property from third parties that it believes can stimulate the development of new technologies and products which would further Cyberonics' strategic objectives and strengthen its business. Regulatory approval for any new indications would likely require Cyberonics to conduct one or more large-scale pivotal clinical studies. Cyberonics has not conducted such pivotal studies for any indication beyond drug-resistant epilepsy and TRD, and other than the possibility of pivotal studies for CHF, Cyberonics does not have any immediate plans to do so. In the event that it does invest in future studies for new indications, no assurance can be given that the study results will be positive. If Cyberonics and/or, following completion of the Mergers, the Combined Group elects not to conduct research with regard to new indications, the study results are not

positive, does not receive additional regulatory approvals, or alternative indications do not prove to be commercially viable, the Combined Group's revenue growth, if any, in respect of the VNS Therapy System would be limited to revenue from existing approved indications.

The Combined Group will be increasingly dependent on sophisticated information technology and if the Combined Group fails to properly maintain the integrity of its data or if the Combined Group's products do not operate as intended, the Combined Group's business could be materially affected

Sorin and Cyberonics are, and the Combined Group will be, increasingly dependent on sophisticated information technology for their products and infrastructure. Sorin's, Cyberonics' and, following completion of the Mergers, the Combined Group's information systems require an ongoing commitment of significant resources to maintain, protect, and enhance existing systems and develop new systems to keep pace with continuing changes in information processing technology, evolving systems and regulatory standards, the increasing need to protect patient and customer information, and changing customer patterns. In addition, third parties may attempt to hack into Sorin's, Cyberonics' and, following completion of the Mergers, the Combined Group's products or systems and may obtain data relating to patients with Sorin's, Cyberonics' or the Combined Group's products or proprietary information. If, following completion of the Mergers, the Combined Group fails to maintain or protect the information systems and data integrity effectively, the Combined Group could lose existing customers, have difficulty attracting new customers, have problems in determining product cost estimates and establishing appropriate pricing, have difficulty preventing, detecting, and controlling fraud, have disputes with customers, physicians, and other health care professionals, have regulatory sanctions or penalties imposed, have increases in operating expenses, incur expenses or lose revenues as a result of a data privacy breach, or suffer other adverse consequences. There can be no assurance that Sorin's, Cyberonics' and, following completion of the Mergers, the Combined Group's process of consolidating the number of systems they operate, upgrading and expanding the information systems capabilities, protecting and enhancing the systems and developing new systems to keep pace with continuing changes in information processing technology will be successful or that additional systems issues will not arise in the future. Any significant breakdown, intrusion, interruption, corruption or destruction of these systems, as well as any data breaches, could have a material adverse effect on the Combined Group's business.

Risks related to the Sorin spin-off

Sorin was created as a result of a spin-off from SNIA, which became effective on 2 January 2004. Pursuant to the Italian Civil Code, in a spin-off transaction, the parent and the spun-off company can be held jointly liable for certain indebtedness or liabilities of the pre-spin-off company in two scenarios:

- The parent and the spun-off company can be held jointly liable, up to the actual value of the shareholders' equity conveyed or received, 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. Sorin estimates that at the time of the spin-off, the value of the residual shareholders' equity received was approximately €573 million.
- The parent and spun-off company can be held jointly liable, up to the actual value of the shareholders' equity conveyed or received, for "liabilities" (*elementi del passivo*) whose allocation between the parties to the spin-off cannot be determined based on the spin-off plan.

For the purpose of the Italian Civil Code, Sorin believes that the term "debt" (*debiti*) is generally understood to refer to indebtedness as reflected on a debtor's balance sheet for accounting purposes in accordance with the European Union directive pursuant to which these provisions of the Italian Civil Code were enacted, which translates "*debiti*" as "obligations". The European Union directive uses "obligations" to refer to indebtedness owed to creditors and the term "liabilities" to refer to general liabilities. In connection with the Sorin spin-off, the assets and liabilities of SNIA's medical technology division were allocated to Sorin, and the remaining assets and liabilities of SNIA, including these related to the Caffaro Chemical Operations (as described below), were allocated to SNIA.

In January 2012, SNIA filed a civil action against Sorin in the Civil Court of Milan on the basis of the Italian Civil Code's provisions for potential joint liability of a parent and a spun-off company in the context of a spin-off, as described above, seeking to determine Sorin's joint liability with SNIA for damages allegedly related to the Caffaro Chemical Operations. SNIA's civil action against Sorin also named the Italian Ministry of the Environment and other Italian government agencies, as defendants, in order to have them bound to a potential

ruling. The Italian Ministry of the Environment, together with the Italian Ministry of Economy and Finance and certain additional Italian government agencies that also sought compensation from SNIA for the alleged environmental damages, subsequently counterclaimed against Sorin, seeking to have Sorin found jointly liable to them with SNIA, on the same basis. SNIA and these government agencies also asked the court to find inapplicable to the Sorin spin-off the Italian Civil Code's caps on potential joint liability of parties to a spin-off, which limit such joint liability to the actual value of the shareholders' equity received, on the basis that the Sorin spin-off was planned prior to the date such caps were enacted under the Italian Civil Code, and despite the fact that the Sorin spin-off became effective after such date. Sorin sought to contest SNIA's claims against Sorin, in their entirety. At the hearing on 8 September 2015, the parties submitted their final claims in connection with SNIA's civil action and have been granted the terms for filing their final defence briefs. A finding that Sorin is liable in damages in connection with the SNIA litigation could have a material adverse effect on the financial position, results of operations and/or cash flows of Sorin and, following the completion of the Mergers, the Combined Group. Pursuant to European Union, United Kingdom and Italian cross-border merger regulations applicable to the Sorin Merger, Sorin's liabilities, including any potential liabilities arising from the claim against Sorin relating to the SNIA litigation, will be assumed by LivaNova as successor to Sorin in the Sorin Merger.

On 28 July 2015, Sorin and other direct and indirect shareholders of SNIA received an administrative order from the Italian Ministry of the Environment directing them to promptly commence environmental remediation efforts at the Caffaro Chemical Sites. Sorin believes that the environmental remediation order is without merit. Accordingly, Sorin is contesting the environmental remediation order vigorously and seeking a stay of the order pending resolution of the underlying claims in the SNIA litigation. However, there can be no assurance as to the outcome of the SNIA litigation or that Sorin will be successful in challenging the environmental remediation order. If the environmental remediation order is ultimately upheld against Sorin, the effects of such order could have a material adverse effect on the financial position, results of operations and/or cash flows of Sorin and, following completion of the Mergers, the Combined Group.

PART C RISKS RELATING TO TAXATION

The IRS may not agree with the conclusion that LivaNova should be treated as a foreign corporation for U.S. federal tax purposes, and LivaNova may be required to pay substantial U.S. federal income taxes

Although LivaNova is incorporated in the U.K. and, for U.S. federal tax purposes, a corporation generally is considered a tax resident in the jurisdiction of its organisation or incorporation, the IRS may nonetheless assert that LivaNova should be treated as a U.S. corporation (and, therefore, a U.S. tax resident) for U.S. federal tax purposes pursuant to Section 7874 of the Internal Revenue Code. For LivaNova to be treated as a foreign corporation for U.S. federal tax purposes under Section 7874, either (i) the former Cyberonics Stockholders must own (within the meaning of Section 7874) less than 80 per cent. (by both vote and value) of LivaNova Shares by reason of holding shares of Cyberonics Common Stock, or (ii) LivaNova must have substantial business activities in the U.K. after the Mergers (taking into account the activities of LivaNova's expanded affiliated group, or EAG). The percentage (by vote and value) of LivaNova Shares considered to be held by former Cyberonics Stockholders immediately after the Mergers by reason of holding Cyberonics Common Stock as calculated pursuant to Section 7874 is referred to in this section as the "Section 7874 Percentage". Determining the Section 7874 Percentage is complex and, with respect to the Mergers, subject to factual and legal uncertainties, including taking into account several computational rules that may result in the Section 7874 Percentage differing from the actual percentage of stock received in the Cyberonics Merger by former holders of Cyberonics Common Stock.

Neither LivaNova nor its EAG is expected to have substantial business activities in the U.K. within the meaning of the relevant provisions of Section 7874. Immediately after the Cyberonics Merger Effective Time, after taking into account the relevant adjustments, the Section 7874 Percentage is expected to be less than 80 per cent. As a result, LivaNova is expected to be treated as a foreign corporation for U.S. federal tax purposes under Section 7874. However, the IRS may disagree with the calculation of the Section 7874 Percentage. If the IRS determines that the Section 7874 Percentage is at least 80 per cent., LivaNova would be treated as a domestic corporation for all U.S. federal income tax purposes. As a result of such treatment, LivaNova would be subject to tax on its worldwide income at the relatively high U.S. tax rates which can exceed 40 per cent. and would be subject to other provisions of the U.S. tax regime, including with respect to LivaNova subsidiaries which would be treated as "controlled foreign corporations" for U.S. tax purposes. Also, dividend and certain other payments made by LivaNova to foreign entities would be subject to U.S. withholding tax at a statutory rate of 30 per cent., which may be reduced or eliminated by applicable treaty.

It is uncertain whether Section 7874 will limit Cyberonics' and its U.S. affiliates' ability to utilise their U.S. tax attributes and impose an excise tax on gain recognised by certain individuals

If the Section 7874 Percentage is calculated to be at least 60 per cent. but less than 80 per cent., Section 7874 imposes a minimum level of tax on any "inversion gain" of a U.S. corporation (and any U.S. person related to the U.S. corporation) after the acquisition. Inversion gain is defined as (i) the income or gain recognised by reason of the transfer of property to a foreign related person during the 10-year period following the Cyberonics Merger, and (ii) any income received or accrued during such period by reason of a license of any property by the U.S. corporation to a foreign related person. The effect of this provision is to deny the use of certain U.S. tax attributes (including NOLs and certain tax credits) to offset U.S. tax liability, if any, attributable to such inversion gain. In addition, the IRS and the U.S. Treasury Department have issued guidance that has further limited benefits of certain post-combination transactions for combinations resulting in a Section 7874 Percentage of at least 60 per cent. but less than 80 per cent., and have announced the intention to issue future guidance that could potentially limit benefits of interest deductions from intercompany debt or other deductions deemed to inappropriately "strip" U.S. source earnings. Additionally, if the Section 7874 Percentage is calculated to be at least 60 per cent. but less than 80 per cent., Section 7874 and rules related thereto would impose an excise tax under Section 4985 of the Internal Revenue Code (the "Section 4985 Excise Tax"), on the gain recognised by certain "disqualified individuals" (including officers and directors of Cyberonics) on certain Cyberonics stock-based compensation held thereby at a rate equal to 15 per cent. If the Section 4985 Excise Tax is applicable, the compensation committee of the Cyberonics board has determined that it is appropriate to provide such individuals with a payment with respect to the excise tax, so that, on a net after-tax basis, they would be in the same position as if no such excise tax had been applied.

Based on the limited guidance available, after taking into account the relevant adjustments, the Section 7874 Percentage following the Mergers is expected to be less than 80 per cent. However, it is uncertain whether the Section 7874 Percentage will be at least 60 per cent. and, thus, whether the rules limiting certain tax attributes and benefits and imposing the Section 4985 Excise Tax subsequently will apply. As a result, it is uncertain whether (i) Cyberonics or its U.S. affiliates will be able to utilise their U.S. tax attributes to offset their U.S. tax liability, if any, resulting from certain subsequent specified taxable transactions or (ii) "disqualified individuals" will be subject to the Section 4985 Excise Tax.

The existence of a permanent establishment in Italy for LivaNova after the Sorin Merger is a question of fact based on all circumstances

Whether LivaNova maintains an Italian P.E. after the Sorin Merger is largely a question of fact based on all circumstances. LivaNova believes that, on the understanding that it should be a U.K.-resident company under the Italy-U.K. tax treaty, it is likely to be treated as maintaining an Italian P.E. because it intends to maintain sufficient employees, facilities and activities in Italy to qualify as maintaining an Italian P.E. Should this be the case, (i) the embedded gains on Sorin's assets connected with the Italian P.E. will not be taxed upon the Sorin Merger; (ii) Sorin's tax-deferred reserves will not be taxed, insofar as they are booked and reinstated in the Italian P.E.'s financial accounts; and (iii) an Italian fiscal unit could be maintained with respect to Sorin's Italian subsidiaries whose shareholdings are part of the Italian P.E.'s and included in its net worth. As this analysis is highly factual, there can be no assurance regarding LivaNova maintaining an Italian P.E. after the Sorin Merger.

The Sorin Merger will likely result in the immediate charge of an Italian exit tax with respect to capital gains on assets that are expected to be transferred out of the Italian P.E. in connection with the Sorin Merger

The Sorin Merger should qualify as an EU cross-border merger transaction for Italian tax purposes. Italian tax laws provide that such an EU cross-border merger is tax-neutral with respect to those of Sorin's assets that remain connected with the Italian P.E., but will result in the realisation of capital gains or losses on those of Sorin's assets that will not be connected with the Italian P.E., giving rise to an exit tax in Italy. Under Article 166 (2-quater) of the Italian Income Tax Act, companies which cease to be Italian-resident and become tax-resident in another EU member state may apply to suspend any Italian exit tax under the principles of the Court of Justice of the European Union case C-371/10, National Grid Indus BV. Italian rules implementing Article 166 (2-quater) of the Italian Income Tax Act, issued in August 2013 and amended in July 2014, excluded cross-border merger transactions from the suspension of the Italian exit tax. As a result, the Sorin Merger will result in the immediate charge of an Italian exit tax in relation to those of Sorin's assets that will not be connected with the Italian P.E. It cannot be predicted whether the Italian rules governing EU cross-border mergers will be changed in order to allow the deferral of the Italian exit tax before the payment of the Italian exit tax is due. Capital gains on certain assets of Sorin that are expected to be transferred out of the Italian P.E. in connection with the Sorin Merger will be realised for Italian tax purposes.

The continuation of the Italian fiscal unit in the hands of the Italian P.E. and the tax treatment of the carried forward tax losses that might be reattributed to such fiscal unit is uncertain and subject to a mandatory ruling request

According to Article 124(5) of the Italian Income Tax Act, a mandatory ruling request should be submitted to the Italian tax authorities, in order to ensure the continuity, through the Italian P.E., of the Italian fiscal unit currently in place between Sorin and Sorin's subsidiaries in Italy. Sorin will submit a ruling request to the Italian tax authorities in respect of the Sorin Merger. Depending on the outcome of the ruling, it is possible that the carried-forward tax losses generated by Sorin and other group's companies within the Italian fiscal unit, that have been temporarily used to offset the income assessed by Italian tax authorities and might be reattributed, in all or in part, to the Italian P.E. or to such group's companies in case of successful outcome of the tax disputes currently in place would become restricted losses and they could not be used to offset the future taxable income of the fiscal unit. This could adversely affect LivaNova's financial condition or results of operations.

Future changes to tax laws could adversely affect LivaNova and the Combined Group and could have a material impact on the Combined Group's financial condition and results of operations

The U.S. Congress, the Organisation for Economic Co-operation and Development and other government agencies in jurisdictions where LivaNova and its affiliates do business have had an extended focus on issues related to the taxation of multinational corporations. One example is in the area of "base erosion and profit shifting", where payments are made between affiliates from a jurisdiction with high tax rates to a jurisdiction with lower tax rates. Additionally, recent legislative, treaty and regulatory proposals in the United States would impose certain earnings stripping limitations, among others, and withholding tax costs on LivaNova and its affiliates including if the Section 7874 Percentage is determined to be at least 60 per cent. In addition, other recent legislative proposals would treat LivaNova as a U.S. corporation if certain conditions are met, such as if LivaNova's management and control were located in the United States, or if LivaNova's Section 7874 Percentage exceeds a reduced threshold. The tax laws in the United States and other countries in which LivaNova and its affiliates do business could change on a prospective or retroactive basis, and any such changes could adversely affect LivaNova.

Sorin and Cyberonics are, and the Combined Group will be, subject to income taxes as well as non-income based taxes, in the EU, the United States and various other jurisdictions. Sorin and Cyberonics are subject to ongoing tax audits in various jurisdictions. Tax authorities may disagree with certain positions Sorin and/or Cyberonics has taken and assess additional taxes. Sorin and Cyberonics regularly assess the likely outcomes of these audits in order to determine the appropriateness of their tax provision. However, there can be no assurance that Sorin or Cyberonics, or the Combined Group will accurately predict the outcomes of these audits, and the actual outcomes of these audits could have a material impact on the Combined Group's consolidated earnings and financial condition. Additionally, changes in tax laws or tax rulings could materially impact the Combined Group's effective tax rate. For example, recent legislation in the U.S. imposed on medical device manufacturers a 2.3 per cent. excise tax on U.S. sales of medical devices beginning in January 2013. Any of the foregoing could materially and adversely affect the Combined Group's financial condition and results of operations.

LivaNova may not qualify for benefits under the tax treaty entered into between the U.K. and the United States

LivaNova intends to operate in a manner such that it is eligible for benefits under the tax treaty entered into between the U.K. and the United States. However, LivaNova's ability to qualify for such benefits will depend upon the requirements contained in such treaty. The failure by LivaNova or its subsidiaries to qualify for benefits under the tax treaty entered into between the U.K. and the United States could result in adverse tax consequences to LivaNova and its subsidiaries.

A recent treaty proposal by the U.S. Treasury Department would reduce potential tax benefits with respect to LivaNova and its affiliates if the Section 7874 Percentage is calculated to be at least 60 per cent. but less than 80 per cent. by imposing full withholding taxes on payments pursuant to certain financing structures, distributions from U.S. subsidiaries and payments pursuant to certain licensing arrangements. If the proposed treaty is enacted with applicability to LivaNova or its affiliates, it would result in material reductions in the benefit of qualifying for a treaty. See also the risk factor entitled "Future changes to U.S. and foreign tax laws could adversely affect LivaNova and the Combined Group and could have a material impact on the Combined Group's financial condition and results of operation" above.

LivaNova intends to operate so as to be treated exclusively as a resident of the U.K. for tax purposes, but the relevant tax authorities may treat it as also being a resident of another jurisdiction for tax purposes

LivaNova is a company incorporated in England. English law provides that LivaNova will be regarded as being U.K. resident for tax purposes from incorporation and shall remain so unless (i) it is concurrently resident in another jurisdiction (applying the tax residence rules of that jurisdiction) that has a double tax treaty with the U.K., and (ii) there is a tiebreaker provision in that tax treaty which allocates exclusive residence to that other jurisdiction.

Under Italian tax law, corporations are deemed to be resident in Italy for income tax purposes if they have for the greater part of the tax year any of: (i) the registered office (statutory seat), or (ii) the place of effective management, or (iii) the main business purpose within the territory of Italy. Residence of LivaNova for Italian tax purposes is therefore largely a question of fact based on all relevant circumstances. However, LivaNova intends to set up its management and organisational structure in such a manner that it should not meet any of the above residence criteria and it should in any case be regarded as resident exclusively in the U.K. from its incorporation for the purposes of the Italy-U.K. tax treaty. The result of this is that LivaNova should not be regarded as an Italian tax resident either for the purposes of the Italy-U.K. tax treaty or for Italian domestic tax law purposes. Since this analysis is highly factual and may depend on future changes in LivaNova's management and organisational structure, there can be no assurance regarding the final determination of LivaNova's tax residence. Should LivaNova be treated as an Italian tax resident, it would be subject to taxation in Italy on its worldwide income and may be required to comply with withholding tax and/or reporting obligations provided under Italian tax law, which could result in additional costs and expenses. Should Italian withholding taxes be imposed on future dividends or distributions with respect to LivaNova Shares, whether such withholding taxes are creditable against a tax liability to which a shareholder is otherwise subject depends on the laws of such shareholder's jurisdiction and such shareholder's particular circumstances.

PART D RISKS RELATING TO THE LIVANOVA SHARES

The trading of LivaNova Shares after the completion of the Mergers may cause the market price of LivaNova Shares to fall

Following completion of the Mergers, LivaNova Shares are expected to be publicly traded on both the LSE and the NASDAQ, enabling former Cyberonics Stockholders and former Sorin Shareholders to sell the LivaNova Shares they receive in the Mergers. Such sales of LivaNova Shares may take place promptly following the Mergers and could have the effect of decreasing the market price for LivaNova Shares owned by former Cyberonics Stockholders and Sorin Shareholders below the market price of the Cyberonics Shares or Sorin Shares owned by such Cyberonics Stockholders and Sorin Shareholders, respectively, prior to the completion of the Mergers.

No trading market currently exists for LivaNova Shares

Prior to the Mergers, there has been no market for LivaNova Shares. The LivaNova Shares are expected to be admitted to trading on NASDAQ and on the LSE on the Closing Date. However, there can be no assurance that an active market for LivaNova Shares on NASDAQ and/or the LSE will develop after closing of the Mergers, or that if it develops, the market will be sustained.

The value of the LivaNova Shares may go down as well as up and any fluctuations may be material and may not reflect the underlying asset value

The market price of the LivaNova Shares could be subject to significant fluctuations due to a change in sentiment in the market regarding such shares. The fluctuations could result from national and global economic and financial conditions, the market's response to the Mergers, market perceptions of Cyberonics and/or various other factors and events, including but not limited to regulatory changes affecting the Combined Group's operations, variations in the Combined Group's operating results, business developments of the Combined Group and/or its competitors and the liquidity of the financial markets. Furthermore, the operating results and prospects from time to time of Cyberonics, Sorin and/or, following completion of the Mergers, the Combined Group may be below the expectations of market analysts and investors. Any of these events could result in a decline in the market price of the LivaNova Shares.

Admission of the LivaNova Shares may not occur when expected

Application for Admission of the LivaNova Shares will be made prior to the Effective Times. If completion of the Mergers is delayed, the application for Admission will be delayed. Admission is subject to the approval

(subject to satisfaction of any conditions which such approval is expressed) of the FCA. There can be no guarantee that any conditions to which Admission is subject will be met or that the FCA will approve Admission.

Any future issue of LivaNova Shares will further dilute the holdings of LivaNova shareholders and could adversely affect the market price of LivaNova Shares

It is possible that LivaNova may decide to offer additional ordinary shares in the future either to raise capital or for other purposes. If LivaNova shareholders do not take up such offer of ordinary shares or were not eligible to participate in such offering, their proportionate ownership and voting interests in LivaNova would be reduced. An additional offering could have a material adverse effect on the market price of LivaNova Shares.

LivaNova Shareholders in certain overseas jurisdictions may not be able to participate in future equity offerings of LivaNova

The Companies Act 2006 provides for pre-emption rights to be granted to LivaNova Shareholders unless such rights are disapplied by shareholder resolutions. The LivaNova Articles disapply such pre-emption rights in respect of the allotment of new LivaNova Shares equal to 20 per cent. of the LivaNova Shares in issue following completion of the Mergers. LivaNova Shareholders in jurisdictions outside the U.K. may not be entitled to exercise their pre-emption rights due to regulatory requirements under foreign securities laws or other factors. LivaNova cannot assure prospective investors that it would be able to extend any pre-emptive offer into any such jurisdiction. Any LivaNova Shareholder that is unable or unwilling to participate in future share issuances will have their percentage shareholding diluted.

The ability of the Combined Group to pay dividends is not guaranteed

The ability of a company to pay dividends is limited under English company law, which limits a company to making distributions (including paying cash dividends) only to the extent that it has distributable reserves (and, if required, cash) available for this purpose. As a holding company, LivaNova's ability to pay dividends in the future is affected by a number of factors, principally its ability to receive sufficient dividends, and generate sufficient cash flows, from subsidiaries. The payment of dividends to LivaNova by its subsidiaries is, in turn, subject to restrictions, including certain regulatory requirements, applicable tax laws, covenants in debt facilities and the existence of sufficient distributable reserves and cash in such subsidiaries. These laws and restrictions could limit the payment of future dividends and distributions by subsidiaries, which could restrict the ability of LivaNova to fund other operations or to pay a dividend to holders of LivaNova Shares.

Transfers of LivaNova Shares may be subject to U.K. stamp duty or SDRT, which would increase the cost of dealing in LivaNova Shares

U.K. stamp duty and/or SDRT are imposed in the U.K. on certain transfers of or agreements to transfer chargeable securities (which include shares in companies incorporated in the U.K.) at a rate of 0.5 per cent. of the consideration paid for the transfer. Certain issues or transfers of shares to depositaries or into clearance services, as discussed below, are charged at a higher rate of 1.5 per cent.

All of the LivaNova Shares allotted and issued pursuant to the Mergers will be issued directly in the name of Cede & Co., and therefore issued directly into the system of DTC, which is the U.S. paperless settlement system. Transfers of shares or agreements to transfer shares held in book entry form through DTC should not be subject to U.K. stamp duty or SDRT in the U.K. A transfer of title in the shares or an agreement to transfer the shares from within the DTC system out of DTC and any subsequent transfers or agreements to transfer that occur entirely outside the DTC system, including repurchase by LivaNova, will generally be subject to U.K. stamp duty or SDRT at a rate of 0.5 per cent. of any consideration, which is payable by the transferee of the shares. Any such duty must be paid (and the relevant transfer document stamped by HMRC) before the transfer can be registered in the books of LivaNova. If such shares are redeposited into the DTC system, the redeposit will attract U.K. stamp duty or SDRT at the higher 1.5 per cent. rate.

Following the Mergers, LivaNova expects to put in place arrangements to require that shares held in certificated form cannot be transferred into the DTC system until the transferor of the shares has first delivered the shares to a depositary specified by LivaNova so that U.K. stamp duty or SDRT may be collected in connection with the initial delivery to the depositary. Any such shares will be evidenced by a receipt issued by the depositary. Before the transfer can be registered in the books of LivaNova, the transferor will also be required to put the depositary in funds to settle the applicable U.K. stamp duty or SDRT, which will be charged at a rate of 1.5 per cent. of the value of the shares.

In HMRC's most recent guidance published on 23 July 2014, in response to the decisions in certain recent cases, HMRC has confirmed that it will no longer seek to apply the 1.5 per cent. U.K. stamp duty or SDRT charge when new shares of companies incorporated in the U.K. are first issued to a clearance service (or its nominee) or depositary (or its nominee or agent) anywhere in the world or are transferred to such an entity anywhere in the world as an integral part of an issue of share capital. Accordingly, it is not currently expected that U.K. stamp duty and/or SDRT would be imposed under current U.K. tax law and HMRC practice on a future issue of shares by LivaNova. However, it is possible that the U.K. government may change the relevant law in response to the cases referenced above, and that this may have a material effect on the cost of share issues by LivaNova and potentially on the cost of dealing in LivaNova Shares. If LivaNova Shares are not, or cease to be, eligible for deposit and clearing within the facilities of DTC, then transactions in its securities may be disrupted, which could have a material adverse effect on the trading price of LivaNova Shares.

The facilities of DTC are a widely-used mechanism in the U.S. that allow for rapid electronic transfers of securities between the participants in the DTC system, which include many large banks and brokerage firms. LivaNova expects that, upon the completion of the Mergers, LivaNova Shares will be eligible for deposit and clearing within the DTC system. However, DTC is not obligated to accept LivaNova Shares for deposit and clearing within its facilities at the closing of the Mergers and, even if DTC does initially accept LivaNova Shares, it will generally have discretion to cease to act as a depositary and clearing agency for LivaNova Shares. If DTC determines at any time that LivaNova Shares are not eligible for continued deposit and clearance within its facilities, then LivaNova believes that LivaNova Shares would not be eligible for continued listing on a U.S. securities exchange and trading in LivaNova Shares would be disrupted. While LivaNova would pursue alternative arrangements to preserve the listing and maintain trading, any such disruption could have a material adverse effect on the trading price of LivaNova Shares.

In connection with the closing of the Mergers, LivaNova expects to enter into arrangements whereby DTC will be indemnified for any U.K. stamp duty and/or SDRT that may be assessed upon it as a result of its services as a depositary and clearing agency for LivaNova Shares. It is expected that these actions, among others, will result in DTC agreeing to accept LivaNova Shares for deposit and clearing within its facilities upon consummation of the Mergers.

It is expected that settlement of LivaNova Shares in CREST will take place through DDIs issued by the Depositary. The underlying LivaNova Shares will remain in the DTC system in the participant account of Computershare Trust Co., N.A., and the Depositary will issue the DDIs representing such LivaNova Shares that will settle through CREST on a one-for-one basis. The LivaNova Shares themselves would not be enabled for direct settlement through CREST. Transfers of DDIs representing underlying LivaNova Shares through CREST will be generally liable to SDRT, rather than U.K. stamp duty, at the 0.5 per cent. rate. CREST is required to collect SDRT on relevant transactions settled within the CREST system. The issue and deposit into CREST, and any subsequent cancellation, of DDIs representing underlying LivaNova Shares should not give rise to any liability to U.K. stamp duty or SDRT, although this is the subject of a clearance being sought from HMRC to confirm this treatment and no guarantee can be given on the outcome of such an application.

CONSEQUENCES OF A STANDARD LISTING

APPLICATION HAS BEEN MADE FOR THE LIVANOVA SHARES TO BE ADMITTED TO THE STANDARD LISTING SEGMENT OF THE OFFICIAL LIST. A STANDARD LISTING PROVIDES SUBSCRIBERS FOR AND PURCHASERS OF LIVANOVA SHARES WITH A LOWER LEVEL OF REGULATORY PROTECTION THAN THAT PROVIDED TO INVESTORS IN COMPANIES WHOSE SECURITIES ARE ADMITTED TO THE PREMIUM LISTING SEGMENT OF THE OFFICIAL LIST, WHICH ARE SUBJECT TO ADDITIONAL OBLIGATIONS UNDER THE LISTING RULES. IT SHOULD BE NOTED THAT NEITHER THE FCA NOR THE LSE WILL HAVE THE AUTHORITY TO (AND WILL NOT) MONITOR LIVANOVA'S COMPLIANCE WITH ANY OF THE LISTING RULES AND/OR ANY PROVISION OF THE MODEL CODE OR THOSE ASPECTS OF THE DISCLOSURE AND TRANSPARENCY RULES WHICH LIVANOVA HAS INDICATED HEREIN THAT IT INTENDS TO COMPLY WITH ON A VOLUNTARY BASIS, NOR TO IMPOSE SANCTIONS IN RESPECT OF ANY FAILURE BY LIVANOVA TO SO COMPLY.

The LivaNova Shares will be admitted to listing on the Official List pursuant to Chapter 14 of the Listing Rules, which sets out the requirements for standard listings. LivaNova will comply with Listing Principles 1 and 2 as set out in Chapter 7 of the Listing Rules, as required by the FCA.

An applicant that is applying for a standard listing of equity securities must comply with all the requirements listed in Chapter 2 of the Listing Rules, which specifies the requirements for listing for all securities. Where an application is made for the admission to the Official List of a class of shares, at least 25 per cent. of shares of that class must be distributed to the public in one or more EEA states; for a company such as LivaNova with a listing in the United States, account may also be taken of holders in the United States. Listing Rule 14.3 sets out the continuing obligations applicable to the issuer and requires that the issuer's listed securities must be admitted to trading on a regulated market at all times. The applicant must have a minimum number of shares of any listed class (25 per cent.) in public hands at all times in the relevant jurisdictions and must notify the FCA as soon as possible if these holdings fall below the stated level. There are a number of other continuing obligations set out in Chapter 14 of the Listing Rules that will be applicable to LivaNova.

These include requirements as to:

(a) forwarding of circulars and other documentation to the FCA for publication through the national storage mechanism, and related notification to a Regulatory Information Service;

(b) the provision of contact details of appropriate persons nominated to act as a first point of contact with the FCA in relation to compliance with the Listing Rules and the Disclosure and Transparency Rules;

(c) the form and content of temporary and definitive documents of title;

(d) the appointment of a registrar;

(e) Regulatory Information Service notification obligations in relation to a range of debt and equity capital issues; and

(f) compliance with, in particular, Chapters 4, 5 and 6 of the Disclosure and Transparency Rules.

As LivaNova has a standard listing, it is not required to comply with the provisions of, among other things:

- Chapter 6 of the Listing Rules containing additional requirements for the listing of equity securities, which are only applicable for companies with a premium listing;
- Chapter 7 of the Listing Rules, to the extent that they refer to Premium Listing Principles;
- Chapter 8 of the Listing Rules regarding the appointment of a listing sponsor to guide LivaNova in understanding and meeting its responsibilities under the Listing Rules in connection with certain matters. In particular, LivaNova is not required to appoint a sponsor in relation to the publication of this Prospectus or Admission;
- Chapter 9 of the Listing Rules containing provisions relating to transactions, including, *inter alia* requirements relating to further issues of shares, the ability to issue shares at a discount in excess of 10 per cent. of market value, notifications and contents of financial information;
- Chapter 10 of the Listing Rules relating to significant transactions which requires shareholder consent for certain acquisitions;
- Chapter 11 of the Listing Rules regarding related party transactions;

- Chapter 12 of the Listing Rules regarding purchases by LivaNova of its shares. Under the Companies Act 2006, where LivaNova proposes to purchase shares, it can only do so out of distributable profits of LivaNova or out of the proceeds of a fresh issue of shares made for the purpose of financing the purchase; and
- Chapter 13 of the Listing Rules regarding the form and content of circulars to be sent to shareholders.

A company with a standard listing is not currently eligible for inclusion in any of the FTSE indices (i.e. FTSE 100, FTSE 250 etc.). This may mean that certain institutional investors are unable to invest in the LivaNova Shares.

PRESENTATION OF INFORMATION

Forward-looking statements

Certain information contained or incorporated by reference in this Prospectus, including any information as to the Combined Group's strategy, plans or future financial or operating performance constitutes "forward-looking statements". These forward-looking statements can be identified by the use of terminology such as, "aims", "anticipates", "assumes", "believes", "budgets", "could", "contemplates", "continues", "estimates", "expects", "intends", "may", "plans", "predicts", "projects", "schedules", "seeks", "shall", "should", "targets", "would", "will" or, in each case, their negative or other variations or comparable terminology.

Such forward looking statements are based on numerous assumptions regarding LivaNova's present and future business strategies and the environment in which Cyberonics, Sorin and/or, if the Mergers become effective, the Combined Group will operate in the future. By their nature, such forward-looking statements involve known and unknown risks, uncertainties and other factors because they relate to events and depend on circumstances which may or may not occur in the future. Forward-looking statements are not guarantees of future performance. The actual results, performance or achievements of Cyberonics, Sorin and/or the Combined Group, or industry results, may be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. In addition, even if actual performance, results of operations, internal rate of return, financial condition, and the development of its financing strategies are consistent with the forward-looking statements contained in this Prospectus, those results or developments may not be indicative of results or developments in subsequent periods.

Key risks, uncertainties and other factors that could cause actual results to differ from those expected are set out more fully in the section of this Prospectus headed "Risk Factors". Investors should specifically and carefully consider these factors, which could cause actual results to differ, before making an investment decision.

These forward looking statements speak only as at the date of this Prospectus. To the extent required by the FCA, the LSE or applicable law (including as may be required by the Prospectus Rules, the Listing Rules and the Disclosure and Transparency Rules), LivaNova will update or revise the information in this Prospectus. Otherwise, LivaNova expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements contained in this Prospectus to reflect any change in expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

The statements above relating to forward-looking statements should not be construed as a qualification on the opinion as to working capital set out in this Prospectus.

Financial information relating to Sorin

All financial information relating to Sorin contained in this Prospectus, unless otherwise stated, has been extracted from Sorin's annual reports for the three years ended 31 December 2014 that Sorin has previously filed with CONSOB in Italy, as the competent authority of Sorin's home member state, in accordance with the requirements of that competent authority and is incorporated by reference herein. The financial information relating to Sorin contained in this Prospectus has been prepared in accordance with IFRS.

The comparative figures for the year ended 31 December 2012 were restated in Sorin's 2013 annual report as required by IAS 8, specifically to correct the accounting of deferred-tax liabilities for the tax deductible amortisation of goodwill and other intangible assets resulting from acquisitions completed before 2002. Accordingly, the financial information for the year ended 31 December 2012 included in this Prospectus has been extracted without adjustment from the consolidated, unaudited restated comparatives for the year ended 31 December 2012 included in the audited consolidated financial statements for the year ended 31 December 2013.

The consolidated unaudited interim financial statements of Sorin filed with the CONSOB for the six month period ended 30 June 2015 are incorporated by reference into this Prospectus.

Financial information relating to Cyberonics

All financial information relating to Cyberonics contained in this Prospectus, unless otherwise stated, has been taken from Cyberonics' consolidated audited financial statements for the 52 weeks ended 24 April 2015, 25 April

2014 and 26 April 2013, and the consolidated unaudited quarterly financial statements for the period beginning on 25 April 2015 and ending 24 July 2015, which are included herein without material change beginning on page 246 of this Prospectus. All disclosures of dollar amounts, except share data and per share amounts, are presented in thousands of dollars. The financial information relating to Cyberonics contained in this Prospectus has been prepared in accordance with U.S. GAAP.

Presentation of other information

Rounding

Percentages and certain amounts included in this Prospectus have been rounded for ease of preparation. Accordingly, numerical figures shown as totals in certain tables may not be the exact arithmetic aggregations of the figures that precede them. In addition, certain percentages and amounts contained in this Prospectus reflect calculations based on the underlying information prior to rounding and, accordingly, may not conform exactly to the percentages or amounts that would be derived if the relevant calculations were based upon the rounded numbers.

Currencies

In this Prospectus:

- references to "pounds sterling", "British pound", "British Pound", "£", "pence" or "p" are to the lawful currency of the United Kingdom;
- references to "$", "US$", "USD" or "U.S. dollars" are to the lawful currency of the United States of America;
- references to "€", "EUR" or "Euro" are to the currency introduced at the start of the third stage of the European economic and monetary union pursuant to the Treaty establishing the European Community;
- references to "Japanese yen" are to the lawful currency of Japan;
- references to "Canadian dollars" are to the lawful currency of Canada;
- references to "Australian dollars" are to the lawful currency of Australia;
- references to "Swiss francs" are to the lawful currency of Switzerland; and
- references to "RMB" or "CNY" are to the lawful currency of the People's Republic of China.

Times

All times referred to in this Prospectus are, unless otherwise stated, references to the time in London, United Kingdom.

No incorporation of website information

The contents of the Cyberonics and Sorin websites, and any other websites referred to in this Prospectus, do not form a part of this Prospectus.

U.S. and Italian considerations

LivaNova is incorporated under the laws of England and Wales. After the Effective Times, LivaNova Shareholders could experience more difficulty enforcing judgments obtained against LivaNova in U.S. or Italian courts than would currently be the case for U.S. or Italian judgments obtained against Cyberonics or Sorin, respectively. In addition, it may be more difficult (or impossible) to bring some types of claims against LivaNova in courts in England than it would be to bring similar claims against a U.S. company in a U.S. court or an Italian company in an Italian court.

INFORMATION INCORPORATED BY REFERENCE

The table below sets out the documents of which certain parts are incorporated by reference into this Prospectus and which are available for inspection as set out in paragraph 16 of Part XIII (*Additional Information*) of this Prospectus. This Prospectus should be read and construed in conjunction with the following documents which have been previously filed with CONSOB.

Documents containing information incorporated by reference	**Where information can be accessed by shareholders**
Sorin Annual Report 2014	www.sorin.com
Sorin Annual Report 2013	www.sorin.com
Sorin Annual Report 2012	www.sorin.com
Sorin's half year report for the six months ended 30 June 2015	www.sorin.com

To the extent that any document or information incorporated by reference or attached to this Prospectus itself incorporates any information by reference, either expressly or impliedly, such information will not form part of this Prospectus for the purposes of the Prospectus Rules, except where such information or documents are stated within this Prospectus as specifically being incorporated by reference or where this Prospectus is specifically defined as including such information.

Except as set out above, no other portion of these documents is incorporated by reference into this Prospectus and these portions which are not specifically incorporated by reference in this Prospectus are either not relevant for the prospective investors and/or LivaNova Shareholders or the relevant information included elsewhere in this Prospectus.

Any statement contained in a document which is deemed to be incorporated by reference into this Prospectus shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained in this Prospectus (or in a later document which is incorporated for reference into this Prospectus) modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except so modified or superseded, to constitute part of this Prospectus.

The following cross-reference list is intended to enable investors to identify easily specific items of information which have been incorporated by reference into this Prospectus, so as to provide the information under the Prospectus Rules and to ensure that the LivaNova Shareholders and others are aware of all information which according to the particular nature of Sorin and of the LivaNova Shares, is necessary to enable the LivaNova Shareholders and others to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of Sorin.

Sorin 2014 Annual Report and Accounts

The page numbers below refer to the relevant pages of the Sorin Annual Report 2014:

- Consolidated balance sheet - page 73
- Consolidated income statement - page 74
- Consolidated statement of changes in equity - page 76
- Consolidated cash flow statement - page 77
- Notes to the accounts - page 78
- Accounting policies - page 79
- Auditor's report - page 239

Sorin 2013 Annual Report and Accounts

The page numbers below refer to the relevant pages of the Sorin Annual Report 2013:

- Consolidated balance sheet - page 73

- Consolidated income statement - page 74
- Consolidated statement of changes in equity - page 76
- Consolidated cash flow statement - page 77
- Notes to the accounts - page 78
- Accounting policies - page 80
- Auditor's report - page 241

Sorin 2012 Annual Report and Accounts

The page numbers below refer to the relevant pages of the Sorin Annual Report 2012:

- Consolidated balance sheet - page 71
- Consolidated income statement - page 72
- Consolidated statement of changes in equity - page 74
- Consolidated cash flow statement - page 75
- Notes to the accounts - page 76
- Accounting policies - page 78
- Auditor's report - page 235

Half year report for the six months ended 30 June 2015

The page numbers below refer to the relevant pages of Sorin's half year report for the six months ended 30 June 2015. The financial information referred to in this paragraph has not been audited.

- Consolidated balance sheet - page 43
- Consolidated income statement - page 44
- Consolidated statement of changes in equity - page 46
- Consolidated cash flow statement - page 47
- Notes to the accounts - page 48
- Accounting policies - page 49

INDICATIVE MERGER STATISTICS

Number of LivaNova Shares currently in issue as at 9 October 2015, being the latest practicable date prior to the publication of this Prospectus	1
Number of Redeemable Shares currently in issue as at 9 October 2015, being the latest practicable date prior to the publication of this Prospectus	50,000
Number of LivaNova Shares to be issued pursuant to the Mergers[(1)]	up to 48,822,316
Number of LivaNova Shares to be issued as Sorin Merger Consideration in connection with the Sorin Merger	up to 22,776,023
Number of LivaNova Shares to be issued as Cyberonics Merger Consideration in connection with the Cyberonics Merger	up to 26,046,293
Enlarged issued share capital of LivaNova[(2)]	up to 48,822,316 LivaNova Shares

(1) Represents the maximum number of LivaNova Shares that will be issued pursuant to the Mergers. Calculated as the sum of (a) applying the Sorin Merger Exchange Ratio to the 477,824,044 Sorin Shares and 4,718,816 securities convertible into Sorin Shares in issue on 9 October 2015 (being the latest practicable date prior to the publication of this Prospectus), and (b) applying the Cyberonics Merger Exchange Ratio to the 26,046,293 Cyberonics Common Stock in issue on 9 October 2015 (being the latest practicable date prior to the publication of this Prospectus).

(2) The one LivaNova Share and 50,000 Redeemable Shares in issue as at 9 October 2015 will be repurchased and redeemed, as applicable, on the Closing Date as set out in paragraph 2.2 of Part XIII (*Additional Information*).

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Each of the dates and times in the table below is indicative only and is based on LivaNova's, Sorin's and Cyberonics' current expectations and may be subject to change (including as a result of the process for obtaining the Sorin Merger Order from the Court).

If any of the times or dates change, details of the new times and dates will be notified by LivaNova, Sorin and/or Cyberonics by an announcement through a Regulatory Information Service. Reference to times in this Prospectus are to London times unless otherwise stated.

Event	2015
Announcement of the Mergers	26 February 2015
Date of the Information Document	11 May 2015
Sorin Extraordinary General Meeting	26 May 2015
Date of the Registration Statement	19 August 2015
Cyberonics Special Meeting	22 September 2015
Publication of this Prospectus	12 October 2015
Sorin Merger Effective Time	00:01 on 19 October 2015
Cyberonics Merger Effective Time	05:01 on 19 October 2015
Admission and commencement of dealings in the LivaNova Shares on the Main Market of the LSE	14:30 on 19 October 2015
Admission and commencement of dealings in the LivaNova Shares on the NASDAQ	14:30 on 19 October 2015
CREST accounts expected to be credited with DDIs (where applicable)	On or around 19 October 2015

Each of the times and dates in the above timetable is subject to change without further notice. References to times are to London time unless otherwise stated.

LIVANOVA DIRECTORS, PROPOSED DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE AND ADVISERS

Current Directors	Daniel J. Moore André-Michel Ballester
Proposed Directors[(1)]	Rosario Bifulco Hugh Morrison Alfred J. Novak Arthur L. Rosenthal Francesco Bianchi Stefano Gianotti Sharon O'Kane
Company Secretary	Brian Sheridan
Registered office[(2)]	c/o Legalinx Limited 1 Fetter Lane London United Kingdom EC4 1BR
Head office and Directors' business address	5 Merchant Square London W2 1AY United Kingdom
Legal advisers to LivaNova	Latham & Watkins (London) LLP 99 Bishopsgate London EC2M 3XF United Kingdom
Auditors and reporting accountants in respect of LivaNova	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH United Kingdom
Auditors in respect of Sorin	PricewaterhouseCoopers S.p.A. Via Monte Rosa 91 20149 Milan Italy
Auditors in respect of Cyberonics	KPMG LLP 811 Main Street Suite 4400 Houston, Texas 77002 United States
Registrars	Computershare Trust Company, N.A. 250 Royall Street Canton, MA 02021 United States
Depositary	Computershare Investor Services PLC The Pavilions Bridgwater Road Bristol BS13 8AE United Kingdom

Notes:

(1) The Proposed Directors will become directors of LivaNova with effect from the Closing Date.

(2) The Registered office will be 5 Merchant Square, London, W2 1AY, United Kingdom from the Closing Date.

PART I
INFORMATION ON THE MERGERS

1. SUMMARY OF THE MERGERS

On 26 February 2015, it was announced that Cyberonics, Sorin, LivaNova and Merger Sub had entered into a binding Letter of Intent, providing that, subject only to completion of the employee consultation procedures required under French law, the parties would enter into a definitive merger agreement providing for a business combination transaction between Cyberonics and Sorin. On 23 March 2015, Cyberonics, Sorin, LivaNova and Merger Sub entered into the Merger Agreement providing for the business combination transaction. Pursuant to the Merger Agreement:

- ***Sorin Merger***: Sorin will merge with and into LivaNova, with LivaNova continuing as the surviving company, and each Sorin Share (other than (i) the Excluded Sorin Shares, and (ii) the Sorin Rescission Shares) will be converted into the right to receive 0.0472 LivaNova Shares in accordance with the Sorin Merger Exchange Ratio as Sorin Merger Consideration; and
- ***Cyberonics Merger***: Immediately following the Sorin Merger, Merger Sub will merge with and into Cyberonics, with Cyberonics continuing as the surviving company and as a wholly owned subsidiary of LivaNova, and each share of Cyberonics Common Stock, other than the Excluded Cyberonics Stock, will be converted into the right to receive one LivaNova Share in accordance with the Cyberonics Merger Exchange Ratio as Cyberonics Merger Consideration.

Based on the number of Sorin Shares and securities convertible into Sorin Shares, and the number of shares of Cyberonics Common Stock and securities convertible into Cyberonics Common Stock, in each case in issue as at 9 October 2015 (being the latest practicable date prior to publication of this Prospectus), and following the purchase by other Sorin Shareholders, on or before 22 July 2015, of all Sorin Rescission Shares under Italian law in connection with the Sorin Merger, it is anticipated that existing Cyberonics securityholders will own approximately 54 per cent. of LivaNova on a fully-diluted basis, and existing Sorin securityholders will own approximately 46 per cent. of LivaNova on a fully-diluted basis, immediately after completion of the Mergers.

The issued share capital of LivaNova as it is expected to be after the issue of the LivaNova Shares (on the assumption that 22,776,023 LivaNova Shares will be issued as Sorin Merger Consideration and 26,046,293 LivaNova Shares will be issued as Cyberonics Merger Consideration) and immediately following Admission will be 48,822,316 with a nominal value of £48,822,316.

All of the conditions to the completion of the Mergers have been satisfied prior to the date of this Prospectus. In particular:

- Sorin Shareholder Approval was received on 26 May 2015;
- Cyberonics Stockholder Approval was received on 22 September 2015; and
- the Sorin Merger Order was obtained on 23 September 2015, fixing the Sorin Merger Effective Time as 00.01 on 19 October 2015.

2. BACKGROUND TO, AND REASONS, FOR THE MERGERS

On 26 February 2015, it was announced that the combination between Cyberonics and Sorin was expected to create a new global leader in medical technologies with a combined equity value of US$2.7 billion (or €2.4 billion) based on the closing prices of Cyberonics and Sorin on the NASDAQ and ISE, respectively, on 25 February 2015. The Mergers were unanimously approved by the board of directors of both Cyberonics and Sorin.

The Current Directors and Proposed Directors believe that the Mergers will create a global leader in the large and growing markets for cardiac surgery and neuromodulation and a leading innovator in CRM. It is expected that the Combined Group will have a diversified product portfolio that can leverage product technologies, and enjoy complementary marketing capabilities. The Current Directors and Proposed Directors expect that that the potential combination of product development, clinical and regulatory expertise will accelerate the length of time taken in the product development process to the marketing and sale of the product across worldwide geographies. The Combined Group can leverage its extensive relationships with healthcare professionals globally, and combine their patient education and awareness initiatives. The Combined Group will enable Cyberonics and Sorin to create value for the LivaNova Shareholders by enabling employees to share their technical expertise, which will lead to further medical innovations.

It is expected that the Mergers will lead to enhanced geographic diversification and benefits of scale, and that the financial profile of the Combined Group will drive growth and build shareholder value. The Current Directors and Proposed Directors expect that the Combined Group will focus on three multi-billion dollar product categories: heart failure, sleep apnoea and percutaneous mitral valve. It is currently anticipated that the Combined Group will be able to market products in relation to the treatment of heart failure in the European markets in 2015, including Cyberonics' VITARIA™ device, which delivers autonomic regulation therapy for the treatment of CHF, and Sorin's Equilia™ VNS system for heart failure patients. The Combined Group is also expected to benefit from the developing market for active implantable treatments for sleep apnoea, with investments aimed at the under-addressed obstructive sleep apnoea market, and also in CSA market. In addition, the Combined Group is expected to market and sell percutaneous mitral valve replacement/repair products in 2017.

3. INFORMATION RELATING TO SORIN

Sorin is a multinational corporation and global leader in the field of medical devices for the treatment of cardiovascular diseases. Sorin develops, produces and distributes medical devices for cardiac surgery and the treatment of cardiac rhythm dysfunctions. Through steady growth and expansion, Sorin has become a market leader in medical technologies for treating cardiovascular disease, and has become the global leader in the cardiopulmonary market.

Sorin had approximately 4,000 employees worldwide as of 31 December 2014 and is focused on two main therapeutic areas:

- Cardiac Surgery - systems and disposable biomedical devices for extracorporeal circulation during heart surgery and implantable prostheses to replace or repair native heart valves; and
- Cardiac Rhythm Management - implantable devices, monitoring systems and accessories for cardiac rhythm dysfunctions.

In addition, through its New Ventures division, Sorin is developing new solutions to treat heart failure and mitral valve regurgitation. Over one million patients in over 100 countries are treated with Sorin devices each year. Sorin's products are used in over 5,000 hospitals worldwide. Prior to the Effective Times, the Sorin Shares were listed on the ISE under the symbol "SRN".

The principal executive offices of Sorin are located at Via Benigno Crespi, 17, 20159, Milan, Italy.

4. INFORMATION RELATING TO CYBERONICS

Cyberonics, a Delaware corporation, is a medical device company. Cyberonics was incorporated in 1987 and is engaged in the design, development, sale and marketing of an implantable medical device, the VNS Therapy® System, that delivers a unique therapy, VNS therapy, using pulsed electrical signals applied to the vagus nerve for the treatment of refractory epilepsy and TRD. Cyberonics has also obtained CE Mark approval to sell the VNS Therapy System in the EEA for the treatment of CHF. The device remains investigational, therefore Cyberonics has permission to provide the device prior to receiving marketing approval, for CHF elsewhere in the world, including in the U.S.

As at the date of this Prospectus, the Cyberonics Common Stock is listed on the NASDAQ under the symbol "CYBX", and will be de-listed from NASDAQ at or immediately following the Effective Times.

The principal executive offices of Cyberonics are located at Cyberonics Building, 100 Cyberonics Blvd., Houston, Texas 77058-2072.

5. INFORMATION RELATING TO MERGER SUB

Merger Sub was incorporated on 20 February 2015 under the laws of the State of Delaware. Merger Sub is a wholly owned subsidiary of LivaNova that was formed solely for the purpose of effecting the Cyberonics Merger. Merger Sub has not conducted any business operations other than that incidental to its formation and in connection with the transactions contemplated by the Merger Agreement.

The principal executive offices of Merger Sub are located at 14401 West 65th Way, Arvada, Colorado 80004-3503.

6. INFORMATION RELATING TO LIVANOVA PLC

At the date of the publication of this Prospectus, LivaNova is a wholly-owned subsidiary of Sorin. On 20 February 2015, LivaNova was incorporated as a private limited company under the laws of England and Wales under the name Sand Holdco Limited, for the purpose of entering into the Merger Agreement.

On 17 April 2015, LivaNova was re-registered a public limited company incorporated pursuant to the Companies Act 2006 with the name Sand Holdco PLC. LivaNova's name was changed to LivaNova PLC on 23 June 2015. LivaNova has not conducted any business operations other than that which is incidental to its formation and in connection with the transactions contemplated by the Merger Agreement. Following the Mergers, LivaNova will be the holding company of the combined businesses of Cyberonics and Sorin, and it is expected that LivaNova Shares will be admitted to trading on the LSE and listed and traded on the NASDAQ.

Current U.K. law provides that LivaNova will be regarded as being U.K. resident for tax purposes from incorporation and shall remain so unless (i) it was concurrently resident of another jurisdiction (applying the tax residence rules of that jurisdiction) that has a double tax treaty with the U.K. and (ii) there is a tie-breaker provision in that tax treaty which allocates exclusive residence to that other jurisdiction. LivaNova intends to establish its key management and organisational structure in such a manner that it should be regarded solely as resident in the U.K. from its incorporation for tax purposes.

The principal executive offices of LivaNova are located at 5 Merchant Square, London, W2 1AY, United Kingdom.

7. STRATEGY OF THE COMBINED GROUP

The Mergers will enable the Combined Group to combine Cyberonics' global leadership in devices used for the treatment of epilepsy and neuromodulation, with Sorin's global leadership in cardiac surgery and CRM to create a premier global medical technology company. In addition to the strategy of delivering the synergies that have been identified in paragraph 10 below, there are three additional growth opportunities that have been identified by Sorin and Cyberonics as being central to the strategy of the Combined Group:

7.1 Leadership in large and growing markets

The Combined Group will bring together global leaders in cardiac surgery and neuromodulation, as well as the opportunity to leverage the innovation in CRM.

Sorin is a global leader in cardiac surgery and is a market leader in the development, production and sale of cardiovascular surgery products, including HLM and oxygenators. It has a strong history rooted in continued development and innovation of its product offering and the technology it uses. It has historically made acquisitions to expand and enhance its product lines, such as the acquisition of the BEL in 2014 to expand its cannulae manufacturing activities, and the development of U.S. FDA approved Mitroflow™, an aortic pericardial heart valve with PRT, and CE Mark certificated Crown PR™ stented aortic bioprosthesis.

Cyberonics has a long-standing reputation on the market as a leader in neuromodulation. Cyberonics has engaged in the design, development, sale and marketing of the U.S. FDA approved VNS Therapy System, which is used to treat refractory epilepsy and depression in hospitals and surgeries in the United States and elsewhere. Cyberonics is further developing its neuromodulation technology by pioneering the use of the VNS Therapy System for the treatment of CHF.

The Combined Group will leverage the innovation behind Sorin's CRM global market and reputation, which is particularly strong in Europe and Japan. The Combined Group will be able to utilise the depth and breadth of Sorin's CRM expertise given Sorin's experience and innovation in the technologies and devices offered to the market, including the CE Mark certified REPLY 200™ and KORA 100™ pacemakers, as well as the broad geographical markets where its products are offered, including in the rapidly growing market in China.

7.2 Highly complementary technologies and selling capabilities

The Combined Group can also utilise and leverage the shared technologies that Sorin and Cyberonics have independently developed over the years in relation to their respective product offerings using implantable electronics for the treatment of CHF and sleep apnoea, and in connection with neuromodulation and CRM such as remote monitoring algorithms and wireless technologies.

The Combined Group can also benefit from opportunities to commercialise their complementary product portfolios. With their combined knowledge of the medical devices industry, the Combined Group will have a wealth of experience in marketing new products and technologies through existing sales channels in all of the global markets in which Sorin and Cyberonics operates, including through clinicians ranging from epileptologists, neurologists, neurosurgeons and perfusionists with whom Sorin and Cyberonics have worked with as independent companies.

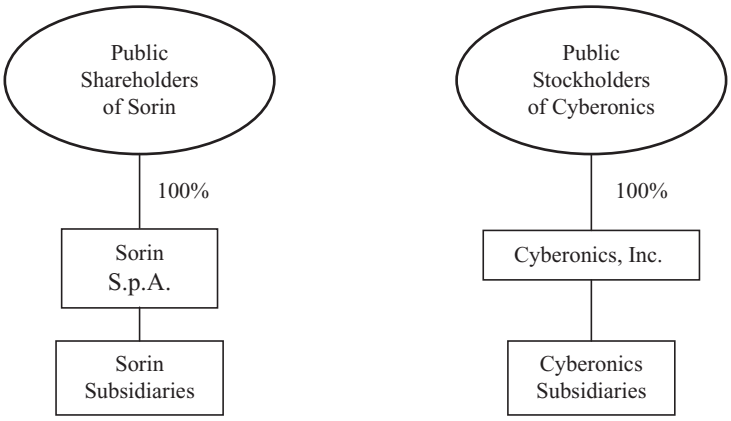
7.3 Opportunities in three substantial new markets, each potentially exceeding a billion dollar value

The Combined Group is expected to focus on developing new opportunities and commercialising new product offerings in three substantial new markets, each potentially exceeding a billion dollar value: heart failure, sleep apnoea and percutaneous mitral valve. It is currently anticipated that the Combined Group will be able to market products in relation to the treatment of heart failure in European markets in 2015, including Cyberonics' VITARIA™ Systems, which delivers autonomic regulation therapy for the treatment of CHF, and Sorin's Equilia™ VNS system for heart failure patients. The Combined Group is also expected to benefit from the developing market for active implantable treatments for sleep apnoea, with investments aimed at the under-addressed obstructive sleep apnoea market, and also in the CSA market. The Combined Group is expected to market and sell percutaneous mitral valve replacement/repair products in 2017.

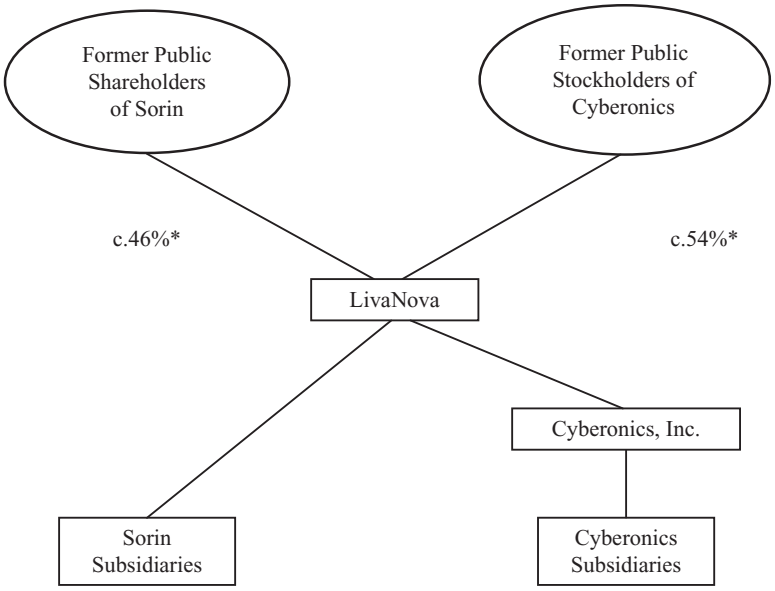
8. STRUCTURE OF THE MERGERS

The Mergers will take place in two steps. First, Sorin will merge with and into LivaNova in a cross-border merger, pursuant to which, following the Sorin Merger Effective Time, the independent existence of Sorin will cease, with LivaNova surviving as the continuing entity. Immediately following the Sorin Merger Effective Time, Merger Sub will merge with and into Cyberonics in a reverse subsidiary merger under Delaware law, with Cyberonics surviving as a wholly owned subsidiary of LivaNova.

Simplified Pre-Transaction Structure



Simplified Post-Transaction Structure*



* Ownership percentages shown are based on the number of Sorin Shares and securities convertible into Sorin Shares and shares of Cyberonics Common Stock and securities convertible into Cyberonics Common Stock, in each case outstanding on 9 October 2015 (being the latest practicable date prior to publication of this Prospectus) and following the purchase by other Sorin Shareholders, on or before 22 July 2015, of all Sorin Rescission Shares under Italian law in connection with the Sorin Merger. The final structure at consummation of the Cyberonics Merger is expected to include certain intermediate holding companies as subsidiaries of LivaNova to achieve an efficient intercompany structure.

Sorin Merger

Subject to the terms and conditions of the Merger Agreement, at the Sorin Merger Effective Time, each Sorin Share (other than (i) the Excluded Sorin Shares and (ii) the Sorin Rescission Shares), will be converted into the right to receive 0.0472 LivaNova Shares.

Cyberonics Merger

Subject to the terms and conditions of the Merger Agreement, at the Cyberonics Merger Effective Time, each issued and outstanding share of Cyberonics Common Stock, other than Excluded Cyberonics Stock, will be converted into the right to receive one LivaNova Share.

Based on the number of Sorin Shares and securities convertible into Sorin Shares and the number of shares of Cyberonics Common Stock and securities convertible into Cyberonics Common Stock, in each case outstanding as of 9 October 2015 (being the latest practicable date prior to publication of this Prospectus) and following the purchase by other Sorin Shareholders, on or before 22 July 2015, of all Sorin Rescission Shares under Italian law in connection with the Sorin Merger, it is anticipated that existing Cyberonics securityholders will own approximately 54 per cent. of LivaNova on a fully-diluted basis and existing Sorin securityholders will own approximately 46 per cent. of LivaNova on a fully-diluted basis, as of immediately after completion of the Mergers.

9. SUMMARY OF THE MERGER AGREEMENT

The Merger Agreement was entered into on 23 March 2015 between Cyberonics, Sorin, LivaNova and Merger Sub setting out the terms and conditions for the Sorin Merger and Cyberonics Merger, respectively.

9.1 Consideration

Sorin Merger Consideration

The Merger Agreement provides that, at the Sorin Merger Effective Time, LivaNova will allot for each Sorin Share in issue immediately prior to the Sorin Merger Effective Time, other than in relation to the Excluded Sorin Shares and the Sorin Rescission Shares, the LivaNova Shares in accordance with the Sorin Merger Exchange

Ratio. All Sorin Shares in issue will then be cancelled and cease to exist after the Sorin Merger Effective Time, and each Sorin Share, other than the Excluded Sorin Shares and Sorin Rescission Shares, will thereafter represent only the right to receive the Sorin Merger Consideration pursuant to the Merger Agreement.

Cyberonics Common Stock Consideration

The Merger Agreement provides that, at the Cyberonics Merger Effective Time, each issued share of Cyberonics Common Stock, other than Excluded Cyberonics Shares, will be converted into the right to receive one LivaNova Share in accordance with the Cyberonics Merger Exchange Ratio. All shares of Cyberonics Common Stock will be cancelled and cease to exist after the Cyberonics Merger Effective Time, and each such share of Cyberonics Common Stock represented by a certificate or by book entry immediately prior to the Cyberonics Merger Effective Time, other than the Excluded Cyberonics Shares, will represent only the right to receive the Cyberonics Merger Consideration pursuant to the Merger Agreement.

9.2 Restrictions on transfers following the Effective Times

As of the Sorin Merger Effective Time, to the extent permitted under applicable law and the rules and regulations of the ISE, the share transfer books of Sorin shall be closed, and there will be no further registration of transfers on the share transfer books of the Sorin merger surviving company of the Sorin Shares that are in issue immediately prior to the Sorin Merger Effective Time.

As of the Cyberonics Merger Effective Time, the stock transfer books of Cyberonics shall be closed, and there will be no further registration of transfers on the stock transfer books of the Cyberonics merger surviving corporation of the shares of Cyberonics Common Stock that were in issue immediately prior to the Cyberonics Merger Effective Time.

9.3 Sorin Rescission Shares

In respect of the Sorin Merger, a Sorin Shareholder that properly exercises his or her Rescission Rights is entitled to receive, for each Sorin Share for which Rescission Rights were so exercised, an amount of cash equal to the average closing price on the ISE per Sorin Share for the six-month period prior to the publication of the notice of call of the Sorin Extraordinary General Meeting, which is equal to €2.2043. On 22 June 2015, Sorin announced that there were 53,246 Sorin Rescission Shares for an aggregate value of €0.1 million. These Sorin Rescission Shares were purchased by certain Sorin Shareholders on or before 22 July 2015.

9.4 Conditions to the Mergers

The completion of the Mergers is subject to the satisfaction or waiver of the parties of certain conditions, including:

- Sorin and LivaNova obtaining the Sorin Merger Order from the Court, which was obtained on 23 September 2015;
- Cyberonics filing the certificate of the Cyberonics Merger with the State of Delaware, which was done on 23 September 2015;
- the Sorin Shareholder Approval, which was obtained on 26 May 2015;
- the Cyberonics Stockholder Approval, which was obtained on 22 September 2015;
- the effectiveness of the Registration Statement which was declared effective by the SEC on 19 August 2015, and the absence of any stop order suspending the effectiveness of the Registration Statement or proceedings initiated for that by purpose or, to the knowledge of LivaNova, Sorin and Cyberonics, threatened by the SEC;
- the authorisation of the LivaNova Shares for listing on the NASDAQ, subject to official notice of issuance, and the absence of any indication in writing from the FCA or the LSE to any of Cyberonics, Sorin or LivaNova (or their respective advisers) prior to the time of the hearing of the Court that, in the case of the FCA, it will not be willing to admit the LivaNova Shares to listing on the standard segment of the Official List or, in the case of the LSE, that the LivaNova share will not be admitted to trading on the LSE's Main Market; and
- the expiration of the 60 day period for the creditors of Sorin to bring claims following the date upon which the resolutions of the Sorin Extraordinary General Meeting of the Sorin Shareholders have been

filed with the Companies' Register of Milan or the earlier termination of such period, in accordance with applicable Italian laws and regulations, by the posting of a bond by Sorin sufficient to satisfy Sorin's creditors' claims, if any and the delivery of the pre-merger compliance certificate by the Italian public notary selected by Sorin to the Court (such certificate being the pre-merger scrutiny certificate in the meaning of EU Directive 2005/56/EC of the European Parliament and Council of 26 October 2005 on cross-border mergers of limited liability companies).

All of the conditions above have been satisfied prior to the date of this Prospectus. The certificate of the Cyberonics Merger provides that the Cyberonics Merger will become effective on the date of the Sorin Merger Effective Time, but subsequent to the Sorin Merger Effective Time.

9.5 Expenses and termination fees

All costs and expenses incurred in connection with the Merger Agreement, the Mergers, and the other transactions contemplated by the Merger Agreement generally, are to be paid by the party incurring such costs and expenses, but Sorin and Cyberonics will share equally all expenses associated with antitrust filings, the NASDAQ listing application, the LSE listing application, the Registration Statement, the Information Document and other disclosure documents required in connection with the Mergers.

The Merger Agreement specifies a number of conditions when a transaction fee is payable by one of the parties, which include, *inter alia*:

- if Sorin or Cyberonics terminates the Merger Agreement because the Mergers are not consummated on or before 26 February 2016 and the Cyberonics Special Meeting has not been held by 26 February 2016, or the Cyberonics Stockholder Approval was not obtained at the Cyberonics Special Meeting, then Cyberonics must reimburse Sorin for Sorin's documented out-of-pocket expenses incurred in connection with the Merger Agreement and the transactions contemplated thereby up to US$15 million;
- if Sorin or Cyberonics terminates the Merger Agreement because the Mergers are not consummated on or before 26 February 2016 and the Sorin Extraordinary General Meeting has not been held by 26 February 2016, or the Sorin Shareholder Approval was not obtained at the Sorin Extraordinary General Meeting, then Sorin must reimburse Cyberonics for Cyberonics' documented out-of-pocket expenses incurred in connection with the merger agreement and the transactions contemplated thereby up to US$15 million;
- if Cyberonics terminates the Merger Agreement as the Sorin Merger Order has not been made by the Court by 1 February 2016 or has not taken full and final effect at the Sorin Merger Effective Time without modification or variation from the terms approved at the hearing of the Court, then Sorin must reimburse Cyberonics for Cyberonics' documented out-of-pocket expenses incurred in connection with the merger agreement and the transactions contemplated thereby up to US$15 million; and
- Sorin or Cyberonics must reimburse the other party's documented out-of-pocket expenses incurred in connection with the Merger Agreement and the transactions contemplated therein up to US$15 million if the Merger Agreement is terminated by the other party because of an uncured breach of the Merger Agreement by the breaching party that gives rise to the failure of certain conditions to the parties' obligations to effect the Mergers.

Cyberonics must pay Sorin a termination fee of US$50 million in the event the Merger Agreement is terminated:

- by Sorin, if prior to obtaining the Cyberonics Stockholder Approval, the Cyberonics board of directors failed to include its recommendation in favour of the Cyberonics Stockholders' adoption of the Merger Agreement in the Registration Statement or changed its recommendation in favour of the Merger Agreement;
- by Cyberonics as a result of Cyberonics entering into an agreement related to any Cyberonics Competing Acquisition Proposal prior to obtaining the Cyberonics Stockholders Approval in accordance with the terms of the Merger Agreement;
- by Sorin or Cyberonics as a result of:

  (a) (i) not having consummated the Mergers by 26 February 2016 and the Cyberonics Special Meeting not being held by 26 February 2016, or (ii) the failure of the Cyberonics Stockholders to adopt the Merger Agreement at the Cyberonics Special Meeting;

(b) a Cyberonics Competing Acquisition Proposal becoming publicly known and not being withdrawn prior to the Cyberonics Special Meetings being held (if terminated under (a)(ii) above) or the termination of the Merger Agreement (if terminated under (a)(i) above); and

(c) if within 12 months of the termination of the Merger Agreement, Cyberonics enters into a definitive agreement in respect of a Cyberonics Competing Acquisition Proposal that is ultimately consummated or consummates any Cyberonics Competing Acquisition Proposal in the 12-month period, provided that for such purposes, all percentages in the definition of the term "Cyberonics Competing Acquisition Proposal" in this context will be changed to 50 per cent.

Sorin must pay Cyberonics a termination fee of US$50 million in the event the Merger Agreement is terminated:

- by Cyberonics, if prior to obtaining the Sorin Shareholder Approval, the Sorin Board of directors failed to include its recommendation in favour of the Sorin Shareholders' approval of the Sorin Merger in the Information Document or changed its recommendation in favour of the Merger Agreement;
- by Sorin as a result of Sorin entering into an agreement related to any Sorin Competing Acquisition Proposal prior to the date the Sorin Shareholder Approval is obtained in accordance with the terms of the Merger Agreement; or
- according to the following:

  (a) by Sorin or Cyberonics as a result of (i) not having consummated the Mergers by 26 February 2016 and the Sorin Extraordinary General Meeting not being held by 26 February 2016, or (ii) the Sorin Shareholders failing to approve the Sorin Merger at the Sorin Extraordinary General Meeting, or by Cyberonics, (iii) if the Sorin Merger Order has not been made by the Court by 1 February 2016 or has not taken full and final effect at the Sorin Merger Effective Time without modification or variation from the terms approved at the hearing of the Court;

  (b) a Sorin Competing Acquisition Proposal becoming publicly known and not being withdrawn prior to the Sorin Extraordinary General Meeting being held (if terminated under (a)(ii) above) or the termination of the Merger Agreement (if terminated under (a)(i) or (a)(iii) above); and

  (c) if within 12 months of the termination of the Merger Agreement, Sorin enters into a definitive agreement in respect of a Sorin Competing Acquisition Proposal that is ultimately consummate consummates any Sorin Competing Acquisition Proposal in the 12-month period; provided that for such purposes, all the percentages in the definition of the term "*Sorin Competing Acquisition Proposal*" will be changed to 50 per cent.

10. SYNERGIES AND INTEGRATION PLANNING

The Combined Group will benefit from the commercial infrastructure that Sorin has in place in a number of markets outside of the U.S. and Europe, in particular in Japan, China, Canada, Australia and Russia. The Combined Group will be able to leverage Sorin's existing local market knowledge, market access skills and administrative and logistical support. The benefit to the Combined Group is expected to result in an increase in the volume of products sold in those markets, and, is also likely to lead to an increase in revenue resulting from the direct sales approach.

The Mergers are expected to provide both short-term and long-term synergy opportunities, including expected annual pre-tax revenue enhancements of approximately US$17 million, and expected annual pre-tax cost savings of approximately US$64 million by the end of calendar year 2018, as well as potential tax savings. These expected synergy benefits are unaudited and based on management estimates of the Combined Group and are contingent on the Mergers becoming effective.

Cost savings primarily will be derived from optimising global back-office infrastructure, leveraging best-demonstrated practices across plants, in-sourcing consumables and eliminating redundant public company costs, as well as optimising costs that both companies expend on development work in chronic heart failure and other R&D projects as to which both companies have activities underway. Revenue synergies are expected to occur from utilising Sorin's commercial infrastructure in countries outside the United States and Europe to sell products manufactured by Cyberonics.

LivaNova is confident that the integration of Sorin and Cyberonics can be achieved without undue disruption to the operations of the businesses. Sorin and Cyberonics are preparing an integration plan, which will define the

scope, objectives, proposed organisation structures and processes to be developed, reviewed or implemented as part of the integration of the businesses. The integration plan will also provide the Combined Group with an overall integration programme and stakeholder communication timetable. It is expected that as soon as practicable following the Effective Times, the Combined Group will aim to have fully validated its initial synergy assumptions, agreed the target operating model of LivaNova, and completed a detailed integration plan across all of the LivaNova's business units.

11. BOARD OF DIRECTORS AND MANAGEMENT OF LIVANOVA FOLLOWING COMPLETION OF THE MERGERS

11.1 Board of directors

Pursuant to the terms of the Merger Agreement, the LivaNova Board will comprise nine directors during the LivaNova Initial Period, which will consist of:

- four directors designated by Sorin prior to the date the Sorin Merger Order is obtained, who will be André-Michel Ballester (Sorin's current Chief Executive Officer), Rosario Bifulco (Sorin's current Chairman), Francesco Bianchi (a current member of Sorin's board of directors) and Stefano Gianotti;
- four directors designated by Cyberonics prior to the date the Sorin Merger Order is obtained, who will be Daniel J. Moore (Cyberonics' current Chief Executive Officer), Hugh Morrison (Cyberonics' current Chairman), Alfred J. Novak (a current director of Cyberonics) and Arthur L. Rosenthal (a current director of Cyberonics); and
- a director whose identity will be mutually agreed upon by Sorin and Cyberonics prior to the date the Sorin Merger Order is obtained, and who will satisfy the independence standards of NASDAQ applicable for non-controlled domestic U.S. issuers, who will be Sharon O'Kane.

In connection with Sorin and Cyberonics entering into the Letter of Intent, Cyberonics entered into shareholder support agreements with certain Sorin Shareholders, Mittel S.p.A., and Equinox Two S.c.a., who directly and indirectly held, in aggregate, approximately 26.2 per cent. of the issued share capital of Sorin as at 30 June 2015. In consideration for entering into these shareholder support agreements, Sorin entered into a separate shareholder letter agreement which granted the right to Mittel S.p.A., and Equinox Two S.c.a. to designate two of the four Sorin directors to the board of LivaNova, being Francesco Bianchi and Stefano Gianotti, respectively.

In addition, the Merger Agreement provides that during the LivaNova Initial Period, the Chief Executive Officer of Cyberonics in office immediately prior to the Cyberonics Merger Effective Time (being Daniel J. Moore) will act as the Chairman of the LivaNova Board, the Chief Executive Officer of Sorin as of immediately prior to the Sorin Merger Effective Time (being André-Michel Ballester) will be the Chief Executive Officer of LivaNova, a Cyberonics' designee on the LivaNova Board will serve as the Chairman of the Audit Committee, and a Cyberonics' designee on the LivaNova Board will serve as Chairman of the Compensation Committee. Each committee of the LivaNova Board will have at least three members, of which one will be a Sorin designee on the LivaNova Board for the LivaNova Initial Period.

LivaNova is required to take all actions within its power as may be necessary to elect the directors appointed to the LivaNova Board pursuant to the terms of the Merger Agreement for the LivaNova Initial Period.

11.2 Committees of the LivaNova Board

The LivaNova Board is expected to form the following board committees: Audit, Compensation and Nominating and Corporate Governance.

Pursuant to the Merger Agreement, Sorin and LivaNova will take all actions as may be necessary to cause one of the directors designated by Cyberonics to serve as Chairman of the Audit Committee and Compensation Committee during the LivaNova Initial Period. Each committee of the LivaNova Board will have at least three members, of which one will be a Sorin designee on the LivaNova Board for the LivaNova Initial Period.

For more information on the LivaNova Board, board committees and LivaNova management, please see Part XII (*Current Directors, Proposed Directors, Responsible Persons, Corporate Governance and Employees*).

11.3 Senior Managers

Following the completion of the Mergers, LivaNova will be comprised of three business units: Cardiac Surgery, Cardiac Rhythm Management and Neuromodulation, along with an Intercontinental group. Michael Darnaud will

be the Head of Cardiac Surgery, Stefano Di Lullo will be the Head of Cardiac Rhythm Management, Rohan Hoare will be the Head of Neuromodulation, and Jacques Gutedel will be the Head of the Intercontinental Group.

LivaNova will also have an Executive Leadership Team drawn from Sorin and Cyberonics comprised of Ed Andrle (manager of Strategy, Business Development and New Ventures/Emerging Therapies), Brian Sheridan (General Counsel), Pritpal Shinmar (manager of Global Market Access), David Wise (manager of Human Resources and Information Technology), Vivid Sehgal (Chief Financial Officer) and Demetrio Mauro (Chief Integration Officer). For more information on the Senior Managers, please see Part XII (*Current Directors, Proposed Directors, Responsible Persons, Corporate Governance and Employees*).

12. TREATMENT OF SORIN AND CYBERONICS EQUITY AWARDS IN THE MERGERS AND LOCK-UP ARRANGEMENTS

12.1 Cyberonics equity awards

Under the terms of the Merger Agreement, awards outstanding under Cyberonics' stock plans as of the Cyberonics Merger Effective Time will be treated as follows:

(a) Cyberonics stock options

At the Cyberonics Merger Effective Time, each outstanding unvested Cyberonics stock option will fully vest. Each outstanding Cyberonics stock option, other than any Cashed-out Cyberonics Option, will be cancelled and converted into an option to purchase a number of LivaNova Shares equal to the product (rounded down to the nearest whole number) of (i) the total number of shares of Cyberonics Common Stock subject to such stock option immediately prior to the Cyberonics Merger Effective Time and (ii) the Cyberonics Merger Exchange Ratio, at an exercise price per share equal to the quotient (rounded up to the nearest whole cent) obtained by dividing (a) the per share exercise price of such stock option immediately prior to the Cyberonics Merger Effective Time by (b) the Cyberonics Merger Exchange Ratio. Except for the adjustments described in this paragraph, following the Cyberonics Merger Effective Time, each Cyberonics stock option will otherwise continue to be governed by the same terms and conditions (including exercisability terms) as were applicable to such Cyberonics stock option immediately prior to the Cyberonics Merger Effective Time.

Based on the Cyberonics stock options (other than Cashed-out Cyberonics Options) outstanding as of 9 October 2015 (being the latest practicable date prior to publication of this Prospectus), and assuming no stock options are exercised between that date and the Cyberonics Merger Effective Time, 813,794 LivaNova Shares will be issuable pursuant to the accelerated vesting of such Cyberonics stock options.

Each Cashed-out Cyberonics Option (whether vested or unvested) will, as of the Cyberonics Merger Effective Time, be cancelled and will only entitle the holder thereof to receive (without interest), on the date on which the Cyberonics Merger Effective Time occurs, an amount in cash equal to the product (rounded down to the nearest whole cent) obtained by multiplying (i) the number of shares of Cyberonics Common Stock subject to such Cyberonics stock option immediately prior to the Cyberonics Merger Effective Time by (ii) the excess, if any, of (a) the Cyberonics trading price (to be calculated as set out in the Merger Agreement) over (b) the per share exercise price of such option immediately prior to the Cyberonics Merger Effective Time, less applicable taxes required to be withheld.

Based on the Cashed-out Cyberonics Options outstanding as of 9 October 2015 (being the latest practicable date prior to publication of this Prospectus), and assuming no stock options are exercised between that date and the Cyberonics Merger Effective Time and that the Cyberonics' trading price is US$62.9620 (the average closing price of Cyberonics Common Stock on the NASDAQ over the five business days prior to 9 October 2015), the aggregate cash amount that will be received by the holders thereof is equal to approximately US$4.6 million.

(b) Cyberonics Restricted Stock

At the Cyberonics Merger Effective Time, each outstanding Cyberonics Restricted Stock will accelerate and fully vest (with performance-based restricted shares vesting at 100 per cent. of the target level) and will be converted into, and be exchanged for, one LivaNova Share (less applicable taxes required to be withheld with respect to such vesting). Pursuant to the Merger Agreement, except as otherwise agreed to by Cyberonics and Sorin, 50 per cent. of the LivaNova Shares to be issued in connection with the vesting of the Cyberonics Restricted Stock at the Cyberonics Merger Effective Time to each of the executive officers of Cyberonics, other than Darren

Alch (Cyberonics' Vice President, General Counsel and Assistant Secretary), shall be subject to an 18-month lock-up period. Notwithstanding the 18-month specified lock-up period, the lock-up will terminate on the termination of employment of any of such executive officers for any reason.

Based on the Cyberonics Restricted Stock outstanding as of 9 October 2015 (being the latest practicable date prior to publication of this Prospectus), and assuming that none of the Cyberonics Restricted Stock vest in accordance with their terms between that date and the Cyberonics Merger Effective Time, 209,043 LivaNova Shares will be issuable pursuant to the accelerated vesting of Cyberonics Restricted Stock.

12.2 Sorin equity awards

As of the Sorin Merger Effective Time, LivaNova will assume, or cause one of its subsidiaries to assume, all of Sorin's stock plans and awards outstanding under Sorin's stock plans will be treated as follows:

(a) Sorin Stock Appreciation Rights (SARs)

At the Sorin Merger Effective Time, each SAR to acquire Sorin Shares granted under any Sorin stock plan that is outstanding immediately prior to the Sorin Merger Effective Time will be fully vested and converted into a SAR based on that number of LivaNova Shares equal to the product (rounded down to the nearest whole number) obtained by multiplying (i) the number of Sorin Shares subject to such Sorin SAR immediately prior to the Sorin Merger Effective Time by (ii) the Sorin Merger Exchange Ratio, at an exercise price per share equal to the quotient (rounded up to the nearest whole cent) obtained by dividing (a) the per share exercise price specified in the SAR award agreement immediately prior to the Sorin Merger Effective Time by (b) the Sorin Merger Exchange Ratio (which exercise price may be converted into U.S. dollars or British pounds based on the applicable currency exchange rates). Each converted SAR held by an employee of LivaNova will be granted under the LivaNova Incentive Award Plan (described in paragraph 12 of Part XII (*Current Directors, Proposed Directors, Responsible Persons, Corporate Governance and Employees*)), but will continue to be governed by essentially the same terms and conditions (including exercisability terms) as were applicable to such Sorin SAR, as applicable, immediately prior to the Sorin Merger Effective Time (but taking into account any changes provided for in the applicable Sorin stock plan or in any applicable award agreement and any restrictions on replicating such terms and conditions under applicable law).

Based on the Sorin SARs outstanding as of 9 October 2015 (being the latest practicable date prior to publication of this Prospectus), and assuming no SARs are exercised between that date and the Sorin Merger Effective Time, 180,076 LivaNova Shares will be issuable pursuant to the accelerated vesting of such Sorin SARs.

(b) Sorin performance share awards

At the Sorin Merger Effective Time, any vesting conditions applicable to each Sorin LTI Award, will accelerate at 100 per cent. of the target level and will be converted into an equivalent award (but granted under the LivaNova Incentive Award Plan) over the number of LivaNova Shares equal to the product (rounded down to the nearest whole number) obtained by multiplying (i) the number of Sorin Shares subject to such Sorin LTI Award immediately prior to the Sorin Merger Effective Time by (ii) the Sorin Merger Exchange Ratio. Except as otherwise agreed by Cyberonics and Sorin, with respect to each Modified Sorin LTI Award, a portion of the LivaNova Shares issuable will be issued as promptly as possible after the Sorin Merger Effective Time (but in any event no later than three business days after the Sorin Merger Effective Time), with such portion equal to the number of LivaNova Shares that would have been issuable with respect to such award based on (x) the actual level of performance achieved for the 2012-2014 performance period (which was 30.57 per cent.) and (y) the portion of the applicable performance period completed as of the Sorin Merger Effective Time. Of the remaining LivaNova Shares issuable pursuant to each such Modified Sorin LTI award, 50 per cent. will be issued on 26 February 2016 and 50 per cent. will be issued on 27 February 2017, in each case subject to the continued employment with Sorin or LivaNova or any of their respective affiliates of the holder of such Modified Sorin LTI Award through the applicable payment date; provided that any holder of a Modified Sorin LTI Award whose employment is terminated in a "good leaver" or similar termination will remain entitled to receive such LivaNova Shares promptly following such termination. No LivaNova Shares issuable with respect to any Sorin LTI Award will be subject to any lock-up period.

Based on the Sorin performance share awards (other than the performance share awards under the Sorin 2012-2014 LTIP) outstanding as of 9 October 2015 (being the latest practicable date prior to publication of this Prospectus), and assuming none of such awards vest in accordance with their terms between that date and the

Sorin Merger Effective Time, 174,232 LivaNova Shares will be issuable pursuant to the accelerated vesting of such Sorin performance shares, of which 63,530 LivaNova Shares will be issued on the Closing Date, a maximum of 55,351 LivaNova Shares will be issuable on 26 February 2016 and a maximum of 55,351 LivaNova Shares will be issuable on 27 February 2017.

Performance shares under the Sorin 2012-2014 LTIP were settled in Sorin Shares pursuant to their existing terms at the originally scheduled time (on 5 May 2015), based on the actual level of performance, which was 30.57 per cent., and there will be no lock-up on such shares. Each Sorin 2012-2014 Participant will also be entitled to receive (without interest) as promptly as practicable after the Sorin Merger Effective Time (but in any event no later than three business days after the Sorin Merger Effective Time), a number of LivaNova Shares equal to the product (rounded down to the nearest whole number) obtained by multiplying (i) 69.43 per cent. of the number of Sorin Shares that would have been payable to such individual with respect to such performance shares pursuant to the terms of the Sorin 2012-2014 LTIP if the respective target levels had been achieved at 100 per cent. with respect to such awards by (ii) the Sorin Merger Exchange Ratio. Unless otherwise agreed by Cyberonics and Sorin, with respect to each Sorin 2012-2014 Participant who holds Modified Sorin 2012-2014 LTI Awards, 50 per cent. of the LivaNova Shares issuable to such individual pursuant to the Merger Agreement will be subject to an 18-month lock-up period (on the same terms otherwise applicable and which will terminate upon termination of the employment of the holder), and 50 per cent. of such LivaNova Shares will not be subject to such lock-up period. With respect to the performance shares under the Sorin 2012-2014 LTIP other than the Modified 2012-2014 LTI Awards, no lock-up period will apply to the LivaNova Shares issuable pursuant to the Merger Agreement.

Based on the performance shares under the Sorin 2012-2014 LTIP outstanding as of 9 October 2015 (being the latest practicable date prior to publication of this Prospectus), and assuming none of such units or shares vest in accordance with their terms between that date and the Sorin Merger Effective Time, 90,589 LivaNova Shares will be issuable pursuant to the accelerated vesting of such performance shares, all of which will be issued on the Closing Date.

(c) Deferred bonus shares

As of the Sorin Merger Effective Time, any vesting conditions applicable to each outstanding Sorin Deferred Bonus Share will accelerate and each Sorin Deferred Bonus Share will only entitle the holder of such Sorin Deferred Bonus Share to receive (without interest), as promptly as practicable after the Sorin Merger Effective Time (but in any event no later than three business days after the Sorin Merger Effective Time), a number of LivaNova Shares equal to the product (rounded down to the nearest whole number) obtained by multiplying (i) the number of Sorin Shares subject to such Sorin Deferred Bonus Share immediately prior to the Sorin Merger Effective Time by (ii) the Sorin Merger Exchange Ratio. No LivaNova Shares payable with respect to any Sorin Deferred Bonus Share will be subject to any lock-up period.

Based on the deferred bonus shares outstanding as of 9 October 2015 (being the latest practicable date prior to publication of this Prospectus), and assuming that none of such shares vest in accordance with their terms between that date and the Sorin Merger Effective Time, 68,609 LivaNova Shares will be issuable pursuant to the accelerated vesting of such deferred bonus shares, all of which will be issued on the Closing Date.

13. FINANCIAL AND ACCOUNTING CONSIDERATIONS

Upon Admission, LivaNova will prepare its consolidated financial statements and report on a calendar year basis in accordance with both (i) U.S. GAAP in accordance with U.S. securities law and reporting requirements, and (ii) IFRS in accordance with the requirements of the Disclosure and Transparency Rules and the Companies Act 2006.

There will be no differences between accounting policies to be adopted by LivaNova in the preparation of its IFRS consolidated financial statements for the year ending 31 December 2015, with the accounting policies used by Sorin in the preparation of its historical consolidated financial statements, which are incorporated by reference into this Prospectus.

14. DIVIDEND AND DIVIDEND POLICY

There is no immediate intention for LivaNova to pay dividends upon or after Admission. The declaration and payment by LivaNova of any future dividends and the amounts of any such dividends will depend upon the

LivaNova's results, financial condition, future prospects, profits being available for distribution and any other factors deemed by the LivaNova Directors to be relevant at the time, subject always to the requirements of applicable laws.

15. LISTING, DEALINGS AND SETTLEMENT OF THE LIVANOVA SHARES

15.1 Listing and dealings

In connection with the Cyberonics Merger, Cyberonics Common Stock will be delisted from NASDAQ, and deregistered under the U.S. Exchange Act, and Cyberonics will no longer file periodic reports with the SEC in connection with the Cyberonics Common Stock. In connection with the Sorin Merger, Sorin will be delisted from ISE, and Sorin will no longer file its reports or accounts with CONSOB in connection with the Sorin Shares.

It is expected that Admission will become effective, and that dealings in the LivaNova Shares will commence at 14:30 (London time) on the Closing Date, which, subject to the satisfaction of certain conditions, is expected to be on 19 October 2015. This date and time is subject to change. LivaNova will also apply for the LivaNova Shares to be traded on NASDAQ, which is expected to commence at 09:30 (New York time, 14:30 London time) on the Closing Date.

15.2 Settlement

All of the LivaNova Shares allotted and issued pursuant to the Mergers will be issued in the name of Cede & Co. and therefore issued directly into the DTC system.

All of the Cyberonics Merger Consideration will be issued in the name of Cede & Co. and therefore issued directly into the DTC system. For Cyberonics Stockholders holding their shares through the DTC system, there will be an automatic exchange whereby the relevant shares of Cyberonics Common Stock held in DTC participant accounts will be replaced with LivaNova Shares on a one-for-one basis. For Cyberonics Stockholders holding their shares in Cyberonics Common Stock in book-entry form or in certificated form, the relevant portion of the Cyberonics Merger Consideration will be deposited into the DTC participant account of Computershare Trust Co., N.A., which will then distribute a letter of transmittal to such holders requesting instructions as to how they wish to hold such LivaNova Shares.

All of the Sorin Merger Consideration will be issued in the name of Cede & Co. directly into the DTC system. Most of the Sorin Shares are currently held in the Monte Titoli system. All of the Sorin Shareholders have been given the opportunity through their Monte Titoli participants, to designate a third party custodian that is either a DTC participant or CREST participant ahead of closing of the Mergers. The Sorin Merger Consideration will be issued to Cede & Co. and deposited in the DTC participant account of Computershare Trust Co., N.A., and the relevant LivaNova Shares will then be either (a) transferred to the accounts of designated DTC participants or (b) for anyone electing to receive in CREST, as DDIs, will remain in the DTC participant account of Computershare Trust Co., N.A., as custodian for Computershare Investor Services PLC, the DDI Depositary. Computershare Investor Services PLC will then issue DDIs to designated CREST participants. Such distributions will occur on the Closing Date (for those who have designated a DTC/CREST participant ahead of the Closing Date), or on the third Business Day following the Sorin Merger Effective Time (reflecting a T+2 settlement cycle) (for those who have designated a DTC/CREST participant on the Closing Date). Those Monte Titoli participants that have not previously designated either a DTC participant or CREST participant, as a result of not having received instructions from the beneficial shareholders, will receive a letter of transmittal which will enable the subsequent delivery of the relevant LivaNova Shares either to a DTC or to a CREST participant or receive a share certificate.

Pursuant to the Merger Agreement, fractional LivaNova Shares will not be issued; holders of Sorin Shares will be entitled to receive cash in lieu of such fractional entitlements.

15.3 CREST arrangements

It is intended that settlement of LivaNova Shares in the CREST system will take place through DDIs, issued by Computershare Investor Services PLC acting as Depositary. The underlying LivaNova Shares will remain in the DTC system in the participant account of Computershare Trust Co., N.A. and its affiliate, Computershare Investor Services PLC, will issue the DDIs representing such LivaNova Shares that will settle through CREST on a one-for-one basis. The LivaNova Shares would not be enabled for direct settlement through CREST. Transfers

of the DDIs representing the underlying LivaNova Shares through CREST will generally be liable to SDRT, rather than U.K. stamp duty, at the 0.5 per cent. rate. CREST is required to collect SDRT on the relevant transactions settled within the CREST system. The issue and deposit of DDIs into CREST, and any subsequent cancellation, of DDIs representing underlying LivaNova Shares should not give rise to any liability to U.K. stamp duty or SDRT, although this is the subject of a clearance being sought from HMRC to confirm this treatment, and no guarantee can be given on the outcome of such application.

CREST is the system for the electronic settlement of trades in listed securities operated by Euroclear. CREST allows securities to be transferred from one CREST account to another without the need to use share certificates or written instruments of transfer. Application has been made for the DDIs to be admitted to CREST with effect from Admission. Accordingly, settlement of transactions in the DDIs following Admission may take place within the CREST system if any LivaNova Shareholder wishes.

CREST is a voluntary system and LivaNova Shareholders will also have the option to hold their LivaNova Shares in the DTC system (through a DTC participant) or to hold their LivaNova Shares in certificated form. The holding of LivaNova Shares in certificated form will require the relevant LivaNova Shares to be withdrawn from the DTC system; this is strongly discouraged as any subsequent re-deposit of such shares into the DTC system will incur a stamp duty charge of 1.5 per cent. of the value of such shares at that time. The LivaNova Shares will not be enabled for direct settlement in CREST. Further details relating to the DDIs are set out in paragraph 5 of Part XIII (*Additional Information*).

16. DILUTION

Subject to the Mergers becoming effective, it is expected that up to 48,822,316 new LivaNova Shares will be issued. It is anticipated that existing Cyberonics securityholders will own approximately 54 per cent. of LivaNova on a fully-diluted basis and existing Sorin securityholders will own approximately 46 per cent. of LivaNova on a fully-diluted basis, in each case as of and immediately after completion of the Mergers.

17. OVERSEAS SHAREHOLDERS

In connection with the Mergers and pursuant to the Merger Agreement, LivaNova has sought authorisation for the listing of the LivaNova Shares on the NASDAQ, subject to the official notice of issuance. LivaNova expects that the SEC will treat it as a successor registrant to Cyberonics in relation to the Securities Act and that Cyberonics will be treated as LivaNova's predecessor for purposes of financial reporting.

This Prospectus and any documents incorporated by reference herein may not be treated as an invitation to acquire or subscribe for any LivaNova Shares in any jurisdiction. Overseas shareholders should inform themselves about, and observe, any applicable legal requirements.

This Prospectus has been prepared for the purposes of complying with English law and the Prospectus Rules and the information disclosed may not be the same as that which would have been disclosed if the document had been prepared in accordance with the laws of jurisdictions outside of the U.K.

THIS DOCUMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITY. NONE OF THE SECURITIES REFERRED TO IN THIS DOCUMENT SHALL BE SOLD, ISSUED OR TRANSFERRED IN ANY JURISDICTION IN CONTRAVENTION OF APPLICABLE LAW.

PART II
INFORMATION ON SORIN

The following information should be read in conjunction with the information appearing elsewhere in this Prospectus including the audited consolidated historical financial information relating to Sorin for the years ended 31 December 2014, 2013 and 2012 and the unaudited consolidated interim financial statements for Sorin for the six months ended 30 June 2015 and 2014, which are incorporated by reference in Part VII of this Prospectus. Unless otherwise indicated, the selected financial information in this Part II has been extracted without material adjustment from the historical financial information relating to Sorin incorporated by reference in Part VII of this Prospectus.

1. INTRODUCTION

Sorin is a multinational corporation and a global leader in the field of medical devices for the treatment of cardiovascular diseases. Sorin develops, produces and distributes medical devices for cardiac surgery and the treatment of cardiac rhythm dysfunctions. Through steady growth and expansion, Sorin has become a market leader in medical technologies for treating cardiovascular disease, and has become the global leader in the cardiopulmonary market.

2. HISTORY AND CORPORATE STRUCTURE OF THE GROUP

Sorin was founded in 1956 as a nuclear energy production research company by two of Italy's largest industrial groups, Fiat and Montecatini. In the following decade, Sorin acquired technological expertise in major scientific areas such as electronics, chemistry, physics and material technology.

In the 1960s, following the nationalisation of Italy's electric utilities, Sorin transitioned its business away from nuclear power to medical technology. The company became Sorin Biomedica and delivered its first modular HLM in 1973 in partnership with Stöckert.

The 1980s represented a decade of innovation and achievement for Sorin Biomedica. In 1982, the first implant of a Sorin Mitroflow prosthetic heart valve was performed. In 1985, Sorin Biomedica was listed on the ISE and the following year the company was acquired by SNIA, a company in the chemical industry.

In the 1990s, Sorin Biomedica adopted an external growth strategy with the acquisition of Shiley (Pfizer's Cardiovascular Devices Division), Dideco S.p.A. (an Italian blood circulation and transfusion company) and Stöckert Instrumente Gmbh (a German company producing HLM). These acquisitions established Sorin Biomedica as a significant international medical device company with a leadership position in Europe.

Sorin Biomedica's growth strategy enabled it to launch numerous new products, including the Dideco Lilliput, the first newborn oxygenator (1993), implant the world's first-biventricular pacing system (1994), and launch the Dideco Avant, the first dual-chamber adult oxygenator (1998). With the acquisition of the Denver, Colorado-based HLM manufacturer COBE Cardiovascular (1999), Sorin Biomedica positioned itself as a leading player in the cardiovascular market.

In 2000, Sorin Biomedica merged with SNIA and delisted from the ISE. In the following years, Sorin continued its growth with the acquisition of ELA Medical (a cardiac rhythm management company), CarboMedics (a U.S. producer of mechanical heart valves) and Mitroflow (a Canadian producer of tissue valves).

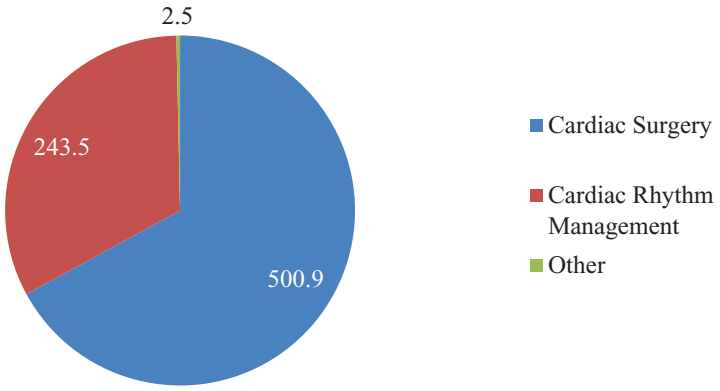
In January 2004, Sorin was spun-off from SNIA S.p.A. and was again listed on the ISE. Since that time, Sorin has continued to grow through strategic acquisitions and the development of innovative new products. Sorin strives to be not only a leader in the cardiac surgery field, but also a world leader in the entire cardiovascular market and a true innovator in the area of cardiac rhythm management.

3. OVERVIEW OF SORIN'S BUSINESS

Sorin is comprised of two principal business units, Cardiac Surgery and Cardiac Rhythm Management, corresponding to two main therapeutic areas. In 2013, Sorin created the New Ventures organisation, which is dedicated to the development of new growth platforms and innovative therapies for patients suffering from heart failure and mitral valve regurgitation.

2014 Revenues by Business Unit

(millions of Euro)



The chart above sets forth total net revenues contributed by each of Sorin's business units for the year ended 31 December 2014.

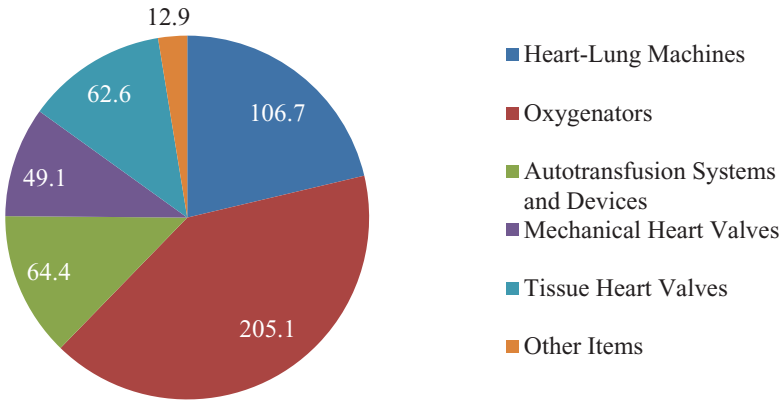
3.1 Cardiac Surgery business unit

The Cardiac Surgery business unit is engaged in the development, production and sale of cardiovascular surgery products, including oxygenators, HLM, perfusion tubing systems, cannulae and accessories, and systems for autotransfusion and autologous blood washing, as well as implantable prostheses for the replacement or repair of heart valves.

Cardiac Surgery business unit revenues for 2014 amounted to €500.9 million, an increase of 4.0 per cent. compared with €481.8 million for the previous year.

2014 Revenues by Cardiac Surgery Product

(millions of Euro)



Cardiopulmonary Products

During conventional coronary artery bypass graft procedures and heart valve surgery, the patient's heart is temporarily stopped, or arrested. The patient is placed on a circulatory support system that temporarily functions as the patient's heart and lungs and provides blood flow to the body, a process known as cardiopulmonary bypass. Sorin's products include systems to enable cardiopulmonary bypass, including HLM, oxygenators, perfusion tubing systems, cannulae and accessories, as well as related equipment and disposables for autotransfusion and autologous blood washing, for neonatal, paediatric and adult patients. Sorin's primary cardiopulmonary products include:

- *Heart-lung machines*. The HLM product group includes HLM, heater-coolers and related cardiac surgery equipment. The HLM product group reported double-digit growth, with record revenues for the sixth consecutive year, further strengthening Sorin's leadership position in all major markets. Growth was particularly strong in the United States, Europe and in emerging markets.
- *Oxygenators and perfusion tubing systems*. The oxygenators product group, which includes oxygenators and other disposable devices for extracorporeal circulation, also achieved significant

growth, especially in the United States, Europe and Japan, largely driven by the successful rollout of Sorin's new Inspire™, Heartlink™ and Connect™ system. In emerging markets, the growth was particularly positive in Brazil, while business slowed in Russia due to the unfavourable political situation. Europe and the United States, in particular, benefited from the launch of the new family of Inspire oxygenators for adults in the fourth quarter of 2013. The Inspire range of products, comprised of 12 models, will enable perfusionists to replace the existing Sorin oxygenator lines with more advanced systems capable of delivering better performance and greater flexibility. The total modularity of this new range of products will also help reduce production time and costs, providing perfusionists with a more customised approach to further benefit patients. In June 2014, more than a half of all Sorin oxygenators sold in Europe were Inspire™.

- *Connect*™. Connect™ is Sorin's innovative and intuitive perfusion charting system. Focused on real time and retrospective calculations and trending tools, Connect™ assists perfusionists with data management during and after cardiopulmonary bypass. Sorin's Inspire™, Heartlink™ and Connect™ products can be integrated with Sorin's HLM machines to deliver a unique perfusion solution combining hardware components, disposable devices and data management systems.
- *Autotransfusion systems*. One of the key elements for a complete blood management strategy is autotransfusion, which involves the collection, processing and reinfusion of the patient's own blood that is lost at the surgical site during the peri-operative period. Sorin's autotransfusion product line continued a positive growth trend, with double-digit growth in emerging markets, especially in China, where sales more than doubled, and with good results in Europe and Japan.
- *Cannulae*. The cannulae product family, which is part of the oxygenators product group, posted double-digit growth in Europe, United States and Japan and a positive performance in emerging markets.

Customers and Competitors-Cardiopulmonary Products

The primary medical professionals who use Sorin's cardiopulmonary products are perfusionists and cardiac surgeons. Sorin's primary competitors in the cardiopulmonary product group are Terumo Medical Corporation, Maquet Medical Systems, Medtronic and Haemonetics.

Cardiopulmonary Developments

In October 2014, Sorin expanded its Munich manufacturing facility to accommodate growing worldwide demand for state-of-the-art cardiopulmonary technology. The expansion increased the size of the current facility by 25 per cent. to approximately 11,000 square meters, including offices, laboratories and training facilities. The manufacturing floor space extension will allow the production capacity of HLM and autotransfusion systems, to be significantly increased and will enable the in-house manufacturing of heater-cooler systems.

In February 2014, Sorin acquired the cannulae manufacturing activities of BEL, an Italian company that develops, manufactures and distributes disposable medical devices for urology, urodynamics, heart surgery and haemodialysis. These cannulae, which the company was producing on an exclusive basis for Sorin, are an integral part of Sorin's cannulae portfolio and generated revenues of approximately €4 million in 2013. After the acquisitions of the Estech minimally invasive cannulae product line in 2011 and the CalMed product line in 2012, this acquisition represents a further step in Sorin's strategy of strengthening its global position in this market.

During 2013, Sorin initiated a greenfield project for the local manufacturing of cardiopulmonary disposable products in Suzhou Industrial Park in China. This project is currently under development.

Heart Valves and Repair Products

Sorin offers a comprehensive line of products to treat a variety of heart valve disorders, including a complete line of surgical tissue and mechanical valve replacements and repair products for damaged or diseased heart valves. Sorin's heart valves and repair product offerings include:

- *Tissue heart valves*. Sorin's tissue valves include the Mitroflow™ aortic pericardial tissue valve with phospholipid reduction treatment which is designed to mitigate valve calcification, and the Crown PRT™ and Solo Smart™ aortic pericardial tissue valves. Crown PRT™ is the latest advancement in stented aortic bioprosthesis technology, featuring surgeon-friendly design, PRT technology, and

state-of-the-art hemodynamic and durability performance. Crown PRT™ enables intuitive intraoperative handling through a short rinse time, enhanced ease of implant through visible markers and improved radiographic visualisation through dedicated X-ray markers. Sorin's Solo Smart™ aortic pericardial tissue valve is an innovative, completely biological aortic heart valve with no synthetic material and a removable stent. Solo Smart™ provides the ease of implantation of a stented valve with the hemodynamic performance of a stentless valve.

- *Self-anchoring tissue heart valves*. Perceval™ is Sorin's sutureless bioprosthetic device designed to replace a diseased native valve or a malfunctioning prosthetic aortic valve using either traditional or minimally invasive heart surgery techniques. Perceval™ incorporates a unique technology that allows 100 per cent. sutureless positioning and anchoring at the implantation site. This, in turn, offers the potential benefit of reducing the time the patient spends in cardiopulmonary bypass. To date, over 5,000 patients worldwide benefit from the Perceval™ valve.
- *Mechanical heart valves*. Sorin's wide range of mechanical valve offerings include the Carbomedics Standard™, Top Hat™ and Reduced Series Aortic Valves™, as well as the Carbomedics Carbo-Seal™ and *Carbo*-Seal Valsalva™ aortic prostheses. Sorin also offers the Carbomedics Standard™, Orbis™ and Optiform™ mechanical mitral valves.
- *Heart valve repair products*. Mitral valve repair is a well-established solution for patients suffering from a leaky mitral valve, or mitral regurgitation. Sorin offers a wide range of mitral valve repair products, including the Memo 3D™ and Memo 3D ReChord™, AnnuloFlo™ and AnnuloFlex™.

Customers and Competitors-Heart Valves

The primary medical professionals who use Sorin's heart valve products are cardiac surgeons. Sorin's primary competitors in the heart valve business are Edwards Lifesciences, St. Jude Medical and Medtronic.

Heart Valve Developments

Although the performance of Sorin's issue valve products was impacted by the weaker performance of the traditional tissue heart valves in the U.S., the decline was partially compensated by the positive performance of Perceval™. Perceval™ revenues have risen steadily since the valve's commercial launch in the first quarter of 2011 following the award of the CE Mark in Europe. During 2014, Sorin also obtained CE Mark approval for an expanded adult age indication for Perceval™, which allows patients under the age of 65 to benefit from this sutureless bioprosthetic device. In 2013 and 2014, Perceval™ obtained dedicated reimbursement status in Belgium, Germany and the Czech Republic, and in October 2014, significant clinical and health economic data from European studies were presented on Perceval™ at the congress of the European Association for Cardio-Thoracic Surgery in Milan. In January 2015, Sorin announced the completion of U.S. patient enrolment for the Perceval™ IDE study, which is being conducted in 18 medical centres in the U.S. All these factors further reinforce Sorin's confidence in the long-term success of Perceval™.

In 2014, Sorin obtained U.S. FDA approval of the Mitroflow™ aortic pericardial heart valve with PRT. This patented treatment for biological tissues will help mitigate potential calcification and may further improve Mitroflow™ durability. Sorin also obtained U.S. FDA approval of the SoloSmart™ valve. SoloSmart™, the next generation of Sorin's successful Freedom Solo™ valve, is a stentless bioprosthetic heart valve with no synthetic material and documented outstanding hemodynamic and clinical performance. Both Mitroflow™ with PRT and Solo Smart™ are now commercially available in the U.S.

In July 2014, Sorin obtained CE Mark certification for the innovative stented aortic bioprosthesis Crown PRT™. Crown PRT™ is Sorin's innovative new tissue valve that enables intuitive intraoperative handling through short rinse time, enhanced ease of implant through visible markers, and improved radiographic visualisation through dedicated X-ray markers.

Finally, in 2014, Sorin also obtained both CE Mark and U.S. FDA clearance for the MEMO 3D ReChord™ mitral valve annuloplasty ring, which is the latest in a long line of Sorin's mitral valve repair products.

The mechanical valve product line experienced a decrease in revenues in line with the continued shift of the market toward bioprosthetic valves and lower volumes in emerging markets.

In the production area, Sorin entered into a supply agreement in March 2013 for the production of components for the Lotus™ system, Boston Scientific Corporation's second-generation device for transcatheter aortic valve

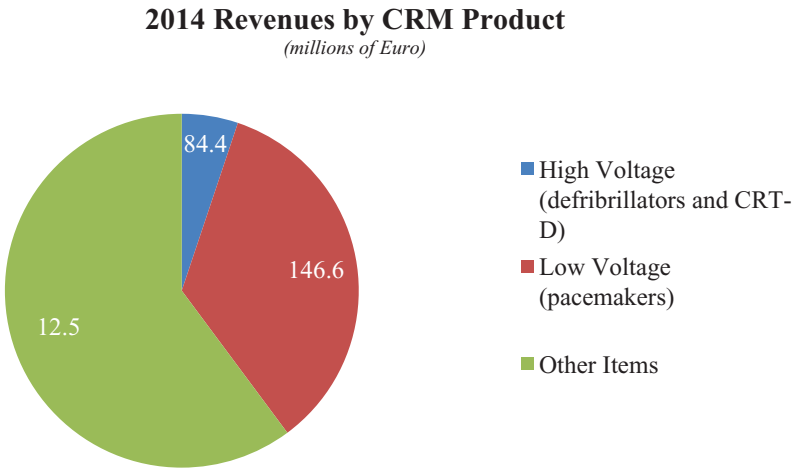
replacement. Under the terms of the agreement, Sorin continues to perform some of the stages of production of the tissue valve at Sorin's manufacturing facility in Vancouver, Canada.

3.2 Cardiac Rhythm Management business unit

The CRM business unit develops, manufactures and markets products for the diagnosis, treatment, and management of heart rhythm disorders and heart failure. These products include implantable devices, leads and delivery systems and information systems for the management of patients with CRM devices.

CRM business unit revenues for 2014 amounted to €243.5 million, a decrease of 4.1 per cent. compared with €253.9 million for the previous year.

The chart below sets forth total net revenues for Sorin's CRM business unit by product for the year ended 31 December 2014:



CRM Products

The following are the principal products offered by Sorin's CRM business unit:

- *Implantable Cardiac Pacemakers*. A pacemaker is a battery-powered device implanted in the chest that delivers electrical impulses to treat bradycardia, a condition of abnormally slow heart rhythms or unsteady heart rhythms that cause symptoms such as dizziness, fainting, fatigue and shortness of breath. Sorin's pacemakers include the REPLY™ and ESPRIT™ models, which have received both U.S. FDA clearance and CE Mark certification, and the KORA 100™ model which has received CE Mark certification. In 2015, Sorin will also launch the REPLY CRT-P™ and PLATINIUM™ pacemakers. Sorin's latest generation of pacemaker systems is compatible with certain MRI machines.
- *Implantable Cardioverter Defibrillators*. ICDs continually monitor the heart and deliver therapy when an abnormal heart rhythm, such as tachyarrhythmia, or rapid heart rhythm, occurs and leads to sudden cardiac arrest. Sorin's latest generation ICD is the INTENSIA™, which has CE Mark certification for full-body MRI scans. Other notable features of INTENSIA™ include increased battery longevity, advanced shock reduction technology and a contoured shape with thin, smooth, edges that better fits inside the body. Other Sorin ICDs include the PARADYM™ family of ICDs.
- *Implantable Cardiac Resynchronisation Therapy Devices*. Implantable cardiac resynchronisation therapy devices treat heart failure patients by altering the abnormal electrical sequence of cardiac contractions by sending tiny electrical impulses to the lower chambers of the heart to help them beat in a more synchronised fashion. Sorin's latest generation of CRT-Ds use the SonR™ technology that provides heart failure patients with automatic and frequent hemodynamic CRT optimisation both at rest and exercise using a unique hemodynamic sensor embedded in the SonRtip™ atrial sensing/pacing lead. SonR™ technology is found in INTENSIA™, PARADYM RF™ and PARADYM2™ families of CRT-Ds. Sorin has U.S. FDA approval for the PARADYM RF™ CRT-D.
- *Patient Management Tools*. Sorin's Smartview system enables remote monitoring of patients with certain Sorin ICDs and CRT-Ds, by enabling transmission of data from the patient's ICD or CRT-D to their health care provider using a portable monitor that is connected to the patient's telephone line.

Customers and Competitors - Cardiac Rhythm Management

The primary medical specialists who use Sorin's CRM products include electrophysiologists, implanting cardiologists, heart failure specialists and cardiac surgeons. Sorin's primary competitors in the CRM business are Medtronic, St. Jude Medical, Boston Scientific and Biotronik.

Cardiac Rhythm Management Developments

In June 2013, after obtaining CE Mark certification, Sorin launched the REPLY 200™ range of pacemakers in Europe. The REPLY 200™ is notable for its inclusion of a sleep apnoea monitoring function. Sleep apnoea affects many patients who wear pacemakers and is rarely diagnosed. Sleep apnoea increases the mortality risk and the risk of developing cardiovascular comorbidities such as hypertension, atrial fibrillation and heart failure. The REPLY 200™ SR and DR pacemakers perform an automatic screening of patients at risk of severe sleep apnoea using a highly reliable sensor that measures ventilation.

In November 2013, Sorin obtained CE Mark certification for its KORA 100™ cardiac pacing system and performed the first implant of this device. The KORA 100™ is equipped with automatic MRI mode (a patented technology available exclusively in Sorin's devices), which reduces the time for which the KORA 100™ pacemaker must operate in MRI mode. More specifically, as soon as a KORA 100™ device senses a scanner's magnetic field, the parameters that make it possible to safely perform the imaging are automatically activated. Conversely, the device senses when a patient exits the magnetic field and resumes normal operating mode within five minutes.

In June 2013, following U.S. FDA approval to launch a clinical trial under an IDE protocol, the first patients were enrolled in the United States in the Respond CRT™ clinical trial. The purpose of this trial is to assess the safety and effectiveness of the SonR CRT™ system in patients affected by advanced heart failure. Respond CRT™ is a multi-centre, prospective, randomised, two-arm, double-blind trial, with more than 1,000 patients in the United States and other countries. In October 2014, Sorin announced that it had completed enrolment in the Respond CRT™ clinical trial, having enrolled 1,039 patients in the study.

In December 2013, Sorin expanded its high voltage product group with the European launch of the INTENSIA™ family of CRT-D and ICD devices, both of which feature the DF-4 high voltage connector. The DF-4 connector design, the new industry standard for ICD and CRT-D devices, reduces the number of connections between the implanted device and the defibrillation (high voltage) lead from two or three to just one, thereby simplifying the implant procedure since only one set-screw is needed.

In June 2014, Sorin announced the results of the ANSWER study, which demonstrated that Sorin's SafeR™ significantly reduces heart failure events and improves clinical outcomes for pacemaker patients. The SafeR™ algorithm was developed to manage sinus node dysfunction as well as all types of atrio-ventricular blocks and eliminate unnecessary ventricular pacing at rest and exercise. This signature feature is present in all Sorin pacemakers and ICDs, including the latest generation of KORA 100™ MRI conditional pacemakers.

During 2014, Sorin executed several important transactions in the CRM area, including a joint venture with MicroPort Scientific Corporation to enter China's CRM market and the acquisition of Oscor's CRM leads business, including a manufacturing facility in the Dominican Republic. The joint venture agreement with MicroPort Scientific Corporation to market and develop CRM devices in China will enable Sorin to establish a local presence in China and accelerate its penetration of the rapidly growing Chinese market. The joint venture is based in Shanghai and became operational in the first half of 2014. MicroPort owns 51 per cent. of the joint venture, and Sorin owns the remaining 49 per cent.

3.3 New Ventures organisation - heart failure and mitral regurgitation

Sorin established its New Ventures organisation in 2013 for the purpose of managing and accelerating the development of new growth platforms in the heart failure and percutaneous mitral valve sectors. The New Ventures organisation focuses on technologies that treat two main pathologies - heart failure and mitral regurgitation - two areas of unmet clinical need where there is no optimal therapeutic solution for the majority of patients. New Ventures partners with public and private institutions and medical startups to develop future therapeutic solutions in these areas, focusing in particular on neurostimulation to treat heart failure and percutaneous valve repair or replacement to treat mitral regurgitation.

Heart failure occurs when the heart is no longer able to pump enough blood to meet the needs of the body. This may result from narrowed arteries or high blood pressure, which gradually leave the heart too weak to fill and pump efficiently. It is a chronic, progressive disease. Treatment depends on the heart failure stage and severity. ICDs or CRT-Ds may be indicated at a certain stage. There is also ample clinical proof that heart failure accompanies autonomic imbalance, demonstrating increased sympathetic activity and a reduced parasympathetic activation, which overstress and fatigue the heart. Stimulation of the vagus nerve (parasympathetic) could counterbalance the sympathetic system overactivation in heart failure.

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).

New Ventures therapies and projects

In the heart failure area, the New Ventures organisation is currently managing two internal neurostimulation projects: Equilia and Intense, each aimed at treating heart failure through VNS. Equilia is a first-generation device that benefited from Sorin's acquisition of the Belgian company Neurotech SA in 2012, which enhanced Sorin's technical expertise and intellectual property in the field of neurostimulation. In February 2015, Sorin announced the first successful implants of Equilia in the Vanguard clinical study.

The other principal New Ventures heart failure initiative, Intense, is a broader project that is partially subsidised by the French government through Banque Publique d'Investissement. In the Intense project, Sorin is the leader of a consortium consisting of academic, clinical, and business partners. The objective of this project is to bring to market a second-generation device that is capable of customising treatment based on automation and selectivity features.

Sorin has also invested in three mitral valve startups. Cardiosolutions Inc., a startup headquartered in the U.S. in which Sorin has held an interest since 2012, is developing an innovative percutaneous technology for treating mitral regurgitation. In addition HighLife SAS, headquartered in France, and Caisson Interventional LLC, headquartered in the U.S., are two external projects focused on developing devices for treating mitral regurgitation through percutaneous replacement of the native mitral valve. Although both ventures are focused on mitral valve replacement, their devices differ significantly in both the delivery system (transatrial versus transfemoral) and the anchoring system. In February 2015, Sorin made further investments of €2.8 million and US$7.5 million, respectively, in HighLife and Caisson, to achieve certain development milestones.

In 2014, Sorin confirmed its continued commitment to New Ventures by completing a US$20 million minority investment in Respicardia, a U.S.-based developer of implantable therapies designed to improve respiratory and cardiovascular health. Respicardia has developed the first fully implantable device for the treatment of CSA. CSA is a type of sleep-disordered breathing that disturbs the normal breathing pattern during sleep, adversely affects patients' overall cardiovascular health and affects over five million patients worldwide. Over one-third of heart failure patients suffer from CSA, with many patients experiencing a worsening of heart failure symptoms and an increased risk of death. There is currently a significant unmet clinical need for more effective therapeutic solutions to better manage patients with CSA.

Respicardia's **rem**edē® system is a pacemaker-like device that delivers electrical pulses to the phrenic nerve via an implantable transvenous lead, which restores a more natural, less disrupted breathing pattern. The **rem**edē® system received CE Mark certification in 2010 and is currently being evaluated in a U.S. FDA-approved randomised, controlled IDE pivotal trial. Sorin's initial investment in Respicardia will finance ongoing clinical testing of the technology and represents an ideal complement to Sorin's innovative therapeutic solutions for heart failure patients. Under the terms of this transaction, Sorin also acquired the exclusive right to distribute the **rem**edē® system in selected European countries and an exclusive option to acquire Respicardia in the future.

4. RESEARCH AND DEVELOPMENT

The markets in which Sorin participates are subject to rapid technological advances. Product improvement and innovation are necessary to maintain market leadership. Sorin's R&D efforts are directed toward maintaining or achieving technological leadership in each of the markets Sorin serves to help ensure that patients using Sorin's devices and therapies receive the most advanced and effective treatment possible. Sorin remains committed to

developing technological enhancements and new uses for existing products and less invasive and new technologies for new and emerging markets to address unmet patient needs. That commitment leads Sorin to initiate and participate in many clinical trials each fiscal year as the demand for clinical and economic evidence remains high. Sorin also expects its development activities to help reduce patient care costs and the length of hospital stays in the future.

During 2014, 2013 and 2012, Sorin spent €80.3 million (10.8 per cent. of revenues), €73.7 million (10.0 per cent. of revenues) and €75.4 million (10.3 per cent. of revenues) on R&D, respectively. Approximately 15 per cent. of Sorin's employees work in R&D. Sorin's R&D activities include improving existing products and therapies, expanding their uses and applications and developing new products.

Sorin continues to focus on optimising innovation, and continues to assess its R&D programmes based on their ability to deliver economic value to the customer. R&D activity in 2014 was primarily focused on the new product releases of Inspire™, Heartlink™ and Connect™, the clinical studies for Perceval™ and SonR™, the development of Platinium™ and internal neurostimulation projects.

5. ACQUISITIONS AND INVESTMENTS

Sorin's strategy of providing a broad range of therapies requires a wide variety of technologies, products, and capabilities. The rapid pace of technological development in the medical industry and the specialised expertise required in different areas of medicine make it difficult for one company alone to develop a broad portfolio of technological solutions. In addition to internally-generated growth through R&D efforts, Sorin has historically relied, and expects to continue to rely, upon acquisitions, investments, and alliances to provide access to new technologies in both new and existing markets.

Sorin expects to further its strategic objectives and strengthen its existing businesses by making future acquisitions investments or in areas that it believes it can acquire or stimulate the development of new technologies and products. Mergers and acquisitions of medical technology companies are inherently risky and no assurance can be given that any of Sorin's previous or future acquisitions will be successful or will not materially adversely affect Sorin's consolidated operations, financial condition, and/or cash flows.

Period Ended 31 December 2014

- *Respicardia Inc. (October 2014).* Sorin made a US$20 million minority investment in Respicardia, a U.S.-based developer of implantable therapies to improve respiratory rhythm management for the treatment of CSA. Under the terms of the transaction, Sorin also acquired the exclusive right to distribute *the* **rem**edē® System for the next five years in selected countries in Europe and an exclusive option to acquire Respicardia in the future. The system received CE Mark approval in 2010 and is currently being evaluated for U.S. FDA approval.
- *Oscor Inc. (February 2014).* Sorin acquired the CRM leads business of Oscor at a total cost of approximately US$20 million. Pursuant to the agreement between the parties, Sorin acquired: (i) Oscor's activities in the original equipment manufacturer business for bradycardia leads; (ii) a fully equipped, ISO certified and U.S. FDA registered production facility in the Dominican Republic; and (iii) access to Oscor's drawings and development resources. This acquisition is aimed at accelerating the development of a complete portfolio of MRI-compatible pacing, defibrillation and left ventricle leads.
- *Bioengineering Laboratories (February 2014).* In February 2014, Sorin acquired the cannulae manufacturing activities of BEL, a company based in Italy that develops, manufactures and distributes disposable medical devices for urology, urodynamics, heart surgery and haemodialysis. These cannulae, which the company was producing exclusively for Sorin, are an integral part of Sorin's cannulae portfolio and generated approximately €4 million in revenues in 2013. This acquisition builds upon the acquisition of Estech's minimally invasive cannulae product line in 2011 and CalMed™'s product line in 2012, and further strengthens Sorin's global position in this market.
- *MicroPort Scientific Joint Venture (January 2014).* Under the joint venture agreement with MicroPort Scientific Corporation to market and develop CRM devices in China, MicroPort owns 51 per cent. of the joint venture's capital and Sorin the remaining 49 per cent. This agreement enables Sorin to establish a local presence in China and accelerate its penetration of the rapidly growing Chinese market. The new company, called MicroPort Sorin CRM (Shanghai) Co. Ltd., is based in Shanghai.

Period Ended 31 December 2013

- *Caisson Interventional LLC (October 2013).* Sorin invested US$5.5 million in Caisson Interventional LLC, a company focused on the development of an innovative mitral replacement system. This follows an initial investment in 2012.
- *Alcard Industria Mecanica Ltd (February 2013).* Sorin in 2013, acquired Alcard Industria Mecanica Ltd ("**Alcard**"), a Brazilian manufacturer of medical devices for cardiac surgery. Alcard holds a leading position in the Brazilian HLM market and also assembles and markets disposable perfusion tubing sets. All cardiac surgery products manufactured by Alcard are approved by ANVISA, the Brazilian national health surveillance agency. This transaction is a strategic acquisition that provides a gateway to the fast growing and attractive Brazilian and South American markets.
- *Enopace Biomedical (February 2013).* Sorin made an additional minority investment in and entered into an option-to-buy Enopace Biomedical, an early-stage company focused on the development of a neuromodulation system to treat patients with heart failure. Sorin made an initial investment in October 2011, this US$5 million investment in 2013, and will make further minority investments upon completion of certain development milestones. Under the terms of the investment, Sorin has exclusive option to acquire the company in the future. In addition, Sorin invested US$5 million in Rainbow Medical, the leading Israeli medical device innovation house and owner of Enopace.

Period Ended 31 December 2012

- *HighLife SAS (November 2012).* Sorin made a minority investment, including an option-to-buy, in HighLife SAS, an early-stage company focused on the development of a unique transcatheter mitral valve replacement system to treat patients with mitral regurgitation. HighLife SAS is located in Paris and was founded in 2010 by Georg Bortlein. Sorin's initial investment of €4.5 million financed ongoing product development and clinical testing for the technology. Under the terms of the agreement, Sorin has an exclusive option to acquire the company in the future. This investment complimented a prior investment in Cardiosolutions earlier in 2012.
- *Neurotech SA (November 2012).* Sorin in 2012, acquired Neurotech SA, a developer of neurostimulator devices. Formed in 1994 by the Université Catholique de Louvain and funded by Walloon region entities in Belgium, Neurotech has unique expertise in the development of medical devices that stimulate the vagus nerve. Neurotech SA complements Sorin's heart failure treatment technical expertise and enhances its intellectual property position, thus accelerating the time to market for Sorin's neurostimulation therapies for treatment of heart failure.
- *California Medical Laboratories, Inc. (July 2012).* Sorin in 2012, acquired CalMed, a manufacturer of high-quality cardiovascular cannulae for US$13.9 million. CalMed develops, manufactures and distributes a complete range of cannulae, catheters and accessories for cardiac surgery. Available in 45 countries worldwide, CalMed products are approved by the U.S. FDA and have CE Mark approval for commercialisation in the EU. This acquisition complements Sorin's existing cannulae offering as well as its 2011 acquisition of Estech's minimally invasive Cannulae product line.
- *Cardiosolutions Inc. (July 2012).* Sorin announced a minority investment in Cardiosolutions Inc., an early-stage company focused on the development of an innovative percutaneous system to treat patients with moderate to severe mitral valve regurgitation. Cardiosolutions' technology consists of a proprietary catheter delivery system and an implantable device, the Mitra-Spacer™. Sorin's US$8.3 million investment in Cardiosolutions financed ongoing product development and clinical testing of the technology. Under the terms of the agreement, Sorin has the option to acquire the company in the future. Sorin joined STD Med and BioVentures Investors as investors in Cardiosolutions.

6. PATENTS AND LICENCES

Sorin relies on a combination of patents, trademarks, copyrights, trade secrets, and non-disclosure and non-competition agreements to establish and protect Sorin's proprietary technology. Sorin has a portfolio of over 2,000 patents, and regularly files patent applications worldwide in a continuing effort to establish and protect its proprietary technology. U.S. patents typically have a 20-year term from the application date. Patent protection outside the U.S. varies by country. In addition, Sorin has entered into exclusive and non-exclusive licenses for a wide array of third-party technologies. Sorin has also obtained certain trademarks and trade names for its products, and maintains certain details about its processes, products and strategies as trade secrets. In the

aggregate, these intellectual property assets and licenses are of material importance to Sorin's business. However, Sorin believes that no single patent, technology, trademark, intellectual property asset or license is material in relation to any part of Sorin's business as a whole. Sorin regularly reviews third-party patents and patent applications in an effort to protect Sorin's intellectual property and avoid disputes over proprietary rights.

7. MARKETS AND DISTRIBUTION METHODS

The three largest markets for Sorin's medical devices are Europe, the U.S. and Japan. Emerging markets are an area of increasing focus and opportunity. Sorin sells most of its medical devices through direct sales representatives in the U.S. and a combination of direct sales representatives and independent distributors in markets outside the U.S.

Sorin's marketing and sales strategy is focused on rapid, cost-effective delivery of high-quality products to a diverse group of customers worldwide, including physicians, perfusionists, hospitals and other medical institutions and health care providers. To achieve this objective, Sorin maintains a highly knowledgeable and dedicated sales staff that is able to foster strong relationships with physicians, perfusionists, hospitals and other customers. Sorin maintains excellent working relationships with professionals in the medical industry, which provides Sorin a detailed understanding of therapeutic and diagnostic developments, trends, and emerging opportunities and enables it to respond quickly to the changing needs of providers and patients. Sorin actively participates in medical meetings and conducts comprehensive training and educational activities in an effort to enhance its presence in the medical community. Sorin believes that these activities also contribute to health care professional expertise.

Due to the emphasis on cost-effectiveness in health care delivery, the current trend among hospitals and other medical device customers is to consolidate into larger purchasing groups in order to enhance purchasing power. As a result, customer transactions have become increasingly complex. Enhanced purchasing power may also lead to pressure on pricing and an increase in the use of preferred vendors. Sorin's customer base continues to evolve to reflect such economic changes across the geographic markets it serves.

8. COMPETITION AND INDUSTRY

Sorin competes in the medical device market in over 5,000 hospitals in more than 100 countries. This market is characterised by rapid change resulting from technological advances and scientific discoveries. Sorin's competitors range from large manufacturers with multiple business lines to small manufacturers offering a limited selection of specialised products. In addition, Sorin faces competition from providers of alternative medical therapies.

Product problems, physician advisories, safety alerts and publications about Sorin's products can cause major shifts in industry market share, reflecting the importance of product quality, product efficacy and quality system in the medical device industry. In addition, because of developments in managed care, economically-motivated customers, consolidation among health care providers, increased competition, and declining reimbursement rates, Sorin is increasingly required to compete on the basis of price. In order to continue to compete effectively, Sorin must continue to create or acquire advanced technology, incorporate this technology into proprietary products, obtain regulatory approvals in a timely manner, maintain high-quality manufacturing processes and successfully market these products.

9. WORLDWIDE OPERATIONS

Sorin's worldwide operations are accompanied by certain financial and other risks. Relationships with customers and effective terms of sale vary by country, often with longer-term receivables than are typical in the U.S. Currency exchange rate fluctuations can affect revenues, net of expenses, and cash flows from operations worldwide. Sorin uses operational and economic hedges, as well as currency exchange rate derivative contracts, to manage the impact of currency exchange rate changes on earnings and cash flow.

10. PRODUCTION AND AVAILABILITY OF RAW MATERIALS

Sorin manufactures a majority of its products at nine manufacturing facilities located in Italy, France, Germany, the United States, Canada, Brazil and the Dominican Republic. Sorin purchases many of the components and raw materials used in manufacturing these products from numerous suppliers in various countries. For quality assurance, sole source availability or cost effectiveness purposes, Sorin may procure certain components and raw materials from a sole supplier. Sorin works closely with its suppliers to ensure continuity of supply while

maintaining high quality and reliability. Due to the regulatory requirements regarding manufacturing of Sorin's products, Sorin may not be able to quickly establish additional or replacement sources for certain components or materials. Generally, Sorin has been able to obtain adequate supplies of such raw materials and components. However, a sudden or unexpected reduction or interruption in supply, and an inability to develop alternative sources for such supply, could adversely affect Sorin's operations.

11. WORKING CAPITAL PRACTICES

Sorin's goal is to carry sufficient levels of inventory to ensure adequate supply of raw materials from suppliers and meet the product delivery needs of Sorin's customers. To meet the operational demands of Sorin's customers, Sorin also provides payment terms to customers in the normal course of business and rights to return product under warranty.

12. EMPLOYEES

As of 31 December 2014, Sorin employed approximately 4,000 employees worldwide. Sorin's employees are vital to its success. Sorin believes it has been successful in attracting and retaining qualified personnel in a highly-competitive labour market due to its competitive compensation and benefits, and its rewarding work environment.

13. SEASONALITY

Worldwide sales do not reflect any significant degree of seasonality. However, the number of medical procedures incorporating Sorin products is generally lower during summer months due to summer vacation schedules in the northern hemisphere, particularly in European countries.

14. GOVERNMENT REGULATION AND OTHER CONSIDERATIONS

14.1 Overview

Sorin's medical devices are subject to regulation by numerous government agencies, including the U.S. FDA and similar agencies outside the U.S. To varying degrees, each of these agencies requires Sorin to comply with laws and regulations governing the research, development, testing, manufacturing, labelling, pre-market clearance or approval, marketing, distribution, advertising, promotion, recordkeeping, reporting, tracking, importing and exporting of its medical devices. Sorin's business is also affected by patient privacy and security laws, cost containment initiatives and environmental health and safety laws and regulations worldwide. The primary laws and regulations that affect Sorin's business are described below.

The laws applicable to Sorin are subject to change and subject to evolving interpretations. If a governmental authority were to conclude that Sorin is not in compliance with applicable laws and regulations, Sorin and its officers and employees could be subject to severe criminal and civil penalties, including substantial fines and damages, and exclusion from participation as a supplier of product to beneficiaries covered by government programmes.

14.2 United States

Each medical device Sorin seeks to commercially distribute in the United States must first receive 510(k) clearance or PMA from the U.S. FDA, unless specifically exempted by the agency. Under the FDCA, medical devices are classified into one of three classes - Class I, Class II or Class III - depending on the degree of risk associated with each medical device and the extent of control needed to ensure safety and effectiveness. Devices deemed to pose lower risk are categorised as either Class I or II, which requires the manufacturer to submit to the U.S. FDA a 510(k) pre-market notification requesting clearance of the device for commercial distribution in the United States. Some low-risk devices are exempted from this requirement. Devices deemed by the U.S. FDA to pose the greatest risk, such as life sustaining, life-supporting or implantable devices, or devices deemed not substantially equivalent to a previously 510(k)-cleared device, are categorised as Class III, requiring approval of a PMA application.

510(k) Clearance Process

To obtain 510(k) clearance, Sorin must submit a pre-market notification to the U.S. FDA demonstrating that the proposed device is substantially equivalent to a previously-cleared 510(k) device, is a device that was in

commercial distribution before 28 May 1976 for which the U.S. FDA has not yet called for the submission of PMA applications, or is a device that has been reclassified from Class III to either Class II or I. In rare cases, Class III devices may be cleared through the 510(k) process. The U.S. FDA's 510(k) clearance process usually takes three to twelve months from the date the application is submitted and filed with the U.S. FDA, but may take significantly longer and clearance is never assured. Although many 510(k) pre-market notifications are cleared without clinical data, in some cases, the U.S. FDA requires significant clinical data to support substantial equivalence. In reviewing a pre-market notification submission, the U.S. FDA may request additional information, including clinical data, which may significantly prolong the review process.

After a device receives 510(k) clearance, any subsequent modification of the device that could significantly affect its safety or effectiveness, or that would constitute a major change in its intended use, will require a new 510(k) clearance or could require a PMA. The U.S. FDA requires each manufacturer to make this determination initially, but the U.S. FDA may review any such decision and may disagree with a manufacturer's determination. If the U.S. FDA disagrees with a manufacturer's determination, the U.S. FDA may require the manufacturer to cease marketing and/or recall the modified device until 510(k) clearance or approval of a PMA is obtained. Under these circumstances, the U.S. FDA may also subject a manufacturer to significant regulatory fines or other penalties. In addition, the U.S. FDA is currently evaluating the 510(k) process and may make substantial changes to industry requirements, including which devices are eligible for 510(k) clearance, the ability to rescind previously granted 510(k)s and additional requirements that may significantly impact the process.

Pre-market Approval Process

A PMA application must be submitted if the medical device is in Class III (although the U.S. FDA has the discretion to continue to allow certain pre-amendment Class III devices to use the 510(k) process) or cannot be cleared through the 510(k) process. A PMA application must be supported by, among other things, extensive technical, preclinical and clinical trials, and manufacturing and labelling data to demonstrate to the U.S. FDA's satisfaction the safety and effectiveness of the device.

After a PMA application is submitted and filed, the U.S. FDA begins an in-depth review of the submitted information, which typically takes between one and three years, but may take significantly longer. During this review period, the U.S. FDA may request additional information or clarification of information already provided. Also during the review period, an advisory panel of experts from outside the U.S. FDA will usually be convened to review and evaluate the application and provide recommendations to the U.S. FDA as to the approvability of the device. In addition, the U.S. FDA will conduct a pre-approval inspection of the manufacturing facility to ensure compliance with Quality System Regulation, which imposes elaborate design development, testing, control, documentation and other quality assurance procedures in the design and manufacturing process. The U.S. FDA may approve a PMA application with post-approval conditions intended to ensure the safety and effectiveness of the device including, among other things, restrictions on labelling, promotion, sale and distribution and collection of long-term follow-up data from patients in the clinical study that supported approval. Failure to comply with the conditions of approval can result in materially adverse enforcement action, including the loss or withdrawal of the approval. New PMA applications or supplements are required for significant modifications to the manufacturing process, labelling of the product and design of a device that is approved through the PMA process. PMA supplements often require submission of the same type of information as an original PMA application, except that the supplement is limited to information needed to support any changes from the device covered by the original PMA application, and may not require as extensive clinical data or the convening of an advisory panel.

Clinical Studies

One or more clinical trials may be required to support a 510(k) application and are almost always required to support a PMA application. Clinical trials of unapproved or uncleared medical devices or devices being studied for uses for which they are not approved or cleared (investigational devices) must be conducted in compliance with U.S. FDA requirements. If human clinical trials of a device are required and the device presents a significant risk, the sponsor of the trial must file an IDE application prior to commencing human clinical trials. The IDE application must be supported by data, typically including the results of animal and/or laboratory testing. If the IDE application is approved by the U.S. FDA and one or more institutional review boards, human clinical trials may begin at a specific number of institutional investigational sites with the specific number of patients approved by the U.S. FDA. If the device presents a non- significant risk to the patient, a sponsor may begin the clinical trial after obtaining approval for the trial by one or more institutional review boards without separate approval from the U.S. FDA. During the trial, the sponsor must comply with the U.S. FDA's IDE

requirements including, for example, investigator selection, trial monitoring, adverse event reporting and recordkeeping. The investigators must obtain patient informed consent, rigorously follow the investigational plan and trial protocol, control the disposition of investigational devices and comply with reporting and recordkeeping requirements. Sorin, the U.S. FDA and the institutional review boards at each institution at which a clinical trial is being conducted may suspend a clinical trial at any time for various reasons, including a belief that the subjects are being exposed to an unacceptable risk.

Continuing Regulation

After a device is cleared or approved for marketing in the United States, numerous and pervasive regulatory requirements continue to apply and Sorin will continue to be subject to inspection by the U.S. FDA to determine its compliance with these requirements, as will its suppliers, contract manufacturers and contract testing laboratories. These requirements include, among others:

- the QSR which governs, among other things, how manufacturers design, test, manufacture, modify, label, exercise quality control over and document manufacturing and quality issues regarding their products;
- Establishment Registration, which requires establishments involved in the production and distribution of medical devices, intended for commercial distribution in the United States, to register with the U.S. FDA;
- Medical Device Listing, which requires manufacturers to list the devices they have in commercial distribution with the U.S. FDA;
- labelling and claims regulations, which require that all advertising and promotion of devices be truthful, not misleading and fairly balanced and provide adequate directions for use, and that all claims be substantiated;
- prohibition of marketing devices for off-label uses, including requirements relating to dissemination of articles and information and responding to unsolicited requests for off-label information;
- Mandatory reporting requirements of the U.S. FDA, which requires reporting to the U.S. FDA if a device may have caused or contributed to a death or serious injury, or if a device has malfunctioned and would be likely to cause or contribute to a death or serious injury if the malfunction were to recur;
- reporting and recordkeeping for certain corrections or removals initiated by a manufacturer to reduce a risk to health posed by a device or to remedy a violation of the FDCA cause by the device that may present a risk to health;
- new statutory and regulatory requirements for UDIs, on devices and submission of certain information about each device to the U.S. FDA's GUDID; and
- in some cases, ongoing monitoring and tracking of a device's performance and periodic reporting to the U.S. FDA of such performance results.

The U.S. FDA enforces these requirements by inspection and market surveillance. Failure to comply with applicable regulatory requirements may result in enforcement action by the U.S. FDA, which may include one or more of the following sanctions:

- untitled letters or warning letters;
- fines, injunctions and civil penalties;
- mandatory recall or seizure of Sorin's products;
- administrative detention or banning of Sorin's products;
- operating restrictions, partial suspension or total shutdown of production;
- refusing Sorin's request for 510(k) clearance or pre-market approval of new product versions;
- revocation of 510(k) clearance or pre-market approvals previously granted; and
- criminal prosecution and penalties.

14.3 International

Outside the United States, Sorin is subject to government regulation in the countries in which it operates. Although many of the regulations applicable to Sorin's products in these countries are similar to those of the U.S. FDA, these regulations vary significantly from country to country and with respect to the nature of the particular medical device. The time required to obtain foreign approvals to market Sorin's products may be longer or shorter than the time required in the United States, and requirements for such approvals may differ from U.S. FDA requirements. In the EU, a single regulatory approval process exists, and conformity with the legal requirements is represented by the CE Mark. To obtain CE Mark certification, defined products must meet minimum standards of performance, safety and quality (i.e., the essential requirements), and then, according to their classification, comply with one or more of a selection of conformity assessment routes. A notified body assesses the quality management systems of the manufacturer and the product's conformity with the essential and other requirements within the medical device directive. Sorin is subject to inspection by notified bodies for compliance. The competent authorities of the EU countries, generally in the form of their ministries or departments of health, oversee the clinical research for medical devices and are responsible for market surveillance of products once they are placed on the market. Sorin is required to report device failures and injuries potentially related to product use to these authorities in a timely manner. Various penalties exist for non-compliance with the laws setting forth the medical device directives.

To be sold in Japan, most medical devices must undergo thorough safety examinations and demonstrate medical efficacy before they are granted approval, or "shonin". The Japanese government, through the Ministry of Health, Labour, and Welfare regulates medical devices under the Pharmaceutical Affairs Law. Oversight for medical devices is conducted with participation by the Pharmaceutical and Medical Devices Agency, a quasi-government organisation performing many of the review functions for MHLW. Penalties for a company's noncompliance with Pharmaceutical Affairs Law could be severe, including revocation or suspension of a company's business license and criminal sanctions. Ministry of Health, Labour, and Welfare and Pharmaceutical and Medical Devices Agency also assess the quality management systems of the manufacturer and the product conformity to the requirements of the Pharmaceutical Affairs Law. Sorin is subject to inspection for compliance by these agencies.

Many countries in which Sorin operates (outside the EU, U.S. or Japan) have their own regulatory requirements for medical devices. Most countries outside of the EU, U.S. or Japan require that product approvals be recertified on a regular basis, generally every five years. The recertification process requires that Sorin evaluate any device changes and any new regulations or standards relevant to the device and, where needed, conduct appropriate testing to document continued compliance. Where recertification applications are required, they must be approved in order to continue selling Sorin's products in those countries. Since export control and economic sanctions laws and regulations are complex and constantly changing, Sorin cannot ensure that laws and regulations may not be enacted, amended, enforced or interpreted in a manner materially impacting Sorin's ability to sell or distribute its products.

Sorin's global regulatory environment is becoming increasingly stringent and unpredictable, which could increase the time, cost and complexity of obtaining regulatory approvals for Sorin's products. Several countries that did not have regulatory requirements for medical devices have established such requirements in recent years and other countries have expanded, or plan to expand, existing regulations. Certain regulators are requiring local clinical data in addition to global clinical data. While harmonisation of global regulations has been pursued, requirements continue to differ significantly among countries. Sorin expects that this global regulatory environment will continue to evolve, which could impact Sorin's ability to obtain future approvals for Sorin's products, or could increase the cost and time to obtain such approvals in the future. Sorin cannot ensure that any new medical devices it develops will be approved in a timely or cost-effective manner, or approved at all.

14.4 Ongoing responsibilities under medical device regulations

Both before and after a product is commercially released, Sorin has ongoing responsibilities under various laws and regulations governing medical devices. In addition to U.S. FDA regulatory requirements, the U.S. FDA and other U.S. regulatory bodies (including the Federal Trade Commission, the Office of the Inspector General of the Department of Health and Human Services, the U.S. Department of Justice and various state Attorneys General) monitor the manner in which Sorin promotes and advertises its products. Although surgeons are permitted to use their medical judgement to employ medical devices for indications other than those cleared or approved by the U.S. FDA, Sorin is prohibited from promoting products for such "off-label" uses and can only market its products for cleared or approved uses. If the U.S. FDA or other regulatory agency were to conclude that Sorin is

not in compliance with applicable laws or regulations, or that any of its medical devices are ineffective or pose an unreasonable health risk, such regulatory agencies could require Sorin to notify health professionals and others that the devices present unreasonable risks of substantial harm to the public health, order a recall, repair, replacement, or refund of such devices, detain or seize adulterated or misbranded medical devices, or ban such medical devices. The U.S. FDA may also impose operating restrictions, enjoin and/or restrain certain conduct resulting in violations of applicable law pertaining to medical devices, including a hold on approving new devices until issues are resolved to its satisfaction, and assess civil or criminal penalties against Sorin's officers, employees or Sorin. The U.S. FDA may also recommend prosecution to the U.S. Department of Justice. Conduct giving rise to civil or criminal penalties may also form the basis for private civil litigation by Third Party Payers or other persons allegedly harmed by Sorin's conduct.

Sorin's medical devices are subject to similar regulation by numerous agencies and authorities worldwide. To varying degrees, each of these agencies requires Sorin to comply with laws and regulations governing the development, testing, manufacturing, labelling, marketing and distribution of Sorin's medical devices.

14.5 Governmental trade regulations

The sale and shipment of Sorin's products and services across international borders, as well as the purchase of components and products from international sources, subjects Sorin to extensive governmental trade regulations. A variety of laws and regulations apply to the sale, shipment and provision of goods, services and technology across international borders. Many countries control the export and re-export of goods, technology and services for reasons including public health, national security, regional stability, antiterrorism policies and other reasons. Some governments may also impose economic sanctions against certain countries, persons or entities. In certain circumstances, approval from governmental authorities may be required before goods, technology or services are exported or re-exported to certain destinations, to certain end-users and for certain end-uses. As Sorin is subject to extensive regulations in the countries in which it operates, Sorin is subject to the risk that laws and regulations could change in a way that would expose it to additional costs, penalties or liabilities. These laws and regulations govern, among other things, Sorin's import and export activities.

In addition to Sorin's need to comply with such regulations in connection with its direct export activities, Sorin also sells and provides goods, technology and services to agents, representatives and distributors who may export such items to customers and end-users. If these third parties violate applicable export control and economic sanctions laws and regulations when engaging in transactions involving Sorin's products, Sorin may be subject to varying degrees of liability dependent upon Sorin's participation in the transaction. The activities of Sorin's third parties may cause disruption or delays in the distribution and sales of Sorin's products, or result in restrictions being placed upon Sorin's international distribution and sales of products, which may materially impact Sorin's business activities.

14.6 Patient privacy and security laws

Various laws worldwide protect the confidentiality of certain patient health information, including patient medical records, and restrict the use and disclosure of patient health information by health care providers. Privacy standards in Europe and Asia are becoming increasingly strict, enforcement action and financial penalties related to privacy in the EU are growing, and new laws and restrictions are being passed. The management of cross-border transfers of information among and outside of EU member countries is becoming more complex, which may complicate Sorin's clinical research activities, as well as product offerings that involve transmission or use of clinical data. Sorin will continue its efforts to comply with those requirements and to adapt its business processes to those standards.

With respect to the United States, the HIPAA amended by the HITECH, and their respective implementing regulations, imposes specified requirements relating to the privacy, security and transmission of individually identifiable health information. Among other things, HITECH makes HIPAA's privacy and security standards directly applicable to "business associates", defined as independent contractors or agents of covered entities that create, receive, maintain or transmit protected health information in connection with providing a service for or on behalf of a covered entity. HITECH also increased the civil and criminal penalties that may be imposed against covered entities, business associates and possibly other persons, and gave state attorneys new general authority to file civil actions for damages or injunctions in federal courts to enforce the federal HIPAA laws and seek attorney's fees and costs associated with pursuing federal civil actions. In addition, state laws govern the privacy and security of health information in certain circumstances, many of which differ from each other in significant ways, thus complicating compliance efforts. Sorin potentially operates as a business associate to covered entities in a limited number of instances. In those cases, the patient data that Sorin receives may include protected health

information, as defined under HIPAA. Enforcement actions can be costly and interrupt regular operations of Sorin's business. Nonetheless, these requirements affect a limited subset of Sorin's business. Sorin believes the ongoing costs and impacts of assuring compliance with the HIPAA privacy and security rules are not material to Sorin's business. In addition, there is a developing trend of civil lawsuits and class actions relating to breaches of consumer data held by large companies. While Sorin has not been named in any such suits, if a substantial breach or loss of data from Sorin's records were to occur, Sorin could become a target of such litigation.

14.7 Cost containment initiatives

Government and private sector initiatives to limit the growth of health care costs, including price regulation, competitive pricing, bidding and tender mechanics, coverage and payment policies, comparative effectiveness of therapies, technology assessments, and managed-care arrangements, are continuing in many countries where Sorin does business. These changes are causing the marketplace to put increased emphasis on the delivery of more cost-effective medical devices and therapies. Government programmes, private health care insurance and managed-care plans have attempted to control costs by limiting the extent of coverage or amount of reimbursement available for particular procedures or treatments, tying reimbursement to outcomes, shifting to population health management, and other mechanisms designed to constrain utilisation and contain costs. Hospitals, which purchase implants, are also seeking to reduce costs through a variety of mechanisms, including, for example, creating centralised purchasing functions that set pricing and in some cases limit the number of vendors that can participate in the purchasing programme. Hospitals are also aligning their interests with physicians' through employment and other arrangements, such as gainsharing, where by a hospital agrees with physicians to share any realised cost savings resulting from the physicians' collective change in practice patterns, such as standardisation of devices where medically appropriate, and participation in affordable care organisations. Such alignment has created increasing levels of price sensitivity among customers for Sorin's products.

Some Third Party Payers must also approve coverage and set reimbursement levels for new or innovative devices or therapies before they will reimburse health care providers who use the medical devices or therapies. Even though a new medical device may be cleared for commercial distribution, Sorin may find limited demand for the device until coverage and sufficient reimbursement levels have been obtained from governmental and private Third Party Payers. In addition, some private Third Party Payers require that certain procedures or the use of certain products be authorised in advance as a condition of coverage.

In the United States, the recent implementation of the Affordable Care Act, for example, has the potential to substantially change healthcare financing and delivery by both governmental and private insurers, and significantly impact the pharmaceutical and medical device industries. The Affordable Care Act imposed, among other things, a new federal excise tax on the sale of certain medical devices and provided incentives to programmes that increase the federal government's comparative effectiveness research. In addition, the Affordable Care Act implemented payment system reforms including a national pilot programme on payment bundling to encourage hospitals, physicians and other providers to improve the coordination, quality and efficiency of certain healthcare services through bundled payment models.

In addition, other legislative changes have been proposed and adopted since the Affordable Care Act was enacted. On 2 August 2011, President Obama signed into law the Budget Control Act of 2011, which, among other things, created the Joint Select Committee on Deficit Reduction to recommend to Congress proposals on spending reductions. The Joint Select Committee did not achieve a targeted deficit reduction of at least US$1.2 trillion for the years 2013 through 2021, triggering the legislation's automatic reduction of several government programmes. This included reductions to Medicare payments to providers of 2 per cent. per fiscal year, which went into effect on 1 April 2013, and, due to subsequent legislative amendments, will stay in effect through 2024 unless congressional action is taken. On 2 January 2013, President Obama signed into law the American Taxpayer Relief Act, which, among other things, reduced Medicare payments to several providers, including hospitals.

International examples of cost containment initiatives and health care reforms in markets significant to Sorin's business include Japan, where the government reviews reimbursement rate benchmarks every two years, such reviews may significantly reduce reimbursement for procedures using Sorin's medical devices or result in the denial of coverage for those procedures. As a result of Sorin's manufacturing efficiencies, cost controls and other cost-savings initiatives, Sorin believes it is well-positioned to respond to changes resulting from this worldwide trend toward cost-containment. However, uncertainty remains as to the nature of any future legislation or other reforms, making it difficult for Sorin to predict the potential impact of cost-containment trends on future operating results.

14.8 Applicability of anti-corruption laws and regulations

Sorin's worldwide business is subject to the FCPA, the Bribery Act and other anti-corruption laws and regulations applicable in the jurisdictions where it operates.

14.9 Health care fraud and abuse laws

Sorin is also subject to healthcare regulation and enforcement by the states, the federal government and foreign governments in which it conducts its business. These laws include, without limitation, state and federal anti-kickback, fraud and abuse, false claims and physician sunshine laws and regulations.

The U.S. federal Anti-Kickback Statute prohibits, among other things, any person from knowingly and wilfully offering, soliciting, receiving or providing remuneration, directly or indirectly, to induce either the referral of an individual for an item or service or the purchasing or ordering of a good or service, for which payment may be made under federal healthcare programmes such as Medicare and Medicaid. The Anti-Kickback Statute is subject to evolving interpretations. In the past, the government has enforced the Anti-Kickback Statute to reach large settlements with healthcare companies based on sham consulting and other financial arrangements with physicians. A person or entity does not need to have actual knowledge of the statute or specific intent to violate it in order to have committed a violation. In addition, the government may assert that a claim including items or services resulting from a violation of the federal Anti-Kickback Statute constitutes a false or fraudulent claim for purposes of the federal False Claims Act. The majority of states also have anti-kickback laws which establish similar prohibitions, and in some cases may apply to items or services reimbursed by any Third Party Payer, including commercial insurers.

Additionally, the civil False Claims Act prohibits knowingly presenting or causing the presentation of a false, fictitious or fraudulent claim for payment to the United States government. Actions under the False Claims Act may be brought by the Attorney General or as a qui tam action by a private individual in the name of the government. Violations of the False Claims Act can result in very significant monetary penalties and treble damages. The federal government is using the False Claims Act, and the accompanying threat of significant financial liability, in its investigation and prosecution of device and biotechnology companies throughout the country, for example, in connection with the promotion of products for unapproved uses and other sales and marketing practices. The government has obtained multi-million and multi-billion dollar settlements under the False Claims Act in addition to individual criminal convictions under applicable criminal statutes. Given the significant size of actual and potential settlements, it is expected that the government will continue to devote substantial resources to investigating healthcare providers' and manufacturers' compliance with applicable fraud and abuse laws.

HIPAA also created new federal criminal statutes that prohibit, among other actions, knowingly and wilfully executing, or attempting to execute, a scheme to defraud any healthcare benefit programme, including private Third Party Payers, knowingly and wilfully embezzling or stealing from a healthcare benefit programme, wilfully obstructing a criminal investigation of a healthcare offence, and knowingly and wilfully falsifying, concealing or covering up a material fact or making any materially false, fictitious or fraudulent statement in connection with the delivery of or payment for healthcare benefits, items or services. Similar to the federal Anti-Kickback Statute, a person or entity does not need to have actual knowledge of the statute or specific intent to violate it in order to have committed a violation.

There has also been a recent trend of increased federal and state regulation of payments made to physicians and other healthcare providers. The Affordable Care Act, among other things, imposes new reporting requirements on device manufacturers for payments made by them to physicians and teaching hospitals, as well as ownership and investment interests held by physicians and their immediate family members. Failure to submit required information may result in civil monetary penalties of up to an aggregate of US$150,000 per year (or up to an aggregate of US$1 million per year for "knowing failures"), for all payments, transfers of value or ownership or investment interests that are not timely, accurately and completely reported in an annual submission. Device manufacturers were required to begin collecting data on 1 August 2013 and submit reports to the government by 31 March 2014 and 30 June 2014, and the 90th day of each subsequent calendar year. Certain states also mandate implementation of compliance programmes, impose restrictions on device manufacturer marketing practices and/or require the tracking and reporting of gifts, compensation and other remuneration to physicians.

The shifting commercial compliance environment and the need to build and maintain robust systems to comply with different compliance and/or reporting requirements in multiple jurisdictions increase the possibility that a

healthcare company may violate one or more of the requirements. If Sorin's operations are found to be in violation of any of such laws or any other governmental regulations that apply to it, it may be subject to penalties including, without limitation, civil and criminal penalties, damages, fines, the curtailment or restructuring of Sorin's operations, exclusion from participation in federal and state healthcare programmes and imprisonment, any of which could adversely affect Sorin's ability to operate its business and its financial results.

In addition, the FCPA can be used to prosecute companies in the U.S. for arrangements with physicians, or other parties outside the U.S., if the physician or party is a government official of another country and the arrangement violates the law of that country. There are similar laws and regulations applicable to Sorin outside the U.S., all of which are subject to evolving interpretations.

14.10 Environmental, health and safety laws

Sorin is also subject to various environmental health and safety laws and regulations worldwide. Like other medical device companies, Sorin's manufacturing and other operations involve the use and transportation of substances regulated under environmental health and safety laws including those related to the transportation of hazardous materials. To the best of Sorin's knowledge at this time, Sorin does not expect that compliance with environmental protection laws will have a material impact on its consolidated results of operations, financial position or cash flows.

14.11 Litigation risks

Details of Sorin's current government, legal or arbitration proceedings are set out in paragraph 10.1 of Part XIII (*Additional Information*).

Patent Litigation

Sorin operates in an industry characterised by extensive patent litigation. Patent litigation can result in significant damage awards and injunctions that could prevent the manufacture and sale of affected products or result in significant royalty payments in order to continue selling the products. Although Sorin is not currently a party to any patent litigation, Sorin has in the past been involved as both a plaintiff and a defendant in patent infringement actions. While it is not possible to predict the outcome of patent litigation incident to Sorin's business, Sorin believes the costs associated with future litigation of this type could have a material adverse impact on its consolidated results of operations, financial position or cash flows.

Product Liability and Other Claims

Sorin operates in an industry susceptible to significant product liability claims. These claims may be brought by individuals seeking relief on their own behalf or purporting to represent a class. Sorin is also susceptible to other litigation, including contract litigation. These claims may be asserted against Sorin in the future based on events Sorin is not aware of at the present time.

15. INSURANCE

Sorin's insurance policies (including general and product liability) provide insurance in such amounts and against such risks as Sorin's management reasonably has determined to be prudent in accordance with industry practices or as is required by law or regulation. Although based on historical loss trends, Sorin believes that its insurance coverage will be adequate to cover future losses, Sorin cannot guarantee that this will remain true. Historical trends may not be indicative of future losses, and losses from unanticipated claims could have a material adverse impact on Sorin's consolidated earnings, financial condition, and/or cash flows.

16. PROPERTIES

Sorin's corporate headquarters are leased by Sorin and located in Milan, Italy. Manufacturing or research facilities are located in Italy, France, Germany, the United States, Canada, Brazil and the Dominican Republic. Sorin also maintains sales and administrative offices in the U.S. at one location in the State of Colorado and at numerous locations outside the U.S. Most of these locations are leased. Sorin is using substantially all of its currently available productive space to develop, manufacture, and market its products. Sorin's facilities are in good operating condition, suitable for their respective uses, and adequate for current needs.

PART III
INFORMATION ON CYBERONICS

The following information should be read in conjunction with the information appearing elsewhere in this Prospectus including the audited consolidated historical financial information relating to Cyberonics for the 52 weeks ended 24 April 2015, 25 April 2014 and 26 April 2013 and the unaudited consolidated quarterly financial statements for Cyberonics for Cyberonics Q1 2016 and Cyberonics Q1 2015, which is included herein beginning on page 246 of this Prospectus. Unless otherwise indicated, the selected financial information in this Part III has been extracted without material adjustment from the historical consolidated financial information relating to Cyberonics, which is included herein beginning on page 246 of this Prospectus.

1. BUSINESS

1.1 General

Cyberonics is a medical device company, incorporated in 1987, engaged in the design, development, sale and marketing of medical devices for epilepsy, depression and heart failure. Cyberonics' seminal product, the VNS Therapy® System, is an implantable device that provides neuromodulation therapy for the treatment of drug-resistant epilepsy and TRD. Cyberonics' latest product, the VITARIA™ System, which is approved in Europe but not the U.S., is an implantable device that provides a form of neuromodulation therapy for the treatment of CHF. Cyberonics is also developing non-implantable device solutions for the management of epilepsy.

The VNS Therapy System and VITARIA System include the following:

- an implantable pulse generator to stimulate the vagus nerve;
- a lead that conducts current pulses from the pulse generator to the vagus nerve;
- a surgical instrument 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
- in the VNS Therapy System, magnets to suspend or induce stimulation manually.

The VNS Therapy System pulse generator and lead are surgically implanted, generally during an outpatient procedure. The battery contained in the generator has a finite life, which varies according to the model and the stimulation parameters used for each patient. At or near the end of the useful life of a battery, a patient may, with the advice of a physician, choose to implant a new generator, with or without replacing the original lead.

The U.S. FDA approved the VNS Therapy System in July 1997 for use as an adjunctive therapy in epilepsy patients over 12 years of age in reducing the frequency of partial onset seizures that are resistant to anti-epileptic drugs. Regulatory bodies in Canada, the EEA, certain countries in Eastern Europe (including Russia), South America, Africa, Australia and certain countries in Asia (including Japan, China and Taiwan), have approved the VNS Therapy System for the treatment of epilepsy, many without age restrictions or seizure-type limitations.

Cyberonics sells the VNS Therapy System for drug-resistant epilepsy to hospitals and ambulatory surgery centres. In addition to maintaining and expanding its regulatory approvals, Cyberonics' ability to successfully expand the commercialisation of the VNS Therapy System depends on it being able to obtain and maintain favourable insurance coverage, coding and reimbursement for the device, the implant procedure and follow-up care. This coverage allows customers to invoice and be paid by Third Party Payers. There is currently broad coverage, coding and reimbursement for the VNS Therapy System for the treatment of drug-resistant epilepsy.

Proprietary protection for Cyberonics' products is important to its business. Cyberonics seeks U.S. and foreign patents on selected inventions, acquires licenses under selected patents of third parties, and enters into confidentiality agreements with employees, vendors and consultants with respect to technology that it considers important to the business. Cyberonics also relies on trade secrets, unpatented know-how and continuing technological innovation to develop and maintain its competitive position. Cyberonics does not have indication-specific patent coverage for VNS to treat epilepsy or depression.

1.2 VNS Therapy for epilepsy

Epilepsy is characterised by recurrent seizures that are broadly categorised as either partial or generalised at onset. According to the U.S. Centers for Disease Control and the Epilepsy Foundation of America, approximately

three million individuals in the U.S. have some form of epilepsy, with approximately 150,000 new cases diagnosed each year. It is estimated, based on a World Health Organisation study on epilepsy that there are similar numbers of individuals with epilepsy in Western Europe. In Japan, there are approximately one million individuals with epilepsy and 50,000 new cases diagnosed annually. In addition, it is estimated that approximately 50 per cent. of patients with epilepsy experience partial onset seizures. A number of clinical studies have shown that more than 30 per cent. of people with epilepsy continue to experience seizures in spite of treatment with seizure medications. People with epilepsy who continue to have unsatisfactory seizure control or intolerable side effects after treatment with appropriate medication therapies for a reasonable period of time are considered to have drug-resistant, or drug-refractory, epilepsy. For reasons that are not clear, partial onset seizures are generally more resistant to currently available therapies than generalised seizures. Globally, there are several broad types of treatment available to persons with epilepsy: multiple seizure medications, various forms of the ketogenic diet, VNS, resective brain surgery, trigeminal nerve stimulation, responsive intracranial neurostimulation and deep brain stimulation. Seizure medications typically serve as a first-line treatment and are prescribed for virtually all patients diagnosed with epilepsy. After two seizure medications fail to deliver seizure control, the epilepsy is defined as drug-resistant. At this point, adjunctive non-drug options should be considered, including VNS therapy, brain surgery and a ketogenic diet.

In the U.S., the VNS Therapy System is indicated for use as an adjunctive therapy in reducing the frequency of seizures in adults and adolescents over 12 years of age with partial onset seizures that are refractory to anti-epileptic medications. In most markets outside the U.S., the VNS Therapy System is indicated for use as an adjunctive therapy in reducing the frequency of seizures in patients whose epileptic disorder is dominated by partial onset seizures, with or without secondary generalisation, or generalised seizures that are refractory to anti-epileptic medications. Cyberonics has analysed an internal database of patients who have received an implant of the VNS Therapy System since 1997, including the first model of Cyberonics' generator, Model 100, which indicates that more than 70 per cent. of patients have chosen to continue with the VNS Therapy System when the generator battery is depleted. As at the date of this Prospectus, an estimated 92,000 patients have been treated with the VNS Therapy System for epilepsy.

1.3 VNS Therapy for depression

Major depressive disorder is one of the most prevalent and serious illnesses in the U.S. It affects nearly 19 million Americans who are aged 18 years or older each year. Published data indicates that approximately one-third of patients with major depressive disorders will not experience remission of their depressive symptoms after four well-delivered, optimised treatment steps using standard anti-depressant therapies. Standard treatment methods for depression include anti-depressant drugs, psychotherapy and, in some cases, ECT. First-line therapy often consists of an anti-depressant drug. For patients experiencing persistent depression symptoms in spite of appropriate drug treatment, physicians will often switch to a different drug, or use two or more drugs in combination. Physicians usually reserve ECT for patients experiencing depression who have not had an adequate response to multiple trials of anti-depressant drugs or when they determine that a rapid response to treatment is desirable.

In July 2005, the U.S. FDA approved Cyberonics' VNS Therapy System for the adjunctive long-term treatment of chronic or recurrent depression for patients aged 18 years or older who are experiencing a major depressive episode and have not had an adequate response to four or more adequate anti-depressant treatments. Regulatory bodies in the EEA, Canada, Brazil, Mexico, Australia, Israel and certain other international markets have approved the VNS Therapy System for the treatment of chronic or recurrent depression in patients who are in a treatment-resistant or treatment-intolerant depressive episode. As at the date of this Prospectus, an estimated 4,100 patients worldwide have been treated with the VNS Therapy System for depression.

In May 2007, the CMS issued a national determination of non-coverage within the U.S. with respect to reimbursement of the VNS Therapy System for patients with TRD, significantly limiting access to this therapeutic option for most patients. As the result of lack of access following this determination, Cyberonics has not engaged in active commercial efforts with respect to TRD in any of its markets, however, in the future it intends to re-engage in limited commercial efforts in certain international markets. As a result of new clinical evidence, including the completion of a post-approval dosing study and other studies that have resulted in more than five recent publications in peer-reviewed journals, Cyberonics submitted a formal request to CMS for reconsideration of VNS therapy for TRD. CMS declined the request for reconsideration in May 2013. In October 2013, two Medicare beneficiaries appealed the lack of coverage by Medicare through the U.S. Departmental Appeals Board of the Department of Health and Human Services. In January 2015, the U.S. Departmental Appeals Board concluded that the record relating to the non-coverage conclusion by CMS is complete and adequately supports the non-coverage determination.

1.4 VNS Therapy for CHF

In 2011, Cyberonics initiated a programme to assess the use of the VNS technology for treating patients with CHF. Cyberonics' system for treating patients with CHF, the VITARIA System, provides a specific method of VNS called autonomic regulation therapy. The VITARIA System includes the same elements as the VNS Therapy System - pulse generator, lead, programming wand and software, programming computer, tunnelling tool and accessory pack - without the patient kit with magnets. Cyberonics conducted a pilot study, ANTHEM-HF, outside the U.S., which concluded during the fiscal quarter ended 24 October 2014. The results of the study support the safety and efficacy of autonomic regulation therapy delivered by the VITARIA System. The VITARIA System includes an implantable pulse generator, vagus nerve lead, programming system and patient kit that have been specifically designed to deliver autonomic regulation therapy in a manner that promotes improvements in heart function and reduces symptom expression. Cyberonics submitted the results to the European Notified Body, DEKRA, and on 20 February 2015, it received CE Mark approval for the VITARIA System for patients who have moderate to severe heart failure (New York Heart Association Class II/III) with left ventricular dysfunction (ejection fraction less than 40 per cent.), and who remain symptomatic despite stable, optimal heart failure drug therapy. Cyberonics commenced a limited market launch in Europe of the VITARIA System, with the first commercial implant in early June 2015. The VITARIA System is not available in the U.S. During the fiscal quarter ended 24 October 2014, Cyberonics also initiated a second pilot study, ANTHEM-HFpEF, to study autonomic regulation therapy in patients experiencing symptomatic heart failure with preserved ejection fraction. This pilot study is currently underway outside the U.S.

1.5 VNS Therapy for other indications

Cyberonics has previously conducted or supported animal studies or small human pilot studies for the treatment of a number of therapeutic indications, such as traumatic brain injury and fibromyalgia. At this time, Cyberonics has no immediate or specific plans to conduct studies or further develop the VNS Therapy System for additional therapeutic indications; however, Cyberonics continues to explore ways to expand the use of the VNS Therapy System.

1.6 The VNS Therapy System

The VNS Therapy System was the first medical device treatment approved by the U.S. FDA for refractory epilepsy and TRD. The safety profiles for VNS therapy and the VNS Therapy System, including the implant procedure, are well established in clinical studies of refractory epilepsy and TRD.

The VNS Therapy System 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. The VNS Therapy pulse generator and lead are surgically implanted, generally during an out-patient procedure. The pulse generator is surgically implanted in a subcutaneous pocket in the upper left chest area. The lead is connected to the pulse generator and tunnelled under the skin to the vagus nerve in the lower left side of the patient's neck.

The implanted pulse generator delivers a mild electrical pulse through the lead attached to the left vagus nerve. The vagus nerve is the longest of the cranial nerves, extending from the brain stem through the neck to organs in the chest and abdomen. Pre-clinical studies and mechanism-of-action research suggest that intermittent stimulation of the left vagus nerve in the neck modulates a number of structures and alters blood flow bi-laterally in several areas of the brain. These studies have also shown that stimulation of the left cervical vagus nerve is effective in suppressing the intensity or frequency of seizures and results in persistent or cumulative anti-epileptic effects. The mechanism-of-action research associated with Cyberonics' depression studies has shown that stimulation of the left vagus nerve results in modulation of areas of the brain thought to be important in the regulation of mood.

The VNS Therapy System delivers stimulation to the left vagus nerve by means of electrical pulses on a regular, intermittent basis. For all models, the initial stimulation parameters recommended in the labelling are a 30-second period of stimulation, referred to as "ON" time, followed by a five-minute period without stimulation, referred to as "OFF" time. To optimise patient treatment, the current pulse width, amplitude and frequency and the stimulation "ON" and "OFF" intervals of the pulse generator can be adjusted non-invasively by the treating physician with a programming computer using the programming wand and software. In addition, patients with epilepsy can use a small, hand-held magnet provided with the VNS Therapy System to activate or inhibit

stimulation manually. On-demand therapy can be activated by those patients who sense an oncoming seizure and has been reported by a number of patients to abort or reduce the severity or duration of seizures. The magnet can also be used to provide control of stimulation-related side effects by allowing the patient to discontinue stimulation temporarily, if desired.

The AspireSR® generator is capable of delivering programmable stimulation comparable to other VNS therapy generators. The AspireSR generator also enables additional stimulation automatically by responding to a patient's relative heart-rate changes that exceed certain variable thresholds. Heart-rate changes accompany seizure activity in certain patients. The thresholds are programmed by the patient's physician and can be adjusted to suit individual patient needs.

Pulse Generator

The pulse generator is an implantable, programmable signal generator designed to be coupled with the lead to deliver mild electrical pulses to the vagus nerve. The pulse generator is a battery-powered device. Shortly before or upon depletion of the battery, the pulse generator may be removed and a new generator implanted in a short, outpatient procedure. The Model 102 (Pulse™), Model 102R (Pulse Duo™), Model 103 (Demipulse®), Model 104 (Demipulse Duo®), Model 105 (AspireHC®) and Model 106 (AspireSR®) generators are the VNS therapy pulse generators Cyberonics currently offers in the U.S. and most markets worldwide. The AspireSR generator is the first and only VNS Therapy System that provides responsive stimulation to heart-rate increases that are often associated with seizures in people with epilepsy. Cyberonics' generators are comprised of a printed circuit board and a battery hermetically sealed in a titanium case. Standard components are assembled on the printed circuit board using surface-mount technology. The assembled circuit board is then tested and mounted with the battery in the titanium case, which is closed and sealed by a laser weld. A header to which the lead connects is added, and each unit is subject to final release testing prior to being sterilised and packaged.

Lead

The lead conducts the electrical pulses from the pulse generator to the vagus nerve. The lead incorporates electrodes, which are self-sizing and flexible, minimising mechanical trauma to the nerve. The lead's two electrodes and anchor tether wrap around the vagus nerve, and the connector end is tunnelled subcutaneously to the upper chest area, where it attaches to the pulse generator. Cyberonics currently offers two lead models in the U.S., each with differences in flexibility. The leads are available in two inner spiral diameter sizes for use on different-sized nerves.

Programming Wand and Software

The programming wand and proprietary software are used to interrogate the implanted pulse generator and to transmit programming information from a programming computer to the pulse generator via an inductive coupling. Programming capabilities include modification of the pulse generator's programmable parameters (pulse width, amplitude, frequency and stimulation "ON" and "OFF" intervals) and storage and retrieval of telemetry data.

Programming Computer

Cyberonics' newest programming computer is a tablet device that functions in conjunction with the programming wand and software described above. Cyberonics has recently transitioned to the tablet device from a smaller programming computer device, namely the personal digital assistant.

Tunnelling Tool

The tunnelling tool is a single-use, sterile, disposable surgical tool designed to be used during surgical placement of the lead. The tool is used for subcutaneous tunnelling of the lead between the nerve site in the neck and the pulse generator site in the upper chest area.

Accessory Pack

The accessory pack includes two resistor assemblies used to test the function of the device prior to implantation, the lead tie-downs and one hex screwdriver.

Patient Essentials Kit

The patient kit includes two magnets, one on a wrist-band and one with a belt-clip.

Battery Replacements

The battery contained in the generator has a finite life, which may vary between one and 16 years depending on the generator model and the stimulation parameters used for each patient. In all cases, patients are instructed to see a physician to determine whether a replacement may be advisable. If a physician determines that a patient's battery is at or near the end of its useful life or that the generator should be replaced for clinical reasons, a patient or a patient's caregiver may choose to implant a new generator. The generator may be replaced with or without replacing the original lead.

2. MANUFACTURING AND SOURCES OF COMPONENTS AND RAW MATERIALS

Until recently, Cyberonics manufactured all of its products at its manufacturing facility located in the corporate headquarters in Houston, Texas, with the exception of the programming computer, which is a purchased component. Cyberonics constructed a second manufacturing facility in Costa Rica, which began manufacturing and shipping product during the fiscal quarter ended 24 April 2015.

Cyberonics purchases the components and raw materials used in manufacturing these products from various suppliers. For reasons of quality, product availability and expense control, certain components and raw materials are purchased from sole-source suppliers. Cyberonics works closely with suppliers, including sole-source suppliers, to ensure continuity of supply and quality. Due to the U.S. FDA's rigorous quality requirements regarding the manufacture of medical devices, including the VNS Therapy System, Cyberonics may not be able to change suppliers or to identify alternate suppliers quickly or easily. Although component or raw material supply has not historically been an issue, any reduction or interruption in supply could adversely impact Cyberonics' business.

The U.S. manufacturing operations in Houston, Texas, the Costa Rica plant, and the warehouse and distribution centre in Austin, Texas are required to comply with the U.S. FDA's QSR. The QSR implements section 520 of the federal FDCA, which requires manufacturers to have a quality system for the design, production, warehousing and distribution of medical devices. The QSR helps assure that medical devices are safe and effective for their intended use.

In addition, certain international markets have regulatory, quality assurance and manufacturing requirements that may be more or less rigorous than those in the U.S. Cyberonics has authorised DEKRA to act as its notified body to ensure that its products and quality system complies with the requirements of International Standards Organisation - ISO 13485:2003, Medical devices - Quality management systems - Requirements for regulatory purposes, the European Council Directive 90/385/EEC, which relates to active implantable medical devices, and with the requirements of the Canadian medical devices regulations. The U.S. manufacturing operations in Houston, Texas, the Costa Rica plant, and the warehouse and distribution center in Austin, Texas comply with international standards.

3. PRODUCT RELEASES AND FUTURE DEVELOPMENT

Cyberonics' epilepsy product development efforts are directed toward improving the VNS Therapy System, improving its efficacy, and developing new products that provide additional features and functionality. Cyberonics is conducting ongoing product development activities to enhance the VNS Therapy System pulse generator, lead and programming software and to introduce new products. It supports a variety of studies for the product development efforts and to build clinical evidence for the VNS Therapy System. Cyberonics 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. Any R&D efforts will require significant funding to complete and may not be successful. Even if successful, additional clinical studies may be needed to achieve regulatory approval and to commercialise any or all new or improved products. Cyberonics' sponsored research, development and regulatory approval activities amounted to US$43.3 million, US$46.6 million, and US$41.6 million in the fiscal years 2015, 2014 and 2013, respectively.

The AspireSR generator provides the benefits of VNS therapy, with an additional feature: automatic stimulation in response to detection of changes in heart rate indicative of a seizure. The AspireSR generator is capable of

delivering additional stimulation automatically by responding to a patient's relative heart-rate changes that exceed certain variable thresholds. Heart-rate changes accompany seizure activity in certain patients. The thresholds are programmed by the patient's physician and can be adjusted to suit the patient's level of physical activity or for other reasons. In September 2012, Cyberonics submitted an IDE request to the U.S. FDA for the purpose of conducting a U.S. pilot study of the AspireSR generator (designated "**E-37**"). The IDE was approved in December 2012 and in December 2014, Cyberonics announced positive results from the AspireSR clinical studies, E-36 and E-37, which assessed the acute impact of the AspireSR generator on seizure duration and termination, as well as the long-term evaluation of safety, clinical benefit of the automatic stimulation feature and quality of life. In February 2014, Cyberonics received CE Mark approval for the AspireSR generator, and the generator has been commercially available in many European and Middle Eastern countries since late fiscal year 2014. During the quarter ended 24 October 2014, Cyberonics submitted the AspireSR generator for PMA in the U.S. On 2 June 2015, Cyberonics announced the U.S. FDA approval of the AspireSR generator, the first and only VNS Therapy System that provides responsive stimulation to heart-rate increases that are often associated with seizures in people with epilepsy.

In February 2015, Cyberonics received CE Mark approval of the VITARIA System for patients who have moderate to severe heart failure (New York Heart Association Class II/III) with left ventricular dysfunction (ejection fraction less than 40 per cent.), and who remain symptomatic despite stable, optimal heart failure drug therapy. Cyberonics commenced a limited market launch in Europe of the VITARIA System, with the first commercial implant in early June 2015.

Cyberonics continues to develop the ProGuardian™ System, which includes an external body-worn sensor and bedside hub that uses advanced cardiac and movement-based seizure detection technology for in-home seizure monitoring, logging and notification. The first ProGuardian System product will be the ProGuardianREST™ System for monitoring night-time seizures. In November 2014, Cyberonics received CE Mark approval for marketing the ProGuardian System in Europe and, during Cyberonics Q1 2016, Cyberonics began a limited user experience in the U.K. Cyberonics is also working toward new stimulation paradigms and the integration of MRI compatibility with its leads.

Following an internal review of R&D activities, Cyberonics is engaging in a re-design of certain aspects of the wireless Centro™ generator that resulted in the write-off of certain obsolete inventory items, production equipment and software that amounted to a loss of US$1.6 million, which was charged to R&D expense in the consolidated statement of income for fiscal year 2015. It also decided to abandon the pursuit of neurological signal feedback and processing technology, and as a result, it fully impaired certain intellectual property and software for a loss of US$0.5 million, which was also charged to R&D expense.

Cyberonics has invested approximately US$17.1 million in two innovative medical device start-up companies. It accounts for these investments under the cost-method, as Cyberonics does not exercise significant influence over the investees. It invested in Cerbomed, a privately-held, European development-stage company developing a transcutaneous VNS device for several indications, including the treatment of drug-resistant epilepsy. Cerbomed received CE Mark approval for its device for the treatment of epilepsy and depression in March 2010, and has completed a clinical study in Germany to study outcomes in the treatment of refractory epilepsy. During the fiscal quarter ended 23 January 2015, Cyberonics invested an additional €1.0 million, or US$1.2 million, in convertible preferred stock. During fiscal year 2016, consistent with the agreement with Cerbomed, Cyberonics expects Cerbomed to submit a pre-submission to the U.S. FDA to determine the appropriate submission pathway for their device for the treatment of certain types of epilepsy. Cyberonics holds an exclusive option for the worldwide sales and distribution of this system for the treatment of epilepsy. During Cyberonics Q1 2016, Cyberonics partially impaired this investment. In addition, Cyberonics has invested in ImThera Medical, Inc., a privately-held, development-stage, company developing an implantable neurostimulation device system for the treatment of obstructive sleep apnoea. In November 2014, ImThera announced that the U.S. FDA granted an IDE for their targeted hypoglossal neurostimulation pivotal clinical study and such study is underway.

4. MARKETING AND SALES

4.1 U.S.

Cyberonics markets and sells its products for drug-resistant epilepsy through direct sales and marketing teams.

In the U.S., the sales and marketing plan focuses on creating awareness and demand for the VNS Therapy System among epileptologists and neurologists who treat refractory epilepsy, implanting surgeons, ancillary

healthcare professionals, Third Party Payers, hospitals and patients and their families. Cyberonics' efforts focus on comprehensive epilepsy treatment centres and community-based practices engaged in the treatment of epilepsy.

To reach each of these groups, Cyberonics conducts direct-selling activities using a specialised sales force consisting of:

- sales personnel;
- field clinical engineers and marketing personnel focused on educational and promotional marketing programmes; and
- case managers experienced in patient education, insurance verification and authorisation issues.

In addition to the direct-selling activities, Cyberonics facilitates and supports peer-to-peer interactions such as symposia, conference presentations, journal articles and patient support groups to provide experienced clinicians and patients the opportunity to share their perspectives on the VNS Therapy System with others.

4.2 International

Cyberonics has approval to market its products in more than 70 countries. It markets and sells these products in these countries through a combination of a direct sales force in certain European countries and independent distributors elsewhere. Cyberonics' objectives include increasing sales in existing markets and expanding the number of countries where the VNS Therapy System is available to patients.

The VNS Therapy System is currently marketed and sold for epilepsy in every major European market. The majority of sales in Europe are driven by a direct sales force. In some European countries and areas, Cyberonics has established distribution agreements with independent distributors to better suit the needs of customers, for example, such as Italy, the Balkans and in Eastern Europe. Cyberonics also has distribution agreements with independent distributors covering a number of other territories outside of Europe, including Canada, Mexico, Australia, parts of Central and South America, the Middle East, China, Japan, and other parts of Asia. The distribution agreements generally grant the distributor exclusive rights for the particular territory. The time periods covered by these contracts with distributors are predominantly annual, although there are some contracts for longer periods. The terms and conditions of the distribution agreements include expectations around regulatory compliance, and provide for title and risk of loss to pass to the distributor when a product is shipped. In addition, distribution contracts may provide for payment terms up to 30 days longer than the standard payments terms for Cyberonics' direct customers.

Under the terms of the agreement and local law, Cyberonics may be required to compensate the distributor in the event that the agreement is terminated by Cyberonics or is not renewed upon expiration. The distributor generally assumes responsibility for obtaining regulatory and reimbursement approvals for the relevant territory and agrees to certain minimum marketing and sales expenditures, as well as to purchase commitments with limited return rights. Cyberonics' pricing to distributors is generally fixed under the terms of the distribution agreements, but may change at Cyberonics' election with as little as 30 days prior notice under most of these agreements. The average sales price in each country is based on local market conditions and is primarily dictated by public and private reimbursement. Typically, the sales price in international markets is lower than in the U.S.

5. GOVERNMENT REGULATION

The products Cyberonics manufactures and markets are subject to regulation by the U.S. FDA under the FDCA and, in some instances, state authorities and foreign governments.

5.1 U.S. FDA regulation

Before a new medical device can be introduced into the U.S. market, a manufacturer generally must obtain marketing clearance or approval from the U.S. FDA through either a 510(k) submission or PMA application.

The PMA application procedure is more comprehensive than the 510(k) procedure and typically takes several years to complete. The PMA application claims must be supported by scientific evidence, typically in the form of pre-clinical and clinical data relating to the safety and effectiveness of the device, and must include other information about the device and its components, design, manufacturing and labelling. The choice of the

submission process is determined based on a risk-based classification system and whether similar devices were on the market prior to the introduction of the U.S. Medical Device Regulations in 1976. Medical devices are classified into three classes of device: Class 1 - low risk, Class 2 - moderate risk and Class 3 - high risk. High risk examples typically include implantable and life-sustaining or life-supporting devices. The 510(k) submission route is used for Class 1 and 2 medical devices. Class 3 medical devices generally fall under the PMA regulations with a few exceptions. U.S. FDA classified the VNS Therapy System as a Class 3 medical device, which required that it follows the PMA procedure.

When clinical studies of a Class 3 medical device are required in order to obtain U.S. FDA approval, the sponsor of the trial is required to file an IDE application before commencing clinical studies. The IDE application must be supported by data, which typically include the results of extensive bench testing, animal testing, and formal lab testing, all of which must be conducted in accordance with good laboratory practices, appropriate design controls and scientific justification. The U.S. FDA reviews and must approve an IDE before a study may begin in the U.S. In addition, the study must be approved by an Institutional Review Board of the U.S. FDA charged with protecting study subjects for each clinical site. When all approvals are obtained, the study may begin. The U.S. FDA will approve a PMA application only if the application can provide reasonable assurance that the device is safe and effective for its intended use. As part of the PMA application review, the U.S. FDA inspects the manufacturer's facilities for compliance with its QSR. As part of the PMA approval, the U.S. FDA may place restrictions on the device, such as requiring additional patient follow-up for an indefinite period of time. If the U.S. FDA's evaluation of the PMA application or the manufacturing facility is not favourable, the U.S. FDA may deny approval of the PMA application or issue a "not approvable" letter. The U.S. FDA may also require additional clinical studies, which can delay the PMA approval process by several years. After the PMA is approved, if significant changes are made to a device, its manufacturing or labelling, a PMA supplement containing additional information must be filed for U.S. FDA approval prior to implementation of the changes.

Since the U.S. FDA clearance and approval processes for a medical device are lengthy and expensive, and the outcomes are uncertain, there can be no assurance that Cyberonics will be able to obtain necessary regulatory clearances or approvals for any new or improved product on a timely basis or at all.

After a product is placed on the market, the product and its manufacturer are subject to pervasive and continuing regulation by the U.S. FDA. In addition to the marketing clearance and approval process discussed above, device manufacturers must:

- register their facilities and list their products with the U.S. FDA and certain state agencies;
- maintain a quality system for the development and manufacture of devices;
- establish various specifications and controls for incoming components and finished devices;
- ensure that devices are designed to meet these specifications;
- verify that finished devices are manufactured to the appropriate controls and that they meet these specifications;
- assure that devices are correctly implanted, checked and serviced;
- track implantable devices through the distribution chain;
- ensure that labelling and promotional activities are consistent with approved uses;
- analyse quality data to identify and correct quality problems;
- review, evaluate and investigate complaints; and
- report certain complaints and product problems to the U.S. FDA.

The U.S. FDA enforces these requirements by inspection and market surveillance, including the Cyberonics facilities. The U.S. FDA periodically inspects the manufacturing facilities, which potentially includes those of Cyberonics' suppliers. If the U.S. FDA observes conditions that may constitute violations, Cyberonics must correct the conditions or satisfactorily demonstrate the absence of the violations; if it is unable to do so, it may face regulatory action. Non-compliance with applicable U.S. FDA requirements can result in, among other things, fines, injunctions, civil penalties, recall or seizure of products, total or partial suspension of production, failure of the U.S. FDA to grant marketing approvals, withdrawal of marketing approvals, a recommendation by the U.S. FDA to prohibit Cyberonics from entering into government contracts, and criminal prosecutions. The U.S. FDA also has the authority to request repair, replacement or refund of the cost of any device manufactured or distributed by Cyberonics.

Recently, the U.S. FDA has placed an increased emphasis on enforcement of the QSR and other post-market regulatory requirements. Cyberonics will continue to expend resources to maintain compliance with its obligations under the U.S. FDA's regulations.

5.2 Other U.S. regulation

Cyberonics is subject to the Transparency Reports and Reporting of Physician Ownership or Investment Interests finalised by CMS on 8 February 2013 as part of the federal Affordable Care Act. This healthcare reform legislation is intended to increase the transparency of healthcare companies' interactions with healthcare providers. Cyberonics is required by law to disclose all payments and other transfers of value to U.S. physicians and teaching hospitals from 1 August 2013.

Cyberonics and its products are also subject to a variety of state and local laws in those jurisdictions where its products are or will be marketed, and to federal, state and local laws relating to matters such as its responsibilities as an employer, safe working conditions, manufacturing practices, environmental protection, fire hazard control and disposal of hazardous or potentially hazardous substances. Cyberonics is also subject to various federal and state laws governing its relationships with the hospitals and physicians and others who purchase or make referrals for Cyberonics' products. For instance, federal law prohibits payments of any form intended to induce a referral for any item payable under Medicare, Medicaid or any other federal healthcare programme. Many states have similar laws. There can be no assurance that Cyberonics will not be required to incur significant costs to comply with such laws and regulations now or in the future or that such laws or regulations will not have a material adverse effect on its ability to do business.

5.3 Non-U.S. regulation

Internationally, the VNS Therapy System is considered to be a medical device under applicable regulations and directives. Cyberonics anticipates that this will be true for all of its future products. Sales of medical devices are subject to regulatory requirements in many countries. The regulatory review process may vary greatly from country to country. For example, the EU has adopted numerous directives and standards relating to medical devices, regulating their design, manufacture, clinical studies, labelling and adverse event reporting. Devices that comply with these requirements are entitled to bear a CE Mark indicating that the device conforms to the essential requirements of the applicable directives and can be commercially distributed in countries that are members of the EU. In some cases, Cyberonics relies on its non-U.S. distributors to obtain regulatory approvals, complete product registrations, comply with clinical study requirements and complete those steps that are customarily taken in the applicable jurisdictions.

There can be no assurance that new laws or regulations regarding the release or sale of medical devices will not delay or prevent the sale of current or future products. Cyberonics continually monitors international regulatory developments to mitigate against any such delays.

Certain international markets have regulatory, quality assurance and manufacturing requirements that may be more or less rigorous than those in the U.S. Cyberonics authorised DEKRA to act as its notified body to ensure that its products and quality systems comply with the requirements of ISO 13485, which relates to active implantable medical devices and the Canadian medical device regulations.

6. THIRD-PARTY REIMBURSEMENT IN THE U.S. MARKET

6.1 Overview

Cyberonics sells the VNS Therapy System for refractory epilepsy to hospitals and ambulatory surgery centres on payment terms that are generally 30 days from the shipment date. In addition to maintaining regulatory approval, Cyberonics' ability to expand the commercialisation of the VNS Therapy System depends on its ability to obtain and maintain favourable insurance coverage, coding and reimbursement for the device, the implant procedure and follow-up care. This coverage allows customers to invoice and be paid by Third Party Payers. Cyberonics currently has broad coverage, coding and reimbursement for the VNS Therapy System for the treatment of refractory epilepsy.

The Affordable Care Act was enacted into law in March 2010. Certain provisions of the Affordable Care Act will not be effective for a number of years, and there are many programmes and requirements for which the details have not yet been fully established or consequences not fully understood, and it is unclear what the full impacts

will be from the law. From 1 January 2013, The Affordable Care Act levied a 2.3 per cent. excise tax on the majority of Cyberonics' U.S. medical device sales. The Affordable Care Act also focuses on a number of Medicare provisions aimed at improving quality and decreasing costs. The Medicare provisions include value-based payment programmes, increased funding of comparative effectiveness research, reduced hospital payments for avoidable re-admissions and hospital-acquired conditions, and pilot programmes to evaluate alternative payment methodologies that promote care coordination - such as bundled physician and hospital payments under the ambulatory payment classification system. Additionally, the Affordable Care Act included the establishment of an independent payment advisory board to recommend ways of reducing the rate of growth in Medicare spending. Cyberonics employs case managers, available through its reimbursement hotline, to help with coverage, coding and reimbursement issues on a case-by-case basis or policy level.

CMS annually updates and issues its reimbursement rates under the comprehensive ambulatory payment classification system. It is estimated that CMS pays for approximately 25 per cent. to 30 per cent. of the VNS Therapy System implants performed in the U.S. under Medicare and approximately 20 per cent. or more under Medicaid, although this varies by hospital. On 31 October 2014, CMS released the calendar year 2015 final comprehensive ambulatory payment classification rates. The VNS Therapy-related rates decreased, as compared to the calendar year 2014 final rates, by 5.3 per cent. for full systems and 0.8 per cent. for generator-only replacements. These rate decreases were due to a change in reimbursement methodology, whereby CMS re-assigned neurostimulation-related procedures within a smaller number of comprehensive ambulatory payment classification categories. The calendar year 2014 rates increased over the calendar year 2013 rates by 7.7 per cent. for full systems and 5.1 per cent. for generator-only replacements. The calendar year 2013 reimbursement rates increased over the calendar year 2012 rates by 5.7 per cent. for full systems and 7.9 per cent. for generator-only replacements. In July 2015, CMS announced the preliminary ambulatory payment classification rates for 2016. The VNS Therapy-related rates increased, as compared to the 2015 final rates, by 2.3 per cent for full systems and 0.9 per cent for generator-only replacements. Future changes in the determination of comprehensive ambulatory payment classification reimbursement rates by CMS could result in additional rate reductions and could have an adverse impact on Cyberonics' operating results. Otherwise, reimbursement or payment rates from private insurers were largely unchanged over the past year.

6.2 Medicare

Under the current CMS policy, the VNS Therapy System is covered for patients with medically refractory partial onset seizures for whom surgery is not recommended or for whom surgery has failed. In May 2007, CMS concluded that Medicare coverage is not available for the VNS Therapy System for the treatment for TRD and declined Cyberonics' request for reconsideration of coverage on 28 May 2013.

6.3 Medicaid

Medicaid programmes generally cover hospital inpatient and outpatient services that are medically necessary and appropriate. With respect to epilepsy, most state Medicaid agencies have developed their own coverage policy for the VNS Therapy System or have adopted the national CMS coverage policy, although payment amounts vary from state to state. With respect to TRD, a small number of Medicaid programmes provide coverage for the VNS Therapy System on a case-by-case basis, but most are still evaluating a coverage policy or have issued a non-coverage policy. CMS's non-coverage determination for the treatment of TRD has made it difficult to obtain Medicaid coverage for the TRD indication.

Medicaid reimbursement mechanisms vary state by state. Medicaid policy and payment methodologies change on a regular basis, so Cyberonics is engaged in ongoing efforts to obtain or attempt to ensure continued access and acceptable reimbursement for patients covered by Medicaid programmes. Recent financial problems at various state Medicaid programmes have limited payments for VNS therapy from time to time, and these problems may continue.

6.4 Private payers

Private payers (commercial, managed care and other Third Party Payers) generally cover hospital inpatient and outpatient services that are considered to be medically necessary. It is currently estimated that private payers account for less than half of new patients implanted with the VNS Therapy System. As with other payers, many private payers have developed clinical guidelines for coverage or have adopted the national CMS coverage policy for use of the VNS Therapy System in epilepsy. Private payers in several states have recently adopted less restrictive guidelines as to which patients would be eligible for the VNS Therapy System, particularly patients with all seizure types, including generalised seizures. Most private payers either have no policy or have a non-coverage policy with respect to coverage for TRD.

Payment rates vary among third-party plans based on contracts and payment methods of specific providers. Audits of providers have revealed that the average reimbursement rates for VNS therapy-related procedures are generally acceptable to the providers.

In deciding to cover a new product or therapy, private payers base their initial coverage decision on several factors, including, but not limited to:

- the status of the U.S. FDA's review of the product;
- CMS's national coverage determinations, as well as local coverage determinations by Medicare contractors;
- BlueCross BlueShield Technology Evaluation Center recommendations;
- other technology assessments, including, but not limited to, those provided by Hayes, Inc., the ECRI Institute and the California Technology Assessment Forum;
- the product's safety and efficacy; and
- the number of clinical studies performed and peer-reviewed articles published with respect to the product; and comparative effectiveness relative to other therapies.

7. PAYMENT FOR VNS THERAPY OUTSIDE THE U.S.

Margins on the VNS Therapy System sales outside the U.S. vary on a country-by-country basis and depend on the method of product distribution chosen by Cyberonics for that country. In certain countries, governments are involved in setting reimbursement rates or setting limitations on the total number of devices purchased, or both, which generally results in a lower reimbursement rate than in the U.S. market. In fiscal year 2015, Cyberonics' international net product sales accounted for 19 per cent. of total net product sales, and the three largest individual country markets were the United Kingdom, Germany and France. In these countries, Cyberonics sells directly to hospitals, and the amount received may vary even within a country. Total sales are also affected by national and local health budgets and limitations on the number of products purchased in a given year.

Increasing prices for the VNS Therapy System, or setting a higher price for the newer models, such as the Demipulse, Demipulse Duo, AspireHC and AspireSR generators, can be a difficult and time-consuming process, in some instances involving submissions to government agencies.

8. COMPETITION

8.1 Overview

The healthcare industry is characterised by extensive research efforts and rapid technological progress. As other forms of neurostimulation are investigated and developed for epilepsy, depression, or heart failure, they may emerge as competition for the VNS Therapy System. In addition, the development by others of new treatment methods with novel drugs or medical devices for epilepsy, depression, or heart failure, could render the VNS Therapy System uncompetitive or obsolete. Advancements in surgical techniques could make surgery a more attractive therapy. Existing and future drug therapies are the primary competition for the VNS Therapy System in the near term for epilepsy and depression, and existing device therapies are the primary competition in heart failure. Any neurostimulation techniques could prove to be more effective, more accessible, more predictable, or more rapidly acting than the VNS Therapy System.

Cyberonics faces competition from small, emerging or large medical device or pharmaceutical companies that have the technology, experience and capital resources to develop alternative devices for the treatment of epilepsy and depression. These competitors or potential competitors could have substantially greater financial, manufacturing, marketing and technical resources than Cyberonics, and as a result, may develop technologies, obtain patents and regulatory approvals for products that are more effective in treating epilepsy or depression than Cyberonics' current or future products.

8.2 Epilepsy

Cyberonics expects to face competition from other medical device companies for the treatment of epilepsy. Medtronic, Inc. received approval from the U.S. FDA for its Activa Neurostimulator, a deep brain stimulation device indicated for the treatment of essential tremor, Parkinson's disease and severe obsessive compulsive

disorder. Medtronichas also submitted a PMA application to the U.S. FDA for use of the Activa Neurostimulator for the treatment of refractory epilepsy. The device already has approval for marketing in the European countries governed by CE Mark approval, and Medtronic has begun commercial marketing in several European countries. Another company, CerebralRx Ltd. based in Israel, developed an implantable device capable of VNS for the treatment of epilepsy and has CE Mark approval. CerebralRx has initiated commercialisation efforts in several European countries. In November 2013, the U.S. FDA approved NeuroPace, Inc.'s responsive neurostimulation device for the treatment of refractory epilepsy. This technology includes a pulse generator that is positioned in the skull with cortical strip and depth electrodes placed in pre-determined areas in the brain where seizures are thought to originate. NeuroPace has commenced commercial activity in the U.S. A company based in Europe, Neurotech, SA, which is now owned by Sorin, has obtained CE Mark approval for a device capable of VNS for the treatment of epilepsy. In addition, it is also likely that a company in China may be developing an implantable device that provides neuromodulation therapy to the vagus nerve; however Cyberonics is not privy to details regarding any such device, including its commercial launch.

Several non-invasive neurostimulation technologies are emerging, as well. NeuroSigma Inc., based in the U.S., is focused on the development of a trigeminal nerve stimulation device for the treatment of attention deficit hyperactivity disorder, major depressive disorder, and refractory epilepsy. NeuroSigma Inc. received CE Mark approval for this technology for the treatment of refractory epilepsy and has begun commercialisation in Europe. Cerbomed, a privately-held company based in Germany, has developed a transcutaneous VNS device that is also CE Mark-approved for the treatment of epilepsy. Cerbomed has completed a clinical study in Germany to study outcomes in the treatment of refractory epilepsy. Cyberonics has invested approximately €4.0 million, or US$5.1 million, in Cerbomed to date. During fiscal year 2016, it is expected that Cerbomed will to seek an IDE from the U.S. FDA for Cerbomed's device for the treatment of certain types of epilepsy. Cyberonics holds an option to obtain exclusive worldwide sales and distribution of this system for the treatment of epilepsy.

The primary competitive factors within the epilepsy treatment markets are the safety, tolerability and efficacy of the treatment relative to alternative therapies, physician and patient acceptance of the product and procedure, availability of third-party reimbursement, quality of life improvements and product reliability. Cyberonics believes that the VNS Therapy System compares favourably with competitive products as to these factors.

8.3 Depression

A well-established array of anti-depressant drugs typically combined with other anti-depressants of complementary action or with atypical anti-psychotic drugs and/or mood stabilisers, are frequently used for patients with unresponsive depression or TRD. For patients with certain types of severe depression or those at acute risk for suicide, ECT may be used. These treatment modalities represent the current standard of care as to which the VNS Therapy System must compete to be successful commercially as a therapy for TRD.

At least two non-invasive device-based therapies have been approved by the U.S. FDA since October 2008 for depression. Repetitive transcranial magnetic stimulation, developed and marketed by Neuronetics Inc., based in the U.S., consists of an externally-placed coil that delivers a pulsed magnetic field and is indicated for depression that has not responded to prior adequate treatments. Other companies, including Brainsway Ltd., based in Israel, have developed various forms of transcranial magnetic stimulation for depression. The Brainsway Ltd. device has also been cleared by the U.S. FDA.

8.4 Heart failure

Cyberonics' system for treating patients with CHF, the VITARIA System, has been specifically designed to deliver autonomic regulation therapy in a manner that promotes improvements in heart function. The VITARIA System operates by way of a programmable, personalised open-loop stimulation system, which includes an implantable pulse generator and a lead attached to either the right or left vagus nerve. Existing device therapies - cardiac resynchronisation therapy with pacing or defibrillation function - represent the primary competition for the VITARIA System at present. These devices are available today from Medtronic, Inc., Boston Scientific Corporation, St. Jude Medical, Inc., Biotronik SE & Co. KG and Sorin. In addition, several companies are developing competitive neurostimulation therapies for heart failure. BioControl Medical Ltd., a privately held medical device company headquartered in Israel and Sorin are developing products that may compete with VITARIA for the treatment of CHF. BioControl Medical's system is based on a closed-loop therapy control system, which incorporate two leads, one attached to the vagus nerve and another lead positioned in the right ventricular apex with stimulation delivered in response to heart failure. In addition, CVRx, Inc., a private medical device company located in Minnesota, and Boston Scientific Corporation, offer solutions for the treatment of

CHF that operate on an open-loop therapy control system. The CVRx system works by electrically activating the baroreceptors, the body's natural sensors that regulate cardiovascular function. CVRx and Cyberonics have systems approved in Europe for treating patients with CHF, although neither have approval in the U.S.

9. PATENTS, LICENSES AND PROPRIETARY RIGHTS

Proprietary protection for Cyberonics' products is important to the business. Cyberonics seeks U.S. and foreign patents on selected inventions, acquires licenses under selected patents of third parties, and enters into confidentiality agreements with employees, vendors and consultants with respect to technology that it considers important to the business. Cyberonics also relies on trade secrets, unpatented know-how and continuing technological innovation to develop and maintain the competitive position. Cyberonics does not have indication-specific patent coverage for VNS to treat epilepsy or depression.

As of 24 April 2015, Cyberonics owned or licensed approximately 205 U.S. patents and 145 pending U.S. patent applications, in addition to foreign patents and applications corresponding to the foregoing U.S. patents and applications. These patents and patent applications cover various aspects of the VNS Therapy System and methods of treatment for a variety of disorders, including traumatic brain injury, cardiac disorders, hypertension, motility disorders, coma and chronic pain, through electrical stimulation of the vagus nerve or other neural tissue. Cyberonics has filed counterparts of certain of key U.S. patent applications in certain international jurisdictions, and currently owns or licenses approximately 91 patents issued by the European Patent Office or other international authorities and 94 patent applications pending in the European Patent Office or before other national or international authorities. Patents generally expire twenty years from the filing of the patent application, are effective only after issuance, and only in the country where issued. Patents are costly and can be difficult to obtain.

A license agreement with Jacob Zabara, Ph.D., dated 15 March 1988, provided Cyberonics with exclusive rights under a number of U.S. patents and their international counterparts covering the method and devices of the VNS Therapy System for vagus nerve and other cranial nerve stimulation for the control of epilepsy and other movement disorders, as well as a number of other conditions and disorders including depression and chronic pain. The patent covering VNS for the treatment of neuropsychiatric disorders (including depression) expired on 3 May 2011. The last of the U.S. patents covering VNS for movement disorders expired 16 July 2011. Pursuant to the license agreement, Cyberonics was required to pay Dr. Zabara a royalty equal to 3.0 per cent. of sales of generators and leads. Cyberonics stopped paying this royalty on 16 July 2011, the expiration date of the last of the patents covering its existing products.

In October 2009, Cyberonics entered into a license arrangement with Flint Hills Scientific, L.L.C., which was amended in January 2011 and January 2015, that includes a royalty fee with a minimum annual fee of US$350,000 that increases to US$700,000 in fiscal year 2017, related primarily to cardiac-based seizure detection patents and patent applications. The license enables the AspireSR generator to, among other things, provide additional stimulation automatically by responding to a patient's relative heart-rate changes that exceed variable thresholds. Starting in fiscal year 2016, it is expected that royalty fees due to Flint Hills Scientific L.L.C. will be in excess of the minimums due, based upon expected domestic and international AspireSR product sales.

There can be no assurance that patents will be issued from any of the pending applications, or if patents are issued, that they will be of sufficient scope or strength to provide meaningful protection for Cyberonics' technology. Notwithstanding the scope of the patent protection available to Cyberonics, a competitor could develop treatment methods or devices that are not covered by Cyberonics' patents.

There has been substantial litigation regarding patent and other intellectual property rights in the medical device industry. In the future, Cyberonics may need to engage in litigation to enforce patents issued or licensed to it, to protect trade secrets or know-how, to defend against claims of infringement of the rights of others or to determine the scope and validity of the proprietary rights of others. Litigation could be costly and could divert attention from other functions and responsibilities. Adverse determinations in litigation could subject Cyberonics to significant liabilities to third parties, could require it to seek licenses from third parties and could prevent it from manufacturing, selling or using the VNS Therapy System, any of which could severely harm the business.

10. PRODUCT LIABILITY AND INSURANCE

The manufacture and sale of Cyberonics' products subjects it to the risk of product liability claims. It is currently named as a defendant in one or more product liability lawsuits in the U.S. As the manufacturer of a medical

device, Cyberonics will likely be named in the future as a defendant in other product liability lawsuits. Cyberonics does not believe that its products involved in the current lawsuits are defective; however, the outcome of litigation is inherently unpredictable and could result in an adverse judgment and an award of substantial and material damages against it. Although Cyberonics maintains product liability insurance in amounts that it believes to be reasonable, coverage limits may prove to be inadequate in some circumstances. Product liability insurance is expensive and in the future may only be available at significantly higher premiums or not available on acceptable terms, if at all. A successful claim brought against it in excess of available insurance coverage, which could severely harm Cyberonics' business, results of operations and financial position.

Cyberonics has undertaken field corrections to address product defects, and there can be no assurance that it will not be required to perform field corrections and product recalls or removals in the future. Since the introduction of the VNS Therapy System, Cyberonics has sent safety alert letters and recommendations and published field notifications for its products. Any such current or future product defects may result in legal claims with material adverse consequences to Cyberonics' business.

Cyberonics endeavours to maintain executive and organisation liability insurance in a form and with aggregate coverage limits that it believes are adequate for business purposes, but the coverage limits may prove not to be adequate in some circumstances. In addition, executive and organisation liability insurance is expensive and in the future may be available only at significantly higher premiums or not be available on acceptable terms, if at all. Further, insurance companies have been subject to extreme financial stress during recent years, and insurers may be unable to meet their obligations under the policies they have issued or will issue in the future.

11. EMPLOYEES

As of 24 April 2015, Cyberonics had 660 employees globally. Cyberonics believes that its success and ability to successfully expand the commercialisation of VNS Therapy System will be driven by strong leadership and the high calibre of the employees. It has strengthened its focus on talent assessment and leadership development and is committed to developing employees and providing them with opportunities to contribute to the growth and success of Cyberonics. It is engaged in an ongoing effort to identify, hire, manage and maintain the talent necessary to meet its objectives. Cyberonics believes its relationship with employees is good; however, there can be no assurance that that it will be successful in hiring or retaining qualified personnel. The loss of key personnel, or the inability to hire or retain qualified personnel, could significantly harm Cyberonics' business.

12. LITIGATION

Details of Cyberonics' current governmental, legal or arbitration proceedings are set out in paragraph 10.2 of Part XIII (*Additional Information*).

Cyberonics is the subject of various pending or threatened legal actions and proceedings that arise in the ordinary course of business. These matters are subject to many uncertainties and outcomes that are not predictable with assurance 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 Cyberonics' consolidated net income, financial position or cash flows.

13. FINANCIAL INFORMATION ABOUT SEGMENTS AND GEOGRAPHICAL AREAS

Cyberonics operates its business as a single segment with similar economic characteristics, technology, manufacturing processes, customers, distribution and marketing strategies, regulatory environments and shared infrastructures. It is a neurostimulation business focused on creating new markets, improving its products, developing other medical devices for patients suffering from epilepsy. Its latest product, the VITARIA™ System, approved in Europe but not the U.S., is an implantable device that provides a form of neuromodulation therapy for the treatment of CHF. Cyberonics commenced a limited market launch in Europe of the VITARIA System, with the first commercial implant in early June 2015.

In Cyberonics' 2015 fiscal year, 80.8 per cent. of Cyberonics' net sales were attributed to the U.S. and 19.2 per cent. of such net sales were attributed to the rest of the world. These percentages were 80.4 per cent. and 19.6 per cent., respectively, in its 2014 fiscal year and 82.7 per cent. and 17.3 per cent., respectively, in Cyberonics' 2013 fiscal year.

PART IV
OPERATING AND FINANCIAL REVIEW OF SORIN

The following discussion of Sorin's financial condition and results of operations should be read in conjunction with the information appearing elsewhere in this Prospectus including "Presentation of Information", and the audited consolidated historical financial information relating to Sorin for the years ending 31 December 2014, 2013 and 2012, and the unaudited consolidated interim financial statements for Sorin for the six months ended 30 June 2015 and 2014 which are incorporated by reference in Part VII of this Prospectus. Unless otherwise indicated, the selected financial information in this Part IV has been extracted without material adjustment from the historical consolidated financial information relating to Sorin incorporated by reference in Part VII of this Prospectus. This discussion involves forward-looking statements that reflect the current view of management and involve risks and uncertainties. Sorin's actual results could differ materially from those contained in any forward-looking statements as a result of factors discussed below and elsewhere in this Prospectus, particularly the risk factors discussed in the section entitled "Risk Factors" of this Prospectus.

1. OVERVIEW

Sorin is Europe's largest medical technology company specialising in the treatment of cardiovascular diseases. Sorin is a world leader in the production of cardiac surgery systems, with a consolidated position in heart valves, and offers innovative therapies for the treatment of cardiac rhythm disorders. Every year, Sorin's products improve the health and quality of life of more than one million patients across the globe. Sorin has manufacturing and R&D facilities in Brazil, Canada, China (under development), the Dominican Republic, France, Germany, Italy and the United States.

Sorin's organisation is based on two business segments, Cardiac Surgery, and Cardiac Rhythm Management, supported and managed by centralised corporate functions at Sorin's headquarters. Commercial activities are also integrated by function with a geographical focus. In addition to its primary business segments, Sorin's New Ventures organisation is dedicated to the development of new therapies in the field of heart failure and mitral regurgitation, two areas where current unmet clinical needs are huge, as there is no optimal therapeutic solution for the majority of patients.

The Cardiac Surgery business unit is engaged in the development, production, marketing and sale of cardiovascular surgery products, including oxygenators, HLMs, perfusion tubing systems, cannulae and accessories and systems for autotransfusion and autologous blood washing, as well as implantable prostheses for the replacement or repair of heart valves.

The CRM business unit develops, manufactures and markets products for the diagnosis, treatment and management of heart rhythm disorders and heart failure. These products include implantable devices, leads and delivery systems and information systems for the management of patients with CRM devices.

2. KEY FACTORS AFFECTING OPERATIONS AND FINANCIAL CONDITION

The following are a description of the principal factors which have affected Sorin's results of operations and financial condition for the three years ended 31 December 2014 and for the six months ended 30 June 2015.

Market environment

Over these periods, the macroeconomic environment was weak, particularly in the mature markets of Western Europe. Policies implemented by governments to contain healthcare spending, including in the CRM industry, resulted in pricing pressure, which affected Sorin's industry. Despite these prior challenges, however, the current market environment presents some significant growth opportunities. Demand for medical devices is increasing, due mainly to the aging of the population, a rise in the incidence of cardiovascular diseases and a growing availability of new therapeutic technologies. New innovative therapies are expanding treatment options and may satisfy patients' unmet clinical needs, thereby offering new market opportunities. Lastly, the market for medical technology products continues to grow at a sustained rate in developing countries.

Effects of foreign exchange rates

Sorin is affected by fluctuations in foreign exchange rates. Sorin is particularly exposed to Euro movements compared to the U.S. dollar and the Japanese yen. The fluctuations in foreign exchange rates have had a

significant impact on Sorin's net revenues. However, the impact on Sorin's net profit is less significant, due to offsetting impacts on operating costs and expenses resulting from currency fluctuations and Sorin's hedging activities.

Regulation

Sorin operates on an international basis in regulated healthcare markets. Sorin's medical devices are subject to regulation by numerous government agencies, including the U.S. FDA and comparable agencies outside the United States. Sorin's ability to enter new markets or to offer new products in existing markets depends on Sorin's ability to comply with laws and regulations governing the development, testing, manufacturing, labelling, marketing and distribution of Sorin's devices. Accordingly, there can be no guarantee that Sorin will be able to obtain marketing clearance for its new or modified products nor is it in control of the timing or additional resources needed for such approvals.

Restructuring costs

Over these periods, Sorin has undertaken restructuring plans and initiatives. The most significant initiative, announced in the fourth quarter of 2012 and concluded in the first half of 2015, was aimed at strengthening Sorin's competitive position and freeing up resources to re-invest in its long-term growth initiatives. Costs related to this programme amounted to €16.0 million as at 30 June 2015. Furthermore, in the first half of 2015, Sorin launched a new restructuring programme for the repositioning of the CRM business in the United States. Costs recognised in the six months ended 30 June 2015 amounted to €1.5 million.

Earthquake

In May 2012, a powerful earthquake struck the area of Mirandola, Italy where one of Sorin's production facilities is located. No Sorin employees were physically injured by the earthquake, but the Mirandola plant was damaged and production activities were temporarily interrupted. The Mirandola plant is one of nine production facilities operated by Sorin. Production of oxygenators and autotransfusion disposable kits, which are part of the Cardiac Surgery segment, is concentrated at this plant. Other production related to Sorin's oxygenator and autotransfusion product lines, and the entire HLM product area, is carried out at plants located in Denver, Colorado, Munich, Germany, and São Paulo, Brazil. As a result, certain of these products did not suffer any significant negative repercussions, and none of the devices relating to the heart valve product line or those of the CRM segment were affected in any significant way by the seismic events. Despite the extensive damage caused by the earthquake, production resumed earlier than the date originally anticipated, reaching levels of volumes higher than those reported before the earthquake. Nevertheless, the interruption in the manufacturing activity caused a serious disruption in the flow of deliveries and, consequently, in the commercial activity that had a material impact on the performance of oxygenators and autotransfusion systems and disposables. The effects of this disruption continued to impact Sorin's financial results throughout the first half of 2013, albeit with a gradually decreasing intensity.

Despite the factors above, Sorin has pursued growth and development strategies, continuing to invest in technology and new markets. Certain significant events related to new product approvals and new markets for Sorin included:

- Approval by Japan's Pharmaceuticals and Medical Devices Agency of the new KORA 100 pacemaker, with "Automatic MRI mode". The KORA 100 SR and KORA 100 DR pacemakers, implanted in combination with Sorin BEFLEX1 series electrodes, allow the patient to undergo MR scanning in total safety.
- CE Mark certification for adult age indication for the Perceval sutureless aortic valve, allowing treatment of a wider spectrum of patients with aortic stenosis and/or steno-insufficiency, as well as dedicated reimbursements for Perceval in the Czech Republic and Germany.
- U.S. FDA approval for the Mitroflow™ Aortic Pericardial Heart Valve with PRT, a patented advanced tissue treatment intended to further improve valve durability.
- CE Mark certification for Sorin's innovative stented aortic bioprosthesis CROWN PRT™, now commercially available in Europe. CROWN PRT™ features a surgeon-friendly design, PRT technology, and state-of-the-art hemodynamic and durability performance.
- U.S. FDA approval for SoloSmart™, the first aortic valve with a removable stent, providing native-like performance with the ease of implant of a stented valve.

- CE Mark and U.S. FDA clearance of Sorin's new MEMO3D ReChord™ mitral valve annuloplasty ring.

- Announcement of the results of the Perceval CAVALIER trial and of the Pooled European Multicenter Experience at the 28th Annual Meeting of EACTS in Milan, Italy, showing Perceval's durability, excellent hemodynamic performance, low complication rates and ease of implant.
- Announcement of the Freedom Solo U.S. FDA study results at the Annual Meeting of the American Association for Thoracic Surgery, in Toronto, Canada showing outstanding hemodynamic and clinical performance of the Freedom Solo stentless valve.
- Announcement of the ANSWER study results at the Cardiostim/EHRA congress in Nice, France showing that Sorin's SafeR™, a unique pacing mode designed to limit right ventricular pacing, significantly reduces heart failure events and significantly improves clinical outcomes.
- Completion, ahead of schedule, of the enrolment in the Respond CRT IDE clinical study. This trial, which studies the safety and effectiveness of the innovative SonR CRT optimisation system in patients with severe heart failure, enrolled a total of 1,039 patients in Europe, the United States and Australia.

In 2014, Sorin also completed the following transactions:

- The acquisition of Sorin's cardiac surgery cannulae activities from its supplier, BEL. BEL produced cardiac surgery cannulae on an exclusive basis for Sorin. These cannulae are an integral part of the Sorin cannulae portfolio and generated revenues of approximately €4 million in 2013.
- The establishment of MicroPort Sorin CRM (Shanghai) Co. Ltd., a joint-venture with MicroPort Scientific Corporation, to market and develop CRM devices in greater China. MicroPort Scientific Corporation holds 51 per cent. of the capital of the new company, while Sorin has the remaining 49 per cent. MicroPort Scientific Corporation and Sorin proportionally funded the initial capital of the joint venture, with respective investments of CNY 62,220,000 and CNY 59,780,000. MicroPort Sorin CRM (Shanghai) Co. Ltd. initiated activity in June 2014.
- The acquisition of the CRM lead business from Oscor, for an aggregate value of approximately US$20 million. Pursuant to the agreement between the parties, Sorin acquired: (i) Oscor's activities in the original equipment manufacturer business for bradycardia leads; (ii) a fully equipped, ISO certified and U.S. FDA registered production facility in the Dominican Republic; and (iii) access to Oscor's drawings and development resources, to accelerate the development of a complete portfolio of MRI-compatible pacing, defibrillation and left ventricle leads.
- An additional investment in Sorin's minority interest held in Cardiosolutions Inc. for US$5.1 million. Cardiosolutions is a startup company focused on the development of an innovative percutaneous mitral repair system and is one of Sorin's New Ventures investments.

During 2014, Sorin also repaid €94 million of outstanding loans from the EIB, and signed a finance contract with EIB for a new €100 million medium- to long-term facility. The EIB financing is being used to support R&D projects in Italy and France in relation to the development of new products or the upgrading of existing products in Sorin's Cardiac Surgery and CRM segments and the New Ventures organisation.

Finally, during the first half of 2015, Sorin completed an additional investment in Sorin's non-controlling interest held in Caisson Interventional LLC for US$7.5 million and in HighLife SAS for €2.8 million.

3. BASIS OF PREPARATION, EXPLANATION OF LINE ITEMS AND NON-IFRS MEASURES

3.1 Basis of preparation

The audited consolidated historical financial statements for Sorin for the years ended 31 December 2014, 2013 and 2012 and the unaudited consolidated interim financial statements for Sorin for the six months ended 30 June 2015 and 2014, which are incorporated by reference into this Prospectus, have been prepared in accordance with IFRS. Full details of the basis of preparation of the financial statements for the years ending 31 December 2014, 2013 and 2012 are set out in note 2 to the consolidated financial statements for the respective years which are incorporated by reference into this Prospectus as set out in Part VII. Full details of the basis of preparation of the financial statements for the six months ended 30 June 2015 and 2014 are set out in note 1 to the consolidated unaudited interim financial statements included in the 2015 half-year report, which are incorporated by reference into this Prospectus as set out in Part VII.

The comparative figures for the year ended 31 December 2012 were restated in Sorin's 2013 annual report as required by IAS 8, specifically to correct the accounting of deferred-tax liabilities for the tax deductible amortisation of goodwill and other intangible assets resulting from acquisitions completed before 2002. Accordingly, all financial information for the year ended 31 December 2012 included in this Part IV has been extracted without adjustment from the consolidated, unaudited restated comparatives for the year ended 31 December 2012 included in the audited consolidated financial statements for the year ended 31 December 2013.

3.2 Explanation of key line items

Net revenues

The vast majority of Sorin's net revenues comprises sales revenue. The remainder of Sorin's net revenues consists of service revenues and recoveries of costs.

Other revenues and income

Other revenues and income comprises grants and other research income, royalty income, gains on the sale of property, plant and equipment and other income. In 2014, other income included the minimum proceeds deemed to be virtually certain (pursuant to IAS 37) from the insurance claim (€15.5 million) for damage incurred in the 2012 earthquake at the Mirandola site.

Increase in company-produced additions to non-current assets

This covers property, plant equipment and intangibles. Sorin-produced additions to intangibles refers mainly to development costs incurred by the CRM and Cardiac Surgery business units, and costs used to secure approval from the U.S. FDA to sell valves and pacemakers in the U.S.

Cost of raw materials and services used and miscellaneous operating costs

Cost of raw materials includes purchases of raw materials and other materials and changes in inventories. In 2012, changes in inventories included an extraordinary writedown of the inventory of raw materials of €1.2 million at the Mirandola site, due to the earthquake.

Service costs include: industrial services; rent, rentals and lease payments; royalty expenses; variable selling costs; consulting services, other professional services and other services; advertising and promotion costs; internal transportation, travel and ancillary expenses; janitorial and security services; communications, telephone and postage expenses; insurance costs; employee training and development.

Miscellaneous operating costs cover losses on the sale of property, plant and equipment and other costs. Miscellaneous operating costs includes gains and losses for the reversal of the cash flow hedge reserve for fluctuations in foreign exchange rates, due to the recognition in the result for the period of the economic effect of the hedged assets and liabilities. Miscellaneous operating costs for the period under review also included non-recurring costs related to the Mirandola earthquake.

Personnel expense

Personnel expense includes wages and salaries, provisions for employee severance indemnities and other provisions for employee benefits, payments in respect of defined-benefit plans and defined-contribution plans and the cost of stock grants.

Depreciation, amortisation and write-downs

This line item consists of depreciation of property, plant and equipment, amortisation of intangible assets and writedowns of property, plant and equipment, intangible assets and trade receivables.

Financial income/(expense) and currency translation differences

Financial expenses include interest paid and other charges paid to banks and other lenders, losses on financial derivatives, losses from discounting assets and liabilities to their present value, financial discounts and fees resulting from the factoring of trade receivables, financial discounts granted customers and other financial charges.

Financial income includes bank interest earned, gains on financial derivatives, gains from discounting assets and liabilities to present value, delinquent interest earned and other financial income.

Foreign exchange gains/(losses) reflect the impact of currency translation differences.

Income taxes

Income taxes include current taxes, the impact of deferred tax liabilities (including depreciation of property, plant and equipment and amortisation of intangibles, remeasurement at fair value and recognition or de-recognition of assets or liabilities) and the impact of deferred tax assets (including carry-forward losses).

3.3 Non-IFRS measures

In order to provide a more in-depth assessment of operating and financial performance, Sorin identifies specific income statement, balance sheet and financial position indicators, which are used as part of the decision-making process, both when formulating budgets and plans and in presenting to financial analysts and investors. These indicators should not be viewed as alternatives to the conventional indicators provided in IFRS and, for all intents and purposes, simply constitute an additional disclosure.

Sorin's management measures its performance and the performance of its segments adjusted for the impact of special items on its operating profit; earnings before interest, taxes, depreciation and amortisation (Adjusted EBITDA) and net profit and net indebtedness. The "Adjusted" financial and operating indicators and non-IFRS measures, included in this section, have been adjusted to reflect extraordinary, non-recurring transactions and activities which are not directly related to Sorin's ordinary business. Such measures include adjusted operating profit, adjusted EBITDA, adjusted net profit, and adjusted net indebtedness.

Sorin believes that certain non-IFRS financial measures are useful because that information is an appropriate measure for evaluating its operating performance. Non-IFRS information is used to evaluate business performance and management's effectiveness. These measures should be considered in addition to, not as a substitute for, or superior to, measures of financial performance prepared in accordance with IFRS. Non-IFRS financial measures may not be calculated in the same manner by all companies and therefore may not be comparable. Therefore, management has included the adjusted information to allow a better comparison of financial information across the periods. It should be noted that such measures are not recognised as measures of financial performance or liquidity under IFRS.

Investors should not place any undue reliance on the historical or adjusted non-IFRS measures and financial indicators and should not consider these measures as: (i) an alternative to operating income or net income, as determined in accordance with generally accepted accounting principles, or as measures of operating performance; (ii) an alternative to cash flows from operating, investing or financing activities, as determined in accordance with generally accepted accounting principles, or as a measure of Sorin's ability to meet liquidity needs; or (iii) an alternative to any other measures of performance under generally accepted accounting principles. These measures are not indicative of Sorin's historical operating results, nor are they meant to be predictive of future results. These measures are used by Sorin's management to monitor the underlying performance of its business and operations. Since all companies do not calculate these measures in an identical manner, its presentation may not be consistent with similar measures used by other companies. Therefore, investors should not place undue reliance on this data.

Material income statement and balance sheet items are classified as special items when (i) they arise from events or transactions that are not recurring or from transactions or situations that do not occur frequently in the normal course of business, or (ii) they arise from events or transactions that are not indicative of Sorin's regular business activities. IFRS does not provide a definition for special items. Consequently, information about special items should be viewed as a supplemental disclosure provided for the purpose of more effectively measuring the results of regular operations.

Sorin's financial statements are affected by fluctuations in foreign exchange rates through the translation of foreign currency financial statements into Euro for consolidation and through transactions by entities in currencies other than their own functional currencies. As a consequence, percentage variations in items like net sales revenues, operating profit and adjusted EBITDA versus prior periods for comparison purposes are computed at comparable exchange rates, which means adopting the same exchange rate versus the Euro in the two periods of comparison.

4. RESULTS OF OPERATIONS

4.1 Six months ended 30 June 2015 compared to six months ended 30 June 2014

(In millions of Euro, except percentages)	Six months ended 30 June					
	2015		2014		Change	
	(Unaudited)					
		% of Net revenues		*% of Net revenues*		*%*
	€		€		€	
Net revenues	405.0	100.0%	366.9	100.0%	38.1	10.4%
Other revenues and income	9.6	2.4%	6.3	1.7%	3.3	52.8%
Change in inventory of work in process, semifinished goods and finished goods	(4.1)	(1.0)%	11.8	3.2%	(15.9)	(135.2)%
Increase in Sorin-produced additions to non-current assets	19.3	4.8%	21.0	5.7%	(1.7)	(8.0)%
Cost of raw materials and other materials and services used and miscellaneous operating cost	(238.0)	(58.8)%	(207.4)	(56.5)%	(30.6)	14.8%
Personnel expense	(158.8)	(39.2)%	(145.4)	(39.6)%	(13.4)	9.3%
Adjusted EBITDA(*)	**33.0**	**8.1%**	**53.1**	**14.5%**	**(20.1)**	**(38.0)%**
Depreciation, amortisation and write-downs	(26.5)	(6.5)%	(22.5)	(6.1)%	(4.0)	17.7%
Additions to provisions for risks and charges	(0.5)	(0.1)%	(0.5)	(0.1)%	0.0	(4.4)%
Restructuring charges and provisions	(3.0)	(0.7)%	(0.1)	0.0%	(2.9)	n.a.
Operating profit	**3.0**	**0.7%**	**30.1**	**8.2%**	**(27.1)**	**(90.0)%**
Financial income (expense)	(5.3)	(1.3)%	(3.5)	(1.0)%	(1.8)	50.2%
Share of loss of investments in associates accounted for using the equity method	(3.9)	(1.0)%	(1.3)	(0.4)%	(2.6)	n.a.
Profit (Loss) before taxes	**(6.2)**	**(1.5)%**	**25.2**	**6.9%**	**(31.4)**	**n.a.**
Income taxes	6.8	1.7%	(5.3)	(1.5)%	12.2	n.a.
Net profit (loss)	**€ 0.6**	**0.2%**	**€ 19.9**	**5.4%**	**€(19.3)**	**(96.9)%**

(*) Adjusted EBITDA is defined by Sorin as net profit (loss) adjusted for the following: (i) depreciation, amortisation and write-downs; (ii) additions to provisions for risks and charges; (iii) restructuring charges and provisions; (iv) financial income (expense); (v) share of loss of investments in associates accounted for using the equity method; and (vi) income taxes. Adjusted EBITDA is a non-IFRS measure and should not be considered as an alternative to the conventional indicators provided by IFRS.

Net revenues increased by €38.1 million (or 10.4 per cent.), from €366.9 million in the first half of 2014 to €405.0 million in the first half of 2015, driven principally by the performance of the cardiopulmonary product lines and the slight growth of the CRM segment. See the sections entitled "*Segment Information*" below for a detailed analysis of net revenues by segment and geographic area.

Other revenues and income increased by €3.3 million, from €6.3 million in the first half of 2014 to €9.6 million in the first half of 2015, due to the remaining insurance reimbursement related to the earthquake in Mirandola.

Changes in inventory had a negative impact of €4.1 million on profit for the six months ended 30 June 2015, compared to a positive impact of €11.8 million for the same period of 2014.

Increases in Sorin-produced additions to non-current assets had a positive impact of €19.3 million in the first half of 2015, compared to a positive impact of €21.0 million in the first half of 2014, mainly referred to development costs for the CRM and cardiac surgery business units of €12.4 million (€12.0 million in the first half of 2014) and costs of €3.1 million (€2.4 million in the first half of 2014) incurred to obtain U.S. FDA authorisation for the sale of valves and pacemakers in the United States.

The cost of raw materials and services used and miscellaneous operating costs increased by €30.6 million (or 14.8 per cent.), from €207.4 million in the first half of 2014 to €238.0 million in the first half of 2015. For the first half of 2015, miscellaneous other operating costs included cost of €3.6 million (an income of €4.1 million in the first half of 2014) for the release of the cash flow hedge reserve for fluctuating exchange rates following the impact of the economic effects of assets and liabilities being hedged on the net profit for the period. These costs also included non-recurring costs of €0.7 million for seismic events occurred at the Mirandola site in 2012 (€0.4 million in the first half of 2014) and €17.9 million related to the recognition of expenses for consulting and advisory services associated with the Mergers.

Personnel expense increased by €13.4 million (or 9.3 per cent.), from €145.4 million in the first half of 2014 to €158.8 million in the first half of 2015. Included within this expense in the first half of 2015 are non-recurring personnel costs of €4.7 million related to the Mergers. The item included bonuses for the CEO and the Chairman for the "Change of Control", bonuses and other incentives to the President and Sorin employees. In addition, the item was affected by the increase in average headcount, from 3,770 in the first half of 2014 to 3,916 in the first half of 2015.

Adjusted EBITDA decreased by €20.1 million (or 38.0 per cent.), from €53.1 million in the first half of 2014 to €33.0 million in the first half of 2015. As a percentage of net revenues, Adjusted EBITDA decreased from 14.5 per cent. in the first half of 2014 to 8.1 per cent. in the first half of 2015. This decrease was due to the negative effect on the profitability in the first half of 2015 of non-recurring costs incurred in connection with the Mergers.

Restructuring charges and provisions amounted to €3.0 million in the first half of 2015 (€0.1 million in the first half of 2014), mainly due to strategic repositioning of the U.S. CRM business for some €1.5 million. This programme, which should allow the CRM business to reach operating break-even in the U.S. by the second half of 2015, confirms Sorin's commitment to the U.S. market by accelerating the transition to a specific focus premium positioning on the high-tier and undertreated segment of heart failure and related co-morbidities. This strategy is supported by Sorin's strong and unique pipeline of innovative therapies expected to be available in the U.S. market from 2016 onwards such as SonRTM, Equilia™ and Respicardia. The programme, launched in the first half of 2015 and that will be completed by the end of 2015, aims at achieving overall savings, once fully implemented, of approximately €4.0 million per year on a full year basis.

Net financial expense increased by €1.8 million (or 50.2 per cent.), from €3.5 million in the first half of 2014 to €5.3 million in the first half of 2015. This change was heavily affected by currency translation gains (losses) which went from an income of €0.4 million in the first half of 2014 to a charge of €3.1 million in the first half of 2015. Excluding currency translation gains and losses, net financial expenses decreased by €1.8 million over the same period in 2014.

Share of loss of investments in associates accounted for using the equity method amounted to €3.9 million for the first half of 2015 compared with €1.3 million for the first half of 2014, and includes the portion of earnings (losses) for the period of investments made in start-ups and affiliate companies and write-downs of equity investments.

In the first half of 2015, Sorin recognised a tax benefit of €6.8 million as against a tax liability of €5.3 million in the first half of 2014.

Net profit decreased by €19.3 million, from €19.9 million in the first half of 2014 to €0.6 million in the first half of 2015. As a percentage of net revenues, net profit decreased to 0.2 per cent. in the first half of 2015 from 5.4 per cent. in the first half of 2014.

Sorin's management also monitors expenses by function. The following table sets forth a summary of Sorin's consolidated income statement showing expenses by function for the six months ended 30 June 2015 and 2014. It should be noted that this information is not derived directly from Sorin's historical financial statements, which present expense information by nature.

	Six months ended 30 June					
	2015		2014		Change	
	(Unaudited)					
(In millions of Euro, except percentages)		*% of Net revenues*		*% of Net revenues*		*%*
	€		€		€	
Net revenues	405.0	100.0%	366.9	100.0%	38.1	10.4%
Cost of sales	(176.1)	(43.5)%	(152.1)	(41.4)%	(24.0)	15.8%
Gross profit	**229.0**	**56.5%**	**214.8**	**58.6%**	**14.1**	**6.6%**
Selling, general and administrative expenses	(156.5)	(38.6)%	(142.4)	(38.8)%	(14.1)	9.9%
Research and development costs	(41.9)	(10.4)%	(40.1)	(10.9)%	(1.8)	4.5%
Special items	(27.5)	(6.8)%	(2.3)	(0.6)%	(25.2)	n.a.
Operating profit	3.0	0.7%	30.1	8.2%	(27.1)	(90.0)%
Net profit	**€ 0.6**	**0.2%**	**€ 19.9**	**5.4%**	**€(19.3)**	**(96.9)%**

Gross profit increased by €14.1 million (or 6.6 per cent.), from €214.8 million in the first half of 2014 to €229.0 million in the first half of 2015. As a percentage of net revenues, the decrease is mainly due to the unfavourable geographic mix, CRM pricing erosion worldwide and to the negative impact of exchange rates.

Selling, general and administrative expenses (SG&A) increased by €14.1 million (or 9.9 per cent.), from €142.4 million in the first half of 2014 to €156.5 million in the first half of 2015. As a percentage of net revenues this item was substantially in line in the two periods, showing a slight decrease of 0.2 percentage points.

R&D costs increased by €1.8 million (or 4.6 per cent.) to €41.9 million in the first half of 2015 from €40.1 million in the first half of 2014.

Special items were for a charge of €27.5 million in the first half of 2015, compared to a charge of €2.3 million in the first half of 2014, primarily including restructuring charges for €3.0 million (mostly related to CRM U.S. re-positioning) and €22.7 million related to transaction expenses associated with the Mergers.

Sorin's management also monitors operating profit, adjusted EBITDA and net profit adjusted for the effect of special items. The following table sets forth Sorin's adjusted operating profit, adjusted EBITDA (net of special items) and adjusted net profit for the six months ended 30 June 2015 and 2014.

	Six months ended 30 June					
	2015		2014		Change	
	(Unaudited)					
(In millions of Euro, except percentages)		*% of Net revenues*		*% of Net revenues*		*%*
	€		€		€	
Adjusted EBITDA (net of special items)	57.3	14.2%	€55.4	15.1%	€ 1.9	3.5%
Adjusted operating profit	30.5	7.5%	32.3	8.8%	(1.8)	(5.6)%
Adjusted net profit	24.2	6.0%	22.4	6.1%	1.8	8.1%

The following table sets forth a reconciliation of non-IFRS financial measures (adjusted for the effect of special items) and IFRS financial measures for the six months ended 30 June 2015 and 2014.

(In millions of Euro)	Six months ended 30 June 2015	2014	Change
	(Unaudited)		
Net profit (loss)	**0.6**	**19.9**	**(19.3)**
Income/(charges):			
Depreciation, amortisation and write-downs	(26.5)	(22.5)	(4.0)
Additions to provisions for risks and charges	(0.5)	(0.5)	0.0
Restructuring charges and provisions	(3.0)	(0.1)	(2.9)
Financial income (expense)	(5.3)	(3.5)	(1.8)
Share of loss of investments in associates accounted for using the equity method	(3.9)	(1.3)	(2.6)
Income taxes	6.8	(5.3)	12.2
Adjusted EBITDA	**33.0**	**53.1**	**(20.1)**
Special items - income/(charges):			
Litigations	(1.3)	(0.7)	(0.6)
Business development expenses	(0.3)	(0.9)	0.6
Merger-related costs	(22.7)	—	(22.7)
Valuation of provision for employee benefits	(0.2)	(0.1)	(0.1)
Income/expenses related to the earthquake	1.7	(0.4)	2.1
Others	(1.7)	(0.1)	(1.6)
Adjusted EBITDA (net of special items)	**57.3**	**55.4**	**1.9**
Operating profit	**3.0**	**30.1**	**(27.1)**
Special items - income/(charges):			
Litigations	(1.3)	(0.7)	(0.6)
Business development expenses	(0.3)	(0.9)	0.6
Merger-related costs	(22.7)	—	(22.7)
Valuation of provision for employee benefits	(0.2)	(0.1)	(0.1)
Restructuring	(3.0)	(0.1)	(2.9)
Income/expenses related to the earthquake	1.7	(0.4)	2.1
Others	(1.9)	(0.1)	(1.8)
Adjusted operating profit	**30.5**	**32.3**	**(1.8)**
Net profit (loss)	**0.6**	**19.9**	**(19.3)**
Special items - income/(charges):			
Litigations	(1.3)	(0.7)	(0.6)
Business development expenses	(0.3)	(0.9)	0.6
Merger-related costs	(22.7)	—	(22.7)
Valuation of provision for employee benefits	(0.2)	(0.1)	(0.1)
Restructuring	(3.0)	(0.1)	(2.9)
Income/expenses related to the earthquake	1.7	(0.4)	2.1
Others	(1.9)	(0.1)	(1.8)
Charges for overhedging foreign exchange risks	(0.8)	—	(0.8)
Income from (expenses on) investments in affiliate and in other companies (business dev.)	(3.9)	(1.1)	(2.8)
Tax impact	8.7	0.9	7.8
Adjusted net profit	**24.2**	**22.4**	**1.8**

Segment Information

The following table sets forth an analysis of Sorin's net revenues by segment for the six months ended 30 June 2015 and 2014.

The tables below include information calculated at a constant currency. Sorin calculates this constant currency by applying the current-year/period average exchange rates to prior-year/period financial data expressed in local currency in order to eliminate the impact of foreign exchange rate fluctuations originating from translating the income statement of Sorin's foreign entities into Euro. These constant currency measures are non-IFRS

measures. Although these measures are not a substitute for IFRS measures, Sorin believes that such results, excluding the impact of currency fluctuations period-on-period, provide additional useful information to investors regarding operating performance on a local currency basis.

(In millions of Euro, except percentages)	Six months ended 30 June		% Change	H1 2014 Foreign Currency Impact	H1 2014 Net Revenues at Constant Exchange Rates	% Change at Constant Exchange Rates
	2015	2014				
	(Unaudited)			(Unaudited)		
	€	€		€	€	
Cardiac Surgery	272.9	242.2	12.7%	22.5	264.7	3.1%
Cardiac Rhythm Management	130.8	123.4	6.0%	3.9	127.3	2.7%
Other Items	1.3	1.3	0.3%	—	1.3	0.3%
Total	**€405.0**	**366.9**	**10.4%**	**26.4**	**393.3**	**3.0%**

Total net revenues increased by €38.1 million (or 10.4 per cent.), from €366.9 million in the first half of 2014 to €405.0 million in the first half of 2015, driven principally by the performance of the cardiopulmonary product lines and the slight growth of the CRM segment. Further details on the main fluctuations are set out in the following sections.

Cardiac Surgery

The following table sets forth an analysis of Cardiac Surgery net revenues by product for the six months ended 30 June 2015 and 2014.

(In millions of Euro, except percentages)	Six months ended 30 June		% Change	H1 2014 Foreign Currency Impact	H1 2014 Net Revenues at Constant Exchange Rates	% Change at Constant Exchange Rates
	2015	2014				
	(Unaudited)			(Unaudited)		
	€	€			€	
Heart-lung machines	57.9	48.2	20.1%	€ 5.4	53.6	8.0%
Oxygenators	113.7	100.5	13.1%	8.5	109.0	4.3%
Autotransfusion systems and devices	35.7	30.6	16.4%	2.8	33.4	6.8%
Mechanical heart valves	25.6	24.0	6.5%	2.4	26.4	(3.2)%
Tissue heart valves	32.7	32.7	(0.1)%	2.3	35.0	(6.7)%
Other items	7.4	6.1	21.4%	1.1	7.3	2.2%
Total Cardiac Surgery	**€272.9**	**€242.2**	**12.7%**	**€22.5**	**€264.7**	**3.1%**

Cardiac Surgery net revenues increased by €30.7 million (or 12.7 per cent.), from €242.2 million in the first half of 2014 to €272.9 million in the first half of 2015. At constant exchange rates, Cardiac Surgery net revenues increased by 3.1 per cent.

Heart-lung machines net revenues increased by €9.7 million (or 20.1 per cent.), from €48.2 million in the first half of 2014 to €57.9 million in the first half of 2015. At constant exchange rates, they increased by 8.0 per cent., which is the result of an increase in machines volumes (17.6 per cent.) mitigated by the unfavourable country mix.

Oxygenators net revenues increased by €13.2 million (or 13.1 per cent.), from €100.5 million in the first half of 2014 to €113.7 million in the first half of 2015. At constant exchange rates, they increased by 4.3 per cent. as a result of the continuous roll-out of the new INSPIRE™ - HEARTLINK™ - CONNECT™ family of oxygenator systems in Europe, the United States and Japan.

Autotransfusion systems and devices net revenues increased by €5.1 million (or 16.4 per cent.), from €30.6 million in the first half of 2014 to €35.7 million in the first half of 2015. At constant exchange rates, they increased by 6.8 per cent. (in term of disposable volumes the increase was 6.0 per cent.), with a strong performance in Europe and the United States.

Mechanical heart valves net revenues increased by €1.6 million (or 6.5 per cent.), from €24.0 million in the first half of 2014 to €25.6 million in the first half of 2015. At constant exchange rates, they decreased by 3.2 per cent. due to a weak performance particularly in Europe, partially offset by a growth in the emerging markets, China and Japan (in term of volumes, they were flat 0.2 per cent.).

Tissue valves revenues were in line in the first half of 2015 compared to the first half of 2014, while at constant exchange rates tissue valves net revenues decreased by 6.7 per cent. attributed to a weak performance in traditional valves in the United States and to the temporary limitation in the production capacity for Perceval™ at Sorin's Saluggia plant, which was completely restored during the second quarter of 2015.

CRM

The following table sets forth an analysis of CRM net revenues by product for the six months ended 30 June 2015 and 2014.

(In millions of Euro, except percentages)	Six months ended 30 June		% Change	H1 2014 Foreign Currency Impact	H1 2014 Net Revenues at Constant Exchange Rates	% Change at Constant Exchange Rates
	2015	2014				
	(Unaudited)			(Unaudited)		
	€	€		€	€	
High voltage (defibrillators and CRT-D)	42.4	43.7	(3.0)%	1.8	45.5	(6.9)%
Low voltage (pacemakers)	81.7	73.4	11.2%	1.9	75.4	8.4%
Other items	6.8	6.3	7.4%	0.1	6.4	4.9%
Total Cardiac Rhythm Management	**€130.8**	**€123.4**	**6.0%**	**€3.9**	**€127.3**	**2.7%**

CRM net revenues increased by €7.4 million (or 6.0 per cent.), from €123.4 million in the first half of 2014 to €130.8 million in the first half of 2015. At constant exchange rates, CRM net revenues increased by 2.7 per cent.

High voltage net revenues decreased by €1.3 million (or 3.0 per cent.), to €42.4 million in the first half of 2015 from €43.7 million in the first half of 2014. At constant exchange rates, they decreased by 6.9 per cent. The negative performance was impacted by a challenging pricing environment and unfavourable mix, considering that volumes grew by 2.5 per cent.

Low voltage net revenues increased by €8.3 million (or 11.2 per cent.), from €73.4 million in the first half of 2014 to €81.7 million in the first half of 2015. At constant exchange rates, they increased by 8.4 per cent. (in term of volumes 4.9 per cent.), thanks to the adoption of KORA™ 100, which has driven the growth in Japan, in the emerging markets and in Europe.

In February, Sorin received the approval of the Japanese Pharmaceuticals and Medical Devices Agency (PMDA) for the new KORA 100 pacemaker, followed by the first implant in Japan the following month. The KORA 100 system is equipped with the Automatic MRI mode function, a patented technology available exclusively on Sorin Group devices that reduces the time during which KORA 100 pacemakers are required to operate in MRI mode. Specifically, as soon as a KORA 100 device detects the scanner's magnetic field, the parameters that allow the scanning to take place with total safety are activated automatically. In the same way, the device senses when a patient exits the magnetic field and returns to normal operating mode within 5 minutes. The KORA 100, distributed in Japan by Japan Lifeline Co. Ltd, drove the growth in market share in this country during the second quarter of 2015.

In the same month, Sorin announced the strategic repositioning of the CRM business unit in the United States. This programme, which is aimed at reaching operational breakeven for this business within the second half of 2015, confirms Sorin's commitment to the CRM market in the United states, through an acceleration of the process of repositioning itself on the premium segment and the undertreated segment of heart failure and related co-morbidities. The objective of this programme, once completed, is to realise total savings of about €4 million a year.

In June, Sorin launched in Europe the KORA 250, its next generation of pacemakers compatible with Full Body Magnetic Resonance Imaging (MRI). The KORA 250 pacemakers, when implanted with Sorin's BEFLEX pacing leads, allows patients to undergo Magnetic Resonance Imaging (MRI) for any district of the

body. The KORA 250 pacemakers are equipped both with the exclusive Automatic MRI mode function and the Sleep Apnea Monitoring (SAM) system, a clinically validated tool to monitor and screen patients with severe sleep apnea, an important co-morbidity associated with atrial fibrillation and heart failure.

In New Ventures (new growth platforms in neurostimulation for heart failure and related co-morbidities and percutaneous mitral valve therapies), during the first quarter of 2015, Sorin continued the initial commercial roll-out of Respicardia's device in Europe and started the enrolment of first patients in the clinical study of Equilia™, Sorin's neurostimulation system for heart failure patients. In February 2015, Sorin also executed further investments of €2.8 million and US$7.5 million, respectively, in HighLife SAS and Caisson Interventional LLC, companies that focus on the development of innovative mitral valve replacement systems.

Net Revenues by Geographic Area

(In millions of Euro, except percentages)	Six months ended 30 June			
	2015	%	2014	%
	(Unaudited)		(Unaudited)	
	€		€	
Europe	200.7	49.5%	196.2	53.5%
North America	112.8	27.8%	100.3	27.3%
Rest of the world	91.6	22.6%	70.3	19.2%
Total	**405.0**	**100.0%**	**€366.9**	**100.0%**

For further details on the main fluctuations by geography, please refer to the comments noted above.

4.2 Year ended 31 December 2014 compared to year ended 31 December 2013

(In millions of Euro, except percentages)	Year ended 31 December					
	2014		2013		Change	
		% of Net revenues		*% of Net revenues*		*%*
	€		€		€	
Net revenues	746.9	100.0%	738.5	100.0%	8.4	1.1%
Other revenues and income	27.9	3.7%	14.3	1.9%	13.6	95.1%
Change in inventory of work in process, semifinished goods and finished goods	10.8	1.4%	(2.3)	(0.3)%	13.1	(569.6)%
Increase in Company-produced additions to non-current assets	42.3	5.7%	36.1	4.9%	6.1	16.9%
Cost of raw materials and services used and miscellaneous operating costs	(418.0)	(56.0)%	(385.5)	(52.2)%	(32.5)	8.4%
Personnel expense	(286.9)	(38.4)%	(273.5)	(37.0)%	(13.4)	4.9%
Adjusted EBITDA(*)	122.9	16.5%	127.6	17.3%	(4.6)	(3.6)%
Depreciation, amortisation and write-downs	(46.9)	(6.3)%	(49.4)	(6.7)%	2.5	(5.1)%
Additions to provisions for risks and charges	(0.8)	(0.1)%	(2.4)	(0.3)%	1.6	(66.7)%
Restructuring charges and provisions	(1.5)	(0.2)%	(7.2)	(1.0)%	5.7	(79.2)%
Operating profit	73.7	9.9%	68.6	9.3%	5.1	7.4%
Financial income (expense)	(7.8)	(1.0)%	(5.7)	(0.8)%	(2.1)	36.8%
Share of loss of investments in associates accounted for using the equity method	(4.9)	(0.7)%	(4.7)	(0.6)%	(0.3)	6.4%
Profit before taxes	**61.0**	**8.2%**	**58.2**	**7.9%**	**2.7**	**4.6%**
Income taxes	(9.0)	(1.2)%	(9.4)	(1.3)%	0.4	(4.3)%
Net profit	**€ 52.0**	**7.0%**	**€ 48.9**	**6.6%**	**€ 3.1**	**6.3%**

(*) Adjusted EBITDA is defined by Sorin as net profit adjusted for the following: (i) depreciation, amortisation and write-downs; (ii) additions to provisions for risks and charges; (iii) restructuring charges and provisions; (iv) financial income (expense); (v) share of loss of investments in associates accounted for using the equity method; and (vi) income taxes. Adjusted EBITDA is a non-IFRS measure and should not be considered as an alternative to the conventional indicators provided by IFRS.

Net revenues increased by €8.4 million (or 1.1 per cent.), from €738.5 million in 2013 to €746.9 million in 2014, driven principally by the performance of the cardiopulmonary product lines and the continued growth of the Cardiac Rhythm Management segment. Net revenues also increased from the effect of the average revaluation of

foreign currencies versus the Euro in 2014 with respect to 2013. See the sections entitled "- Segment Information" and "- Net Revenues by Geographic Area" below for a detailed analysis of net revenues by segment and geographic area.

Other revenues and income increased by €13.6 million (or 95.1 per cent.), from €14.3 million in 2013 to €27.9 million in 2014. In 2014, this included €15.5 million in insurance indemnities for earthquake damages (€3.8 million in 2013) and €7.5 million in grants and other research-related income (€5.5 million in 2013).

Changes in inventory had a positive impact of €10.8 million on profit for the year ended 31 December 2014, compared to a negative impact of €2.3 million for the year ended 31 December 2013.

Increases in Sorin-produced additions to non-current assets had a positive impact of €42.3 million for the year ended 31 December 2014, compared to €36.1 million for the year ended 31 December 2013, mainly attributable to an increase in capitalised development costs and costs incurred to obtain U.S. FDA authorisation for sales in the U.S., amounting to €31.0 million in 2014 (€26.4 million in 2013), and an increase in investments in plant, equipment and machinery and accessories supplied under gratuitous loan agreements, amounting to €11.2 million (€9.8 million in 2013).

The cost of raw materials and services used and miscellaneous operating costs increased by €32.5 million (or 8.4 per cent.), from €385.5 million in 2013 to €418.0 million in 2014. In 2014, this line item included €0.8 million in non-recurring costs related to the earthquake at the Mirandola site (€3.5 million in 2013) and a gain of €6.5 million for the reclassification to the income statement of a cash flow hedge reserve for foreign exchange fluctuations, reclassified when the hedged assets and liabilities affected the income statement (€15.3 million in 2013).

Personnel expense increased by €13.4 million (or 4.9 per cent.), from €273.5 million in 2013 to €286.9 million in 2014, mainly as a result of the increase in average headcount, from 3,708 in 2013 to 3,815 in 2014 and from the effect of the increase in salaries. In 2014, personnel expenses included costs for variable compensation plans related to the LTIP, and stock grant plans totalling €1.4 million (€4.0 million in 2013). In 2014, this line item also included expenses relating to temporary staff; in 2013 such expenses, amounting to €4.1 million, were included in cost of raw materials and services used and miscellaneous operating costs.

Adjusted EBITDA decreased by €4.6 million (or 3.6 per cent.), from €127.6 million in 2013 to €122.9 million in 2014. As a percentage of net revenues, adjusted EBITDA decreased from 17.3 per cent. in 2013 to 16.5 per cent. in 2014.

Depreciation, amortisation and write-downs decreased by €2.5 million (or 5.1 per cent.), from €49.4 million in 2013 to €46.9 million in 2014. In 2013, this line item included write-downs of intangible assets amounting to €2.2 million, while in 2014 no write-down was recorded.

Additions to provisions for risks decreased by €1.6 million (or 66.7 per cent.), from €2.4 million in 2013 to €0.8 million in 2014.

Restructuring charges and provisions decreased by €5.7 million (or 79.2 per cent.), from €7.2 million in 2013 to €1.5 million in 2014 due to the progress made during 2013 for the completion of the restructuring plan approved at the end of 2012.

Net financial expense increased by €2.1 million, from €5.7 million in 2013 to €7.8 million in 2014. In 2014, net financial expense included foreign exchange losses of €0.1 million compared to foreign exchange gains of €1.5 million in 2013. On a run-rate basis, i.e., excluding the impact of the currency translation effect, net financial expense increased by €0.2 million compared to 2013.

Share of loss of investments in associates accounted for using the equity method amounted to €4.9 million in 2014 (€4.7 million in 2013), and included Sorin's pro rata portion of the losses incurred by startup investee companies and other affiliated companies, recognised in accordance with IAS 28 (equity method), and write-downs of investments in affiliated companies and other companies totalling €0.4 million that represented unrecoverable losses.

Income taxes of €9.0 million in 2014 included a gain resulting from the reversal of a provision for taxes recognised in 2012 in connection with insurance settlements received for the damages caused by the earthquake at the Mirandola site. Pursuant to the recent Decree Law No. 76 of 28 June 2013 in Italy, settlements and compensation received for earthquake damages are not taxable.

Net profit increased by €3.1 million (or 6.3 per cent.), from €48.9 million in 2013 to €52.0 million in 2014. As a percentage of net revenues, net profit increased to 7.0 per cent. in 2014 from 6.6 per cent. in 2013.

Sorin's management also monitors expenses by function. The following table sets forth a summary of Sorin's consolidated income statement showing expenses by function for the years ended 31 December 2014 and 2013. It should be noted that this information is not derived directly from Sorin's historical financial statements, which present expense information by nature.

	Year ended 31 December					
	2014		2013		Change	
(In millions of Euro, except percentages)		*% of Net revenues*		*% of Net revenues*		*%*
Net revenues	€ 746.9	100.0%	€ 738.5	100.0%	€ 8.4	1.1%
Cost of sales	(308.0)	(41.2)%	(301.7)	(40.9)%	(6.3)	2.1%
Gross profit	**438.9**	**58.8%**	**436.8**	**59.1%**	**2.1**	**0.5%**
Selling, general and administrative expenses	(285.2)	(38.2)%	(280.3)	(38.0)%	(4.9)	1.7%
Research and development costs	(80.3)	(10.8)%	(73.7)	(10.0)%	(6.6)	9.0%
Special items	0.4	0.1%	(14.2)	(1.9)%	14.6	(102.8)%
Operating profit	73.7	9.9%	68.6	9.3%	5.1	7.4%
Net profit	**€ 52.0**	**7.0%**	**€ 48.9**	**6.6%**	**€ 3.1**	**6.3%**

Gross profit increased by €2.1 million (or 0.5 per cent.), from €436.8 million in 2013 to €438.9 million in 2014. The decrease in percentage was mainly attributable to the unfavourable geographic mix, CRM price erosion worldwide and the negative impact of exchange rates, partially offset by a steady improvement in manufacturing efficiency.

SG&A increased by €4.9 million (or 1.7 per cent.), to €285.2 million in 2014 compared to €280.3 million in 2013. At constant exchange rates, SG&A were substantially unchanged over the two year period. In 2014, SG&A included a gain of €6.5 million for the reclassification to the income statement of a cash flow hedge reserve for foreign exchange fluctuations, reclassified when the hedged assets and liabilities affected the income statement (€15.3 million in 2013).

Research and development costs increased by €6.6 million (or 9.0 per cent.) to €80.3 million in 2014 from €73.7 million in 2013. In 2014, R&D activities mainly focused on (i) the launch of new products such as Inspire™, Heartlink™ and Connect™; (ii) the clinical trials for the Perceval™ and Freedom Solo™ valves; (iii) the development of Platinum™; and (iv) the internal neuromodulation projects.

In 2014, special items included the proceeds from a partial earthquake insurance settlement of €15.5 million offset by restructuring expenses of €1.5 million and nonrecurring expenses related to the earthquake totalling €0.8 million. Other special items included €0.3 million from the measurement, in accordance with IAS 19, of the obligation under the defined-benefit plan for U.S. employees of the former Sorin Biomedical, Inc.-SBI and expenses for legal disputes of €2.5 million, costs for business development activities of €1.2 million, and sundry nonrecurring costs of €8.7 million, of which €7.9 million related to the effect of the returns of old generation devices in Japan.

In 2013, special items included restructuring charges of €7.2 million and nonrecurring expenses related to the earthquake totalling €3.5 million offset by the proceeds from a partial earthquake insurance settlement of €3.8 million. Other special items included €0.3 million relating to the obligation under the defined-benefit plan for U.S. employees of the former Sorin Biomedical, Inc.-SBI, as measured in accordance with IAS 19, and expenses of €2.1 million for legal disputes, €0.4 million for business development activities, €2.2 million for write-downs of projects included in intangible assets, as well as €2.3 million for other nonrecurring costs.

Sorin's management also monitors operating profit, adjusted EBITDA and net profit adjusted for the effect of special items. The following table sets forth Sorin's adjusted operating profit, adjusted EBITDA (net of special items) and adjusted net profit for the years ended 31 December 2014 and 2013.

	Year ended 31 December					
	2014		2013		Change	
(In millions of Euro, except percentages)		*% of Net revenues*		*% of Net revenues*		*%*
Adjusted EBITDA (net of special items)	€121.0	16.2%	€131.1	17.8%	€(10.1)	(7.7)%
Adjusted operating profit	73.4	9.8%	82.8	11.2%	(9.4)	(11.4)%
Adjusted net profit	55.1	7.4%	60.8	8.2%	(5.7)	(9.4)%

The following table sets forth a reconciliation of non-IFRS financial measures (adjusted for the effect of special items) and IFRS financial measures for the years ended 31 December 2014 and 2013.

	Year ended 31 December		
(In millions of Euro)	2014	2013	Change
Net profit	52.0	48.9	3.1
Income/(charges):			
Depreciation, amortisation and writedowns	(46.9)	(49.4)	2.5
Additions to provisions for risks and charges	(0.8)	(2.4)	1.6
Restructuring charges and provisions	(1.5)	(7.2)	5.7
Financial income (expense)	(7.8)	(5.7)	(2.1)
Share of loss of investments in associates accounted for using the equity method	(4.9)	(4.7)	(0.3)
Income taxes	(9.0)	(9.4)	0.4
Adjusted EBITDA	**122.9**	**127.6**	**(4.7)**
Special items - income/(charges):			
Litigations	(2.5)	(2.1)	(0.4)
Business development expenses	(1.2)	(0.4)	(0.8)
Valuation of provisions for employee benefits	(0.3)	(0.3)	(0.0)
Earthquake-related expenses/writedowns, net of insurance settlement	14.7	0.3	14.4
Voluntary recall of Isoline leads	—	(0.2)	0.2
Sundry items	(8.7)	(0.8)	(7.9)
Adjusted EBITDA (net of special items)	**121.0**	**131.1**	**(10.1)**
Operating profit	**73.7**	**68.6**	**5.1**
Special items - income/(charges):			
Litigations	(2.5)	(2.1)	(0.4)
Business development expenses	(1.2)	(0.4)	(0.8)
Restructuring	(1.5)	(7.2)	5.7
Valuation of provisions for employee benefits	(0.3)	(0.3)	(0.0)
Earthquake-related expenses/writedowns, net of insurance settlement	14.7	0.3	14.4
Writedown of projects involving intangible assets	(0.0)	(2.2)	2.1
Voluntary recall of Isoline leads	—	(0.2)	0.2
Sundry items	(8.7)	(2.1)	(6.6)
Adjusted operating profit	**73.4**	**82.8**	**(9.4)**
Net profit	**52.0**	**48.9**	**3.1**
Special items - income/(charges):			
Litigations	(2.5)	(2.1)	(0.4)
Business development expenses	(1.2)	(0.4)	(0.8)
Restructuring	(1.5)	(7.2)	5.7
Valuation of provisions for employee benefits	(0.3)	(0.3)	(0.0)
Earthquake-related expenses/writedowns, net of insurance settlement	14.7	0.3	14.4
Writedown of projects involving intangible assets	(0.0)	(2.2)	2.1
Voluntary recall of Isoline leads	—	(0.2)	0.2
Sundry items	(8.7)	(2.1)	(6.6)
Income from (expenses on) investments in affiliate and in other companies (business dev.)	(4.6)	(2.2)	(2.4)
Tax impact	1.1	4.4	(3.3)
Adjusted net profit	**55.1**	**60.8**	**(5.8)**

Segment Information

The following table sets forth an analysis of Sorin's net revenues by segment for the years ended 31 December 2014 and 2013.

The table below includes information calculated at a constant currency. Sorin calculates this constant currency by applying the current-year/period average exchange rates to prior-year/period financial data expressed in local currency in order to eliminate the impact of foreign exchange rate fluctuations originating from translating the income statement of its foreign entities into Euro. These constant currency measures are non-IFRS measures. Although these measures are not a substitute for IFRS measures, Sorin believes that such results, excluding the impact of currency fluctuations period-on-period, provide additional useful information to investors regarding operating performance on a local currency basis.

(In millions of Euro, except percentages)	2014	2013	% Change	2014 Provision on Sales Returns	2014 Adjusted Net Revenues	2013 Foreign Currency Impact	2013 Net Revenues at Constant Exchange Rates	% Change at Constant Exchange Rates and Scope
Cardiac surgery	€500.9	€481.8	4.0%	€—	€500.9	€(5.3)	€476.5	5.1%
Cardiac Rhythm Management	243.5	253.9	(4.1)%	8.1	251.6	(3.0)	250.9	0.3%
Other Items	2.5	2.7	(7.6)%	—	2.5	—	2.7	(7.6)%
Total	**€746.9**	**€738.5**	**1.1%**	**€ 8.1**	**€755.0**	**€(8.3)**	**€730.1**	**3.4%**

Total net revenues increased by €8.4 million (or 1.1 per cent.), from €738.5 million in 2013 to €746.9 million in 2014, driven principally by the performance of the cardiopulmonary product lines and the continued growth of the CRM segment.

Cardiac Surgery

The following table sets forth an analysis of Cardiac Surgery net revenues by product for the years ended 31 December 2014 and 2013.

(In millions of Euro, except percentages)	2014	2013	% Change	2013 Foreign Currency Impact	2013 Net Revenues at Constant Exchange Rates[1]	% Change at Constant Exchange Rates[2]
Heart-lung machines	€106.7	€ 95.8	11.4%	€(0.9)	€ 94.8	12.5%
Oxygenators	205.1	197.4	3.9%	(2.4)	195.1	5.2%
Autotransfusion systems and devices	64.4	60.1	7.0%	(0.7)	59.4	8.3%
Mechanical heart valves	49.1	52.3	(6.1)%	(0.2)	52.2	(5.8)%
Tissue heart valves	62.6	64.0	(2.2)%	(0.9)	63.1	(0.8)%
Other Items	12.9	12.2	6.0%	(0.2)	11.9	8.1%
Total Cardiac Surgery	**€500.9**	**€481.8**	**4.0%**	**€(5.3)**	**€476.5**	**5.1%**

(1) Constant Exchange Rate is a non-IFRS measure, calculated by applying the current year/period average exchange rates to prior year/period financial data expressed in local currency in order to eliminate the impact of foreign exchange rate fluctuations originating from translating the income statement of Sorin's foreign entities into Euro. Although these measures are not a substitute for IFRS measures, Sorin believes that such results, excluding the impact of currency fluctuations period-on-period, provide additional useful information to investors regarding operating performance on a local currency basis.

(2) This denotes the growth rate of the Constant Exchange Rate by comparing current year revenues to previous year reviews as calculated in the Constant Exchange Rates in footnote (1) above.

Cardiac Surgery net revenues increased by €19.1 million (or 4.0 per cent.), from €481.8 million in 2013 to €500.9 million in 2014. At constant exchange rates, Cardiac Surgery net revenues increased by 5.1 per cent.

HLMs net revenues increased by €10.9 million (or 11.4 per cent.), from €95.8 million in 2013 to €106.7 million in 2014. At constant exchange rates, they increased by 12.5 per cent., primarily due to an increase of 8.8 per cent. in the volume of machines sold.

Oxygenators net revenues increased by €7.7 million (or 3.9 per cent.), from €197.4 million in 2013 to €205.1 million in 2014. At constant exchange rates, they increased by 5.2 per cent. as a result of the launch of the

new INSPIRE™ - HEARTLINK™ - CONNECT™ family of oxygenator systems in the fourth quarter of 2013 in Europe and the United States and the positive contribution of the cannulae business in Europe, Japan and United States. The volume of oxygenators grew by 9.8 per cent. year over year while the average selling prices were impacted negatively by the country mix.

Autotransfusion systems and devices net revenues increased by €4.3 million (or 7.0 per cent.), from €60.1 million in 2013 to €64.4 million in 2014. At constant exchange rates, they increased by 8.3 per cent., due to a positive performance in emerging markets as well as a continued penetration of Xtra™ in Europe, the United States and Japan, mainly driven by an increase of 8.2 per cent. in ATS disposables.

Mechanical heart valves net revenues decreased by €3.2 million (or 6.1 per cent.) to €49.1 million in 2014 from €52.3 million in 2013. At constant exchange rates, they decreased by 5.8 per cent., mainly due to lower volumes (minus 5.0 per cent.) in line with the continued shift of the market toward biological valves and lower volumes, particularly in the United States and in some emerging markets, including China. This trend, however, was partially offset by an increase in net revenues in Japan. In Europe, mechanical heart valves net revenues remained substantially unchanged over the two-year period.

Tissue valves revenues decreased by €1.4 million (or 2.2 per cent.), from €64.0 million in 2013 to €62.6 million in 2014. At constant exchange rates, tissue valves net revenues remained substantially unchanged over the two-year period. Units sold declined by 5.7 per cent., substantially offset by the increase of revenues related to the sale of original equipment manufacturer products.

Cardiac Rhythm Management

The following table sets forth an analysis of CRM net revenues by product for the years ended 31 December 2014 and 2013.

(In millions of Euro, except percentages)	2014	2013	% Change	2014 Provision on Sales Returns	2014 at Constant Scope[1]	2013 Data Amounts Effect[2]	2013 at Constant Exchange Rate[3]	% Change at Constant Exchange Rates and Scope[4]
High voltage (defibrillators and CRT-D)	€ 84.4	€ 92.0	(8.2)%	€ 2.3	€ 86.7	€(0.7)	€ 91.3	(5.0)%
Low voltage (pacemakers)	146.6	150.9	(2.9)%	5.8	152.4	(2.2)	148.7	2.5%
Other Items	12.5	11.0	13.1%	—	12.5	(0.1)	11.0	14.1%
Total Cardiac Rhythm Management	**€243.5**	**€253.9**	**(4.1)%**	**€ 8.1**	**€251.6**	**€(3.0)**	**€250.9**	**0.3%**

(1) Constant Scope represents the revenues of the period referred to adjusted to determine a constant perimeter and to neutralise the impact of one-off events.

(2) Data Amounts Effect is the impact of the restatement of the revenues from the previous financial year in accordance with the Constant Exchange Rate of the current financial period (see footnote 3 below).

(3) Constant Exchange Rate is a non-IFRS measure, calculated by applying the current year/period average exchange rates to prior year/period financial data expressed in local currency in order to eliminate the impact of foreign exchange rate fluctuations originating from translating the income statement of Sorin's foreign entities into Euro. Although these measures are not a substitute for IFRS measures, Sorin believes that such results, excluding the impact of currency fluctuations period-on-period, provide additional useful information to investors regarding operating performance on a local currency basis.

(4) This denotes the growth rate of the Constant Exchange Rate by comparing current year revenues to previous year reviews as calculated in the Constant Exchange Rates in footnote (3) above.

CRM net revenues decreased by €10.4 million (or 4.1 per cent.) to €243.5 million in 2014 from €253.9 million in 2013. At constant exchange rates and scope, CRM net revenues increased by 0.3 per cent.

High voltage net revenues decreased by €7.6 million (or 8.2 per cent.) to €84.4 million in 2014 from €92.0 million in 2013. At constant exchange rates and scope, they decreased by 5.0 per cent., mainly due to a decrease of prices, with changes in volumes substantially in line.

The success of the SonR system, the first and only cardiac resynchronisation system that provides a weekly automatic optimisation whilst patients engage in their normal activities, continued to support further gains in CRT-D market share. However, the resulting positive effects were offset by a weak performance in ICD, affected by a challenging pricing environment.

Low voltage net revenues decreased by 4.3 million (or 2.9 per cent.) to €146.6 million in 2014 from €150.9 million in 2013. At constant exchange rates, they increased by 2.5 per cent. as a result of the increase in the sales of leads. Such decrease was mainly attributable to the severe price pressure in Europe and a growing penetration by MRI compatible pacemakers in Europe and particularly in Japan. Sorin's new pacemaker KORA 100, featuring the only automatic MRI mode, was launched only in Europe at the end of November 2013, thus minimally impacting 2013 results.

Net Revenues by Geographic Area

(In millions of Euro, except percentages)	Year ended 31 December 2014	%	2013	%	% Change at Constant Exchange Rates
Italy	€ 75.2	10.1	75.2	10.2	(0.1)%
Europe excluding Italy	312.4	41.8	306.6	41.5	1.6%
North America	208.8	28.0	202.3	27.4	4.7%
Rest of the world	150.5	20.2	154.3	20.9	0.9%
Total	€746.9	100.0	738.5	100.0	3.4%

Revenues in Italy in 2014 were substantially flat versus 2013. Sorin reported an increase from the sales of cannulae and HLMs, confirming the company leadership position in this segment. In the CRM segment, a decrease in net revenues from the low voltage product line was partially offset by an increase in net revenues from the high voltage product line, mainly related to SonR. In the other European countries Sorin reported a strong performance in all the cardiopulmonary products driven by the successful roll-out of the new Inspire™ - Heartlink™ - Connect™ System. The mechanical valves product line witnessed a decrease in net revenues offset by the positive performance of Perceval™, which obtained CE Mark approval for an expanded adult age indication as well as dedicated reimbursement status in the Czech Republic, Turkey, Belgium and Germany. The CRM segment reported an increase in low voltage driven by the roll-out of KORA™ 100 and REPLY™ 200 pacing systems, compensated for by the decrease in the implantable defibrillator product line affected by a challenging pricing environment, notwithstanding the continued penetration of SonR™. Net revenues for North America reported a positive performance in cardiopulmonary and a weak performance in traditional tissue heart valves. CRM sales were substantially unchanged over the two-year period. With reference to the rest of the world, Sorin recorded an increase in cardiopulmonary sales and a shift of the market toward biological valves. The decreased sales in the high voltage segment were partially offset by an increase in low voltage sales driven by the introduction of the MRI compatible pacemaker KORA™ 100.

4.3 Year ended 31 December 2013 compared to year ended 31 December 2012

(In millions of Euro, except percentages)	Year ended 31 December 2013	% of Net revenue	2012 (Restated)	% of Net revenue	Change	%
Net revenues	€ 738.5	100.0%	€ 731.1	100.0%	€ 7.4	1.0%
Other revenues and income	14.3	1.9%	25.1	3.4%	(10.8)	(43.0)%
Change in inventory of work in process, semifinished goods and finished goods	(2.3)	(0.3)%	0.2	0.0%	(2.5)	>(100)%
Increase in Company-produced additions to non-current assets	36.1	4.9%	28.4	3.9%	7.7	27.1%
Cost of raw materials and services used and miscellaneous operating costs	(385.5)	(52.2)%	(407.5)	(55.7)%	22.0	(5.4)%
Personnel expense	(273.5)	(37.0)%	(280.6)	(38.4)%	7.1	(2.5)%
Adjusted EBITDA(*)	127.6	17.3%	96.7	13.2%	30.9	32.0%
Depreciation, amortisation and write-downs	(49.4)	(6.7)%	(50.7)	(6.9)%	1.3	(2.6)%
Additions to provisions for risks and charges	(2.4)	(0.3)%	(1.2)	(0.2)%	(1.2)	100.0%
Restructuring charges and provisions	(7.2)	(1.0)%	(7.9)	(1.1)%	0.6	(7.6)%
Operating profit	68.6	9.3%	36.9	5.0%	31.7	85.9%
Financial income (expense)	(5.7)	(0.8)%	(12.8)	(1.8)%	7.1	(55.5)%
Share of loss of investments in associates accounted for using the equity method	(4.7)	(0.6)%	(1.5)	(0.2)%	(3.1)	>100%
Profit before taxes	58.2	7.9%	22.6	3.1%	35.6	>100%
Income taxes	(9.4)	(1.3)%	(2.3)	(0.3)%	(7.1)	>100%
Net profit	€ 48.9	6.6%	€ 20.3	2.8%	€ 28.6	>100%

(*) Adjusted EBITDA is defined by Sorin as net profit adjusted for the following: (i) depreciation, amortisation and write-downs; (ii) additions to provisions for risks and charges; (iii) restructuring charges and provisions; (iv) financial income (expense); (v) share of loss of investments in associates accounted for using the equity method; and (vi) income taxes. Adjusted EBITDA is a non-IFRS measure and should not be considered as an alternative to the conventional indicators provided by IFRS.

Net revenues increased by €7.4 million (or 1.0 per cent.), from €731.1 million in 2012 to €738.5 million in 2013. Net revenues growth for 2013 was driven by 12 per cent. growth in Sorin's Cardiac Surgery segment, fully offsetting the 6.8 per cent. decrease in Sorin's CRM business. The growth in the Cardiac Surgery segment was primarily driven by the cardiopulmonary product lines, which successfully recovered from the consequences of the earthquakes, and by increased sales in the tissue heart valve product line. The CRM segment was primarily adversely affected by a decline in net revenues from the low voltage product lines. See the sections entitled "- Segment Information" and "- Net Revenues by Geographic Area" below for a detailed analysis of net revenues by segment and geographic area.

Other revenues and income, which decreased by €10.8 million (or 43 per cent.), from €25.1 million in 2012 to €14.3 million in 2013, include €3.8 million in insurance settlements for earthquake damages in 2013 (compared to €13.8 million in 2012) and grants and other research-related income totalling €5.5 million in 2013 (compared to €7.1 million in 2012).

The change in inventory had a negative impact of €2.3 million on the results for the year ended 31 December 2013.

Increases in Sorin-produced additions to non-current assets, which primarily reflects the capitalisation of development costs, costs incurred to secure U.S. FDA approval to market products in the United States and the capitalised cost of equipment and accessories provided to customers under gratuitous loan agreements, had a positive impact of €36.1 million in 2013 (compared to €28.4 million in 2012).

Cost of raw materials and services used and miscellaneous operating costs totalled €385.5 million in 2013, for a decrease of €22.0 million (or 5.4 per cent.) compared with 2012. This includes €3.5 million in nonrecurring costs related to the earthquake in Mirandola in 2013 (compared to €13.4 million in 2012). Other operating costs

include €2.7 million for a new excise tax levied in 2013 in the United States on manufacturers of medical devices. Consistent with hedge accounting requirements, other operating costs include a gain of €15.3 million in 2013 (as compared to a charge of €8.9 million in 2012) from the reclassification to the income statement of a cash flow hedge reserve for foreign exchange fluctuations, reclassified when the hedged assets and liabilities affected the income statement.

Personnel expense decreased to €273.5 million (or 2.5 per cent.) in 2013 from €280.6 million in 2012, mainly as a result of the decreases in the average headcount from 3,763 in 2012 to 3,708 in 2013. In 2013, personnel expense included costs for variable compensation plans totalling €4.0 million (compared with €4.5 million in 2012), related to the LTIP and the stock grant plans. Sorin adopted the amendments to IAS 19 - Employee Benefits starting with the 2012 financial statements, recognising the net remeasurement of liabilities (assets) for defined benefits in "other components of comprehensive income" and no longer in profit or loss.

Adjusted EBITDA increased by €30.9 million (or 32.0 per cent.) to €127.6 million in 2013 from €96.7 million in 2012. As a percentage of net revenues, adjusted EBITDA increased to 17.3 per cent. in 2013 from 13.2 per cent. in 2012.

Depreciation, amortisation and write-downs, which had a negative impact of €49.4 million in 2013 (compared to €50.7 million in 2012), include a write-down of intangible assets in the amount of €2.2 million in 2013 (compared to a write-down of intangible assets amounting to €7.5 million in 2012).

Additions to provisions for risks and charges had a negative impact of €2.4 million in 2013 (compared to €1.2 million in 2012).

Restructuring charges and provisions totalled €7.2 million in 2013 (compared with €7.9 million in 2012).

Net financial expense decreased to €5.7 million in 2013, down from €12.8 million 2012. This included foreign exchange gains of €1.5 million in 2013 compared to foreign exchange losses of €5.0 million in 2012. In 2013, this item also reflected the recognition of a gain of €0.3 million, due to the early closing of overhedging positions, compared to financial expense of €4.8 million for the same reason in 2012. On a run-rate basis, i.e., excluding the impact of the currency translation effect, financial expense for 2013 decreased by €0.6 million from 2012.

Share of loss of investments in associates accounted for using the equity method, which amounted to €4.7 million in 2013 (compared to €1.5 million in 2012), correspond to Sorin's pro rata portion of the losses incurred by startup investee companies and other affiliated companies, recognised in accordance with IAS 28 (equity method), and to write-downs of investments in affiliated companies and other companies totalling €2.7 million, that represented unrecoverable losses.

Income taxes of €9.4 million in 2013 benefited from the reversal of the provision for taxes recognised the previous year in connection with insurance settlements received for the damages caused by an earthquake in the Mirandola area, pursuant to the recent Decree Law No. 76 of 28 June 2013 in Italy, which made settlements and compensation received for earthquake damages not taxable.

As a result of the factors described above, Sorin reported a net profit of €48.9 million for the year ended 31 December 2013 compared to €20.3 million in 2012.

Sorin's management also monitors expenses by function. The following table sets forth a summary of Sorin's consolidated income statement showing expenses by function for the years ended 31 December 2013 and 2012. It should be noted that this information is not directly derived from Sorin's historical financial statements, which present expense information by nature.

	Year ended 31 December					
	2013		2012 (Restated)		Change	
(In millions of Euro, except percentages)		% of Net revenue		% of Net revenue		%
Net revenues	€ 738.5	100.0%	€ 731.1	100.0%	€ 7.4	1.0%
Cost of sales	(301.7)	(40.9)%	(288.0)	(39.4)%	(13.6)	4.7%
Gross profit	436.8	59.1%	443.0	60.6%	(6.2)	(1.4)%
Selling, general and administrative expenses	(280.3)	(38.0)%	(309.6)	(42.4)%	29.3	(9.5)%
Research and development costs	(73.7)	(10.0)%	(75.4)	(10.3)%	1.7	(2.3)%
Special items	(14.2)	(1.9)%	(21.0)	(2.9)%	6.8	(32.4)%
Operating profit	68.6	9.3%	36.9	5.0%	31.7	85.9%
Net profit	€ 48.9	6.6%	€ 20.3	2.8%	€ 28.6	n.m.

Gross profit amounted to €436.8 million in 2013 (or 59.1 per cent. of revenues) compared to €443.0 million in 2012 (or 60.6 per cent. of revenues). The negative impact of exchange rates and a back-to-normal product mix following a complete recovery from the earthquake, offset in part by a steady improvement in manufacturing efficiency, are the main reasons for this decrease.

SG&A totalled €280.3 million in 2013, a decrease of €29.3 million compared to 2012. At constant exchange rates, SG&A were substantially unchanged over the two periods, despite a charge of €2.7 million for the medical device excise tax levied in the United States in 2013. In 2013, SG&A included a gain of €15.3 million from the reclassification to the income statement of a cash flow hedge reserve for foreign exchange fluctuations, reclassified when the hedged assets and liabilities affected the income statement (a charge of €8.9 million in 2012).

Research and development costs amounted to €73.7 million in 2013 (or 10.0 per cent. of revenues), compared with €75.4 million (or 10.3 per cent. of revenues) in 2012. In 2013, R&D activities focused mainly on the new products Inspire™, Heartlink™ and Connect™, the clinical trials for the Perceval™ and Freedom Solo™ valves, the development of REPLY™ 200 and KORA™ 100, and internal neuromodulation projects.

In 2013, special items included restructuring charges of €7.2 million. They also included nonrecurring expenses related to the earthquake totalling €3.5 million offset by the proceeds from a partial earthquake insurance settlement of €3.8 million. Other special items include €0.3 million from the measurement, in accordance with IAS 19, of the obligation under the defined-benefit plan for U.S. employees of the former Sorin Biomedical, Inc. - SBI and expenses of €2.1 million for legal disputes, €0.4 million for business development activities, €2.2 million for write-downs of projects included in intangible assets and €2.3 million for sundry nonrecurring costs.

In 2012, special items included restructuring charges of €7.9 million and non-recurring expenses related to the earthquake (write-downs of inventory and non-current assets, and demolition and reconstruction costs) totalling €13.4 million, offset by the proceeds from a partial earthquake insurance settlement of €13.8 million. Other special items included €7.5 million in nonrecurring charges for write-downs of projects included in intangible assets, €2.0 million incurred to discontinue the production of leads at the Saluggia site and €0.8 million for the voluntary recall of the Isoline leads. Special items also included €0.3 million from the measurement, in accordance with IAS 19, of the obligation under the defined-benefit plan for U.S. employees of the former Sorin Biomedical, Inc. - SBI and expenses of €1.0 million for legal disputes, €1.4 million for business development activities and €0.6 million for sundry nonrecurring costs.

In 2012, non-operational special items included a charge of €4.8 million for the overhedging of the foreign exchange risk caused by the impact of the May 2012 earthquake in Mirandola and the resulting decrease in business activity.

Sorin's total R&D expenditures, including R&D expenses, capitalised development costs and costs incurred to obtain authorisation from the U.S. FDA to market products in the United States, net of the corresponding amortisation, remained substantially unchanged over the two-year period, amounting to €91.7 million in 2013 and €91.2 million in 2012.

Sorin's management also monitors operating profit, adjusted EBITDA and net profit adjusted for the effect of special items. The following table sets forth Sorin's adjusted operating profit, adjusted EBITDA (net of special items) and adjusted net profit for the years ended 31 December 2013 and 2012.

	Year ended December 31,					
	2013		2012 (Restated)	Change		
(In millions of Euro, except percentages)		*% of Net revenues*		*% of Net revenues*		*%*
Adjusted EBITDA (net of special items)	131.1	17.8%	101.8	13.9%	29.3	28.8%
Adjusted operating profit	82.8	11.2%	58.0	7.9%	24.8	42.8%
Adjusted net profit	60.8	8.2%	39.2	5.4%	21.6	55.1%

The following table sets forth a reconciliation of non-IFRS financial measures (adjusted for the effect of special items) and IFRS financial measures at 31 December 2013 and 2012:

	Year ended 31 December		
(In millions of Euro)	**2013**	**2012 (Restated)**	**Change**
Net profit	**48.9**	**20.3**	**28.6**
Income/(charges):			
Depreciation, amortisation and writedowns	(49.4)	(50.7)	1.3
Additions to provisions for risks and charges	(2.4)	(1.2)	(1.2)
Restructuring charges and provisions	(7.2)	(7.9)	0.6
Financial income (expense)	(5.7)	(12.8)	7.1
Share of loss of investments in associates accounted for using the equity method	(4.7)	(1.5)	(3.1)
Income taxes	(9.4)	(2.3)	(7.1)
Adjusted EBITDA	**127.6**	**96.7**	**30.9**
Special items - income/(charges):			
Litigations	(2.1)	(1.0)	(1.1)
Business development expenses	(0.4)	(0.9)	0.5
Valuation of provisions for employee benefits	(0.3)	(0.3)	(0.0)
Earthquake-related expenses/writedowns, net of insurance settlement	0.3	0.4	(0.1)
Voluntary recall of Isoline leads	(0.2)	(0.8)	0.6
Discontinuation of lead production at the Saluggia site	—	(2.0)	2.0
Sundry items	(0.8)	(0.6)	(0.2)
Adjusted EBITDA (net of special items)	**131.1**	**101.8**	**29.3**
Operating profit	**68.6**	**36.9**	**31.7**
Special items - income/(charges):			
Litigations	(2.1)	(1.0)	(1.1)
Business development expenses	(0.4)	(1.4)	1.0
Valuation of provisions for employee benefits	(0.3)	(0.3)	(0.0)
Restructuring	(7.2)	(7.9)	0.7
Earthquake-related expenses/writedowns, net of insurance settlement	0.3	0.4	(0.1)
Writedown of projects involving intangible assets	(2.2)	(7.5)	5.4
Voluntary recall of Isoline leads	(0.2)	(0.8)	0.6
Discontinuation of lead production at the Saluggia site	—	(2.0)	2.0
Sundry items	(2.1)	(0.6)	(1.5)
Adjusted operating profit	**82.8**	**58.0**	**24.8**
Net profit	**48.9**	**20.3**	**28.6**
Special items - income/(charges):			
Litigations	(2.1)	(1.0)	(1.1)
Business development expenses	(0.4)	(1.4)	1.0
Valuation of provisions for employee benefits	(0.3)	(0.3)	(0.0)
Restructuring	(7.2)	(7.9)	0.7
Earthquake-related expenses/writedowns, net of insurance settlement	0.3	0.4	(0.1)
Charges for overhedging foreign exchange risks resulting from the interruption of activities caused by the earthquake	—	(4.8)	4.8
Writedown of projects involving intangible assets	(2.2)	(7.5)	5.3
Voluntary recall of Isoline leads	(0.2)	(0.8)	0.6
Discontinuation of lead production at the Saluggia site	—	(2.0)	2.0
Sundry items	(2.1)	(0.6)	(1.5)
Tax impact	3.8	7.0	(3.2)
Adjusted net profit	**59.2**	**39.2**	**20.1**

Segment Information

The following table sets forth an analysis of Sorin's net revenues by segment for the years ended 31 December 2013 and 2012.

(In millions of Euro, except percentages)	2013	2012	% Change	Foreign Currency Impact on 2012 Net Revenues	Net Revenues for 2012 at Constant Exchange Rates[1]	% Change at Constant Exchange Rates[2]
Cardiac surgery	€481.8	€445.9	8.1%	€(16.0)	€429.8	12.1%
Cardiac Rhythm Management	253.9	282.7	(10.2)%	(10.2)	272.5	(6.8)%
Other Items	2.7	2.5	8.2%	—	2.5	8.2%
Total	**€738.5**	**€731.1**	**1.0%**	**€(26.3)**	**€704.8**	**4.8%**

(1) Constant Exchange Rate is a non-IFRS measure, calculated by applying the current year/period average exchange rates to prior year/period financial data expressed in local currency in order to eliminate the impact of foreign exchange rate fluctuations originating from translating the income statement of Sorin's foreign entities into Euro. Although these measures are not a substitute for IFRS measures, Sorin believes that such results, excluding the impact of currency fluctuations period-on-period, provide additional useful information to investors regarding operating performance on a local currency basis.

(2) This denotes the growth rate of the Constant Exchange Rate by comparing current year revenues to previous year reviews as calculated in the Constant Exchange Rates in footnote (1) above.

Cardiac Surgery

The following table sets forth an analysis of Cardiac Surgery net revenues by product for the years ended 31 December 2013 and 2012.

(In millions of Euro, except percentages)	2013	2012	% Change	Foreign Currency Impact on 2012 Net Revenues	Net Revenues for 2012 Constant Exchange Rates[1]	% Change at Constant Exchange Rates[2]
Heart-lung machines	€ 96.3	€ 86.5	11.3%	€ (3.9)	€ 82.6	16.6%
Oxygenators	196.7	171.6	14.6%	(5.8)	165.8	18.6%
Autotransfusion systems and devices	60.1	56.8	5.9%	(2.9)	53.9	11.5%
Mechanical heart valves	52.6	56.5	(6.8)%	(1.1)	55.4	(4.9)%
Tissue heart valves	63.9	61.9	3.2%	(1.8)	60.2	6.2%
Other Items	12.1	12.5	(3.3)%	(0.6)	11.9	1.7%
Total Cardiac Surgery	**€481.8**	**€445.9**	**8.1%**	**€(16.0)**	**€429.8**	**12.1%**

(1) Constant Exchange Rate is a non-IFRS measure, calculated by applying the current year/period average exchange rates to prior year/period financial data expressed in local currency in order to eliminate the impact of foreign exchange rate fluctuations originating from translating the income statement of Sorin's foreign entities into Euro. Although these measures are not a substitute for IFRS measures, Sorin believes that such results, excluding the impact of currency fluctuations period-on-period, provide additional useful information to investors regarding operating performance on a local currency basis.

(2) This denotes the growth rate of the Constant Exchange Rate by comparing current year revenues to previous year reviews as calculated in the Constant Exchange Rates in footnote (1) above.

In 2013, Cardiac Surgery net revenues totalled €481.8 million, up 12.1 per cent. at constant exchange rates compared with 2012, due to successful recovery from the consequences of the earthquake in the oxygenators and autotransfusion product lines, and the continuing increase of market share in HLM products. The increase in net revenues was also due to the increase in net revenue generated by the tissue valve product line, which was mainly driven by sales of sutureless valves.

HLMs revenues increased by 16.6 per cent. at constant exchange rates to €96.3 million, mainly driven by an increase of the volume of sales of machines of 18.0 per cent., representing record revenues for the fifth consecutive year and further reinforcing Sorin's leadership position in every major market.

The oxygenator and autotransfusion product lines also performed positively, confirming Sorin's full recovery from the earthquakes of May 2012.

Oxygenators revenues increased by 18.6 per cent. at constant exchange rates to €196.7 million, benefitting from ongoing penetration in emerging markets and from the significant contribution of the cannulae business. The volume of oxygenators grew by 26.5 per cent. year over year.

Autotransfusion systems and devices revenues were €60.1 million, an 11.5 per cent. increase compared with the previous year, due to a strong performance in emerging markets as well as a continued penetration of Xtra™ in Europe and the United States. The volume of autotransfusion systems disposables grew by 10.1 per cent. year over year.

Mechanical valves revenues were €52.6 million, a 4.9 per cent. decrease compared with the previous year, in line with the continued shift of the market toward biological valves and lower volumes in emerging markets during the first part of the year.

Tissue valves revenues were €63.9 million, a 6.2 per cent. growth compared with the previous year. The increase in sales was driven by the ongoing penetration of Mitroflow, particularly in emerging markets and Japan, and the positive performance of Perceval, whose annual revenues amounted to €12.1 million.

Cardiac Rhythm Management

The following table sets forth an analysis of CRM net revenues by product for the years ended 31 December 2013 and 2012.

(In millions of Euro, except percentages)	2013	2012	% Change	Foreign Currency Impact on 2012 Net Revenues	Net Revenues for 2012 Constant Exchange Rates(1)	% Change at Constant Exchange Rates(2)
High voltage (defibrillators and CRT-D)	€ 92.0	€ 96.2	(4.4)%	€ (2.1)	€ 94.1	(2.3)%
Low voltage (pacemakers)	150.9	175.6	(14.0)%	(7.9)	167.6	(10.0)%
Other Items	11.0	10.9	1.3%	(0.2)	10.7	3.0%
Total Cardiac Rhythm Management	**€253.9**	**€282.7**	**(10.2)%**	**€(10.2)**	**€272.5**	**(6.8)%**

(1) Constant Exchange Rate is a non-IFRS measure, calculated by applying the current year/period average exchange rates to prior year/period financial data expressed in local currency in order to eliminate the impact of foreign exchange rate fluctuations originating from translating the income statement of Sorin's foreign entities into Euro. Although these measures are not a substitute for IFRS measures, Sorin believes that such results, excluding the impact of currency fluctuations period-on-period, provide additional useful information to investors regarding operating performance on a local currency basis.

(2) This denotes the growth rate of the Constant Exchange Rate by comparing current year revenues to previous year reviews as calculated in the Constant Exchange Rates in footnote (1) above.

CRM net revenues totalled €253.9 million in 2013, compared with €282.7 million in 2012, for a year-over-year decrease of 10.2 per cent. (negative 6.8 per cent. at constant exchange rates), due mainly to unfavourable market conditions in Europe and growing penetration by MRI compatible pacemakers.

After a significant contraction in the first six months of 2013, the CRM market showed signs of a stabilisation in the second half of the year, primarily in the United States, while Europe continued to be affected by a challenging pricing environment.

In the high voltage product line (which includes defibrillators and CRT-D cardiac rhythm resynchronisation devices) net revenues decreased by 4.4 per cent. to €92.0 million (negative 2.3 per cent. at constant exchange rates, compared with the previous year), with volume of defibrillators remaining substantially flat year over year. The success of the SonR system, the first and only cardiac resynchronisation system that provides a weekly automatic optimisation whilst patients engage in their normal activities, continued to support further gains in CRT-D market share. However, the resulting positive effects were offset by a weak performance in the ICD, affected by a challenging pricing environment.

The net revenues reported in the low voltage product line (which includes pacemakers) totalled €150.9 million, a decrease of 14.0 per cent. compared with the previous year (negative 10.0 per cent. at constant exchange rates), mainly due to severe price pressure in Europe and a growing penetration by MRI compatible pacemakers in Europe and particularly in Japan. Sorin's new pacemaker KORA 100, featuring the only automatic MRI mode, was launched only in Europe at the end of November 2013, thus minimally impacting fiscal year 2013 results.

Net Revenues by Geographic Area

(In millions of Euro, except percentages)	Year ended 31 December 2013	%	2012 (Restated)	%	Change at Constant Exchange Rates[1]
Italy	€ 75.2	€ 10.2	€ 74.0	€ 10.1	€ 1.7
Europe excluding Italy	306.6	41.5	306.6	41.9	0.5
North America	202.3	27.4	202.3	27.7	4.1
Rest of the world	154.3	20.9	148.3	20.3	17.0
Total	€738.5	€100.0	€731.1	€100.0	€ 4.8

(1) This denotes the growth rate of the Constant Exchange Rate by comparing current year revenues to previous year

The net revenues increase in Italy was mainly driven by the oxygenators product line, which was adversely affected in 2012 by the earthquake. In the CRM segment, a decrease in net revenues from the low voltage product line was partially offset by an increase in net revenues from the high voltage product line, mainly related to SonR. In the European countries (excluding Italy), Sorin reported an increase in net revenues from the sale of oxygenators, autotransfusion systems and cannulae, confirming Sorin's full recovery from the earthquakes of 2012 as well as increased revenues from the sale of HLMs. The mechanical valves product line witnessed a decrease in net revenues consistent with the continued shift of the market toward biological valves. With respect to the CRM segment in European countries (excluding Italy), Sorin reported a decline in both low voltage and in high voltage net revenues driven by pricing pressure and lower volumes. Net revenues for North America followed a similar trend with a weak performance of the CRM segment. In particular, a decrease in high voltage product line net revenues was offset by increased net revenues from the cardiopulmonary product line. With reference to the rest of the world, Sorin experienced strong cardiopulmonary sales, a shift of the market toward biological valves and decreased sales in both the high and low voltage product lines.

5. LIQUIDITY AND CAPITAL RESOURCES

5.1 Overview

Sorin's business is capital intensive and requires liquidity in order to meet obligations and to fund growth. Sorin's primary sources of liquidity are cash flows from operations and, to a lesser extent, cash proceeds from financing activities. Markets (like Italy or Spain) in which Sorin operates, with long terms of collections from customers, and business models in some cases based on consignment stocks, make working capital financing particularly important. In addition to Sorin's general working capital and operational needs, liquidity requirements arise from its need to fund capital expenditures and innovation. Sorin also requires liquidity to fund acquisitions and, in general, growth initiatives. Sorin's cash flows generated from operating activities, together with cash flows generated from financing activities, have historically been sufficient to meet liquidity requirements. Sorin believes its ability to generate cash from operations and to reinvest in its business is one of its fundamental financial strengths.

The management of operating cash main funding operations and investment of excess liquidity is centrally coordinated by a dedicated treasury team with the objective of ensuring effective and efficient management of funds.

Sorin uses a number of instruments to finance its operations, including: medium and long-term financing facilities provided by credit institutions and other lenders, finance leases, short-term bank loans and advances against trade receivables assigned under factoring contracts. Other financial instruments available to Sorin include trade payables and receivables generated by its operations, equity investments in other companies, assets and liabilities from financial derivatives (mainly interest rate swaps and forward currency contracts) and other receivables and payables, except for those involving transactions with employees, the tax administration and social security institutions.

The following table sets forth Sorin's net indebtedness at 30 June 2015, 31 December 2014 and 2013.

(In millions of Euro)	At 30 June 2015	At 31 December 2014	At 31 December 2013
	(Unaudited)		
Non-current financial assets	€ 0.2	€ 0.2	€ 0.2
Current financial assets			
Assets from financial derivatives	0.5	1.2	(10.1)
Other current financial assets	7.8	7.1	1.9
Cash and cash equivalents	15.1	21.1	(51.8)
Total financial assets	**23.5**	**29.5**	**(64.0)**
Non-current financial liabilities			
Liabilities from financial derivatives	(2.6)	(2.2)	(0.6)
Other non-current financial liabilities	(114.1)	(114.1)	(20.7)
Current financial liabilities			
Liabilities from financial derivatives	(1.4)	(1.3)	(1.6)
Other non-current financial liabilities	(58.9)	(36.3)	(109.8)
Total financial liabilities	(177.0)	(153.9)	(132.7)
Net indebtedness	€(153.4)	€(124.4)	€ (68.7)
Current portion	(36.9)	(8.3)	(47.5)
Non-current portion	(116.5)	(116.1)	(21.2)

Checking account overdrafts and other short-term indebtedness include utilisation of revocable credit lines, none of which have been collateralised.

At 30 June 2015, unused short-term credit lines amounted to about €89 million (€74 million at 31 December 2014, and €112 million at 31 December 2013).

The main contracts related to financing facilities provided to Sorin by credit institutions have obligations and covenants that, in case of breach, could cause an event of default and/or a mandatory prepayment of the financing. These contracts are summarised in paragraph 5.2 below.

In recent years, Sorin has generated free cash flow mainly from an increase in profitability, significant decrease in working capital, with improvement of days outstanding on accounts receivable and accounts payable, and a better management of inventory.

As a consequence of the maturity profile of the main borrowings (EIB Loan, UniCredit Loan, Cassa Depositi e Prestiti and BpiFrance Loan) at 30 June 2015, the largest cash outflow related to financing activities is expected in 2017 for an amount of €38.1 million of required free cash flow or of proceeds from new borrowings.

The flexibility to cover cash requirements is also granted by uncommitted short term credit facilities. At 30 June 2015, Sorin had in place credit facilities for €112.8 million, of which €89.2 million, or 79 per cent., remains available (compared to €91.8 million, of which €73.9 million, or 81 per cent., remained available at 31 December 2014).

Sorin's capital structure consists of equity and interest-bearing debt. Interest-bearing debt represented 21 per cent. of total liabilities and net equity as of 30 June 2015, 19 per cent. of total liabilities and net equity as of 31 December 2014, and 18 per cent. of total liabilities and net equity as of 31 December 2013.

The average cost of funding for Sorin (run rate) has decreased from 4.1 per cent. in 2012 to 3.63 per cent. in 2014 and to 3.55 per cent. for the first quarter of 2015 and to 2.10 per cent. for the second quarter of 2015 due to decreasing market interest rates and, specifically, as a result of the new EIB loan drawdown in July 2014 at more competitive conditions. EIB loan interest rate has been hedged from floating to fixed for 80 per cent. of the amount, at an average fixed rate of 1.30 per cent. plus a spread of 127.7 bps.

Sorin has entered into different factoring contracts without recourse for the true sale of part of its accounts receivable in Italy, France, Belgium and Canada. These transactions, on a revolving basis, allow for a decrease in working capital. The outstanding amount of factoring without recourse was €33.5 million at 30 June 2015,

€36.8 million at 31 December 2014, and €35.0 million at 31 December 2013. The cost of factoring depends on debtors' creditworthiness and debtors' DSO and consists of a flat factoring commission in the range of 0.25-0.70 per cent. plus a financial discount at Euribor plus 1.15 per cent.-1.40 per cent. At 30 June 2015, Sorin had in place factoring credit facilities for €127.2 million (for with and without recourse factoring transactions) of which €72.7 million, or 57 per cent., remain (compared to €130.5 million, of which €76.8 million, or 59 per cent. remained available at 31 December 2014).

The following guarantees provided by Sorin were outstanding at 30 June 2015:

- Endorsements provided to credit institutions for securities provided in connection with bidding on calls for tenders for Sorin products of €24.4 million (€31.6 million at 31 December 2014 and €25.1 million at 31 December 2013);
- Securities totalling €11.9 million provided to the Italian Tax Administration-Milan VAT Office in connection with the filing of a consolidated VAT return (€5.2 million at 31 December 2014 and €1.5 million at 31 December 2013); and
- Other securities provided to outsiders totalling €5.1 million (€5.2 million at 31 December 2014 and €5.7 million at 31 December 2013). The total amount includes €4.4 million provided as security for the lease of the production facility in Vancouver, Canada (€4.4 million as at 31 December 2014 and €4.8 million at 31 December 2013).

In addition, some buildings in Saluggia and Cantù collateralise loans received to purchase those buildings. Approximately €1.3 million (€1.5 million at 31 December 2014) and €0.8 million (€0.9 million at 31 December 2014) of the non-current loans remain outstanding for the Saluggia and Cantù buildings, respectively.

5.2 Summary of main financing facilities

A description of the main finance contracts is provided below.

EIB Loan Agreement

The finance contract with the EIB for €100 million, dated 6 May 2014 (as amended pursuant to an amendment and restatement agreement dated 2 October 2015, with effect from the Closing Date), is a loan borrowed by Sorin (and will be transferred to LivaNova pursuant to the Mergers), which is co-guaranteed by Sorin Group Italia S.r.l. and Sorin CRM SAS. The loan is subject to terms and conditions that are standard for this kind of facility. They include a compulsory prepayment - the EIB may ask for a prepayment of the financing in case of:

- Project cost reduction: if the total cost of R&D projects, partially financed by this financing, falls below an amount so that the amount of the facility exceeds 50 per cent. of such total cost, EIB may ask for the partial prepayment of the financing;
- *Pari passu* to non-EIB financing, pursuant to which the financing may not be subordinated to other borrowings, except for obligations that enjoy a senior status pursuant to law;
- Change of control: in case of a change of control event which does not satisfy the bank, EIB may ask for a prepayment of the financing; however, a waiver of this clause is currently expected as part of the amendment and restatement of the EIB Loan Agreement and, therefore, no adjustment to the pro forma financial statements has been made in order to reflect management's expectation of the financial position of LivaNova;
- Change of law and or illegality events;
- Cross default, with a threshold amount at €5 million (which will be increased to US$7.5 million with effect from the Closing Date);
- The main undertakings are:
    - Limitations on: disposal of assets, acquisitions, repayment of capital and subsidiary financial indebtedness (may not exceed 35 per cent. of total Sorin financial indebtedness); and
    - Financial Covenants: net debt to EBITDA (as contractually defined) ratio less than or equal 2.50, net debt to net equity ratio less than or equal to 0.70 (or following the Closing Date, 0.50), EBITDA (as contractually defined) to net interest payable ratio greater than or equal to 6.30 and net equity greater than or equal to €420 million (or following the Closing Date, US$725 million).

UniCredit Loan Agreement

The loan agreement with UniCredit Bank New York branch for US$20 million, dated 12 April 2013 and amended on 12 December 2014, with Sorin Group USA, Inc. is guaranteed by Sorin. The term loan is subject to terms and conditions that are standard for this kind of facility. They include:

- *Pari passu*: pursuant to which the financing may not be subordinated to other borrowings, except for obligations that enjoy a senior status pursuant to law;
- Change of control: in case of a change of control event that does not satisfy the bank, a prepayment of the financing may be asked; however, a waiver of this clause is currently expected and, therefore, no adjustment to the pro forma financial statements has been made in order to reflect management's expectation of the financial position of LivaNova;
- Change of law and or illegality events;
- Cross default;
- Limitations on: disposal of assets, acquisitions, distribution of dividends or repayment of capital; and
- Financial Covenants include: net debt to EBITDA (as contractually defined) ratio less than or equal to 2.50, net debt to net equity ratio less than or equal to 0.70, EBITDA (as contractually defined) to net interest payable ratio greater than or equal to 6.30, net equity greater than or equal to €420 million and borrower's net equity greater than or equal to US$175 million.

BpiFrance Loan Agreement

The loan agreement with BpiFrance (ex-Oséo) for €3 million (*Contrat de development participatif*) dated 8 October 2012, with Sorin CRM SAS is guaranteed by cash collateral of €150,000. This French loan provides financial support both for innovation and international expansion of Sorin CRM SAS. BpiFrance may ask for a prepayment of the loan if:

- growth projects and the related investments are cancelled; and
- capital reduction and reserves distribution are not completed.

Loans from Cassa Depositi e Prestiti

In January 2015, Sorin received two loans in support of R&D within the programme of Major Strategic Projects of the Italian Ministry of Education, University and Research. The loans, guaranteed by Sorin S.p.A., are made of a loan granted by *Cassa Depositi e Prestiti* with a fixed interest rate of 0.50 per cent. for the amount of €8.5 million, and an ordinary bank loan provided by GE Capital Interbanca to variable rate Euribor 6 months plus a spread of 3.3 per cent. amounting to €0.9 million. Both loans have a repayment plan amortised, maturing 31 December 2019.

5.3 Cash flow analysis

The following table sets forth a summary of Sorin's cash flows for the six months ended 30 June 2015 and 2014.

(In millions of Euro)	Six months ended 30 June	
	2015	2014
	(Unaudited)	
Net cash generated from operating activities	€ 9.8	€ 20.9
Net cash used in investing activities	(40.3)	(52.2)
Net cash generated from/(used in) financing activities	24.2	(1.6)
Effect of exchange rate changes on cash and cash equivalents	0.4	0.1
Net increase/(decrease) in cash and cash equivalents	**€ (6.3)**	**€(32.9)**

The following table sets forth a summary of Sorin's cash flows for the years ended 31 December 2014, 2013 and 2012.

(In millions of Euro)	Year ended 31 December		
	2014	2013	2012 (Restated)
Net cash generated from operating activities	€ 77.8	€ 94.5	€ 79.5
Net cash used in investing activities	(119.9)	(75.0)	(81.7)
Net cash generated from/(used in) financing activities	11.1	6.6	(13.0)
Effect of exchange rate changes on cash and cash equivalents	0.2	(1.0)	(0.1)
Net increase/(decrease) in cash and cash equivalents	**€ (30.8)**	**€ 25.1**	**€(15.2)**

Operating Activities

The following table sets forth an analysis of cash flows generated from operating activities for the six months ended 30 June 2015 and 2014.

(In millions of Euro)	Six months ended 30 June	
	2015	2014
	(Unaudited)	
Net profit for the period	€ 0.6	€ 19.9
Depreciation and amortisation	25.2	22.3
Write-downs of property, plant and equipment	0.2	0.0
(Gains) Losses on disposal of property, plant and equipment	0.1	0.1
Share of loss of investments in associates accounted for using the equity method	3.9	1.3
Non-cash stock option and stock grant costs	1.7	1.2
Amortised costs of medium- and long-term borrowings	0.1	0.0
Non-cash hedging (income) costs	0.0	(0.1)
Change in inventories and in receivables and payables generated from/(used in) operating activities	(21.6)	(22.4)
Change in provisions for risks, provision for employee severance indemnities and other provisions for employee benefits	(0.2)	(1.5)
Net cash generated from operating activities	**€ 9.8**	**€ 20.9**

The net cash flow absorbed by Sorin's operating activities in the first half of 2015 amounted to €9.8 million, for a negative change of €11.1 million compared with the same period of the previous year, primarily due to the lower profitability achieved in the first half of 2015 compared to the first half of 2014.

The following table sets forth an analysis of cash flows generated from operating activities for the years ended 31 December 2014, 2013 and 2012.

(In millions of Euro)	Year ended 31 December		
	2014	2013	2012 (Restated)
Net profit for the year	€ 52.0	€48.9	€20.3
Depreciation and amortisation	46.2	43.3	42.0
Write-downs of property, plant and equipment	0.1	0.0	0.2
Write-downs of intangibles	—	2.2	7.5
(Gains) Losses on disposal of property, plant and equipment	0.3	0.5	1.0
Share of loss of investments in associates accounted for using the equity method	4.9	3.5	1.5
Non-cash stock option and stock grant costs	1.4	4.0	4.5
Amortised costs of medium- and long-term borrowings	0.1	0.1	—
Non-cash hedging (income) costs	(2.9)	(0.1)	1.3
Change in inventories and in receivables and payables generated from/(used in) operating activities	(21.6)	(7.8)	4.9
Change in provisions for risks, provision for employee severance indemnities and other provisions for employee benefits	(2.6)	0.1	(3.6)
Net cash generated from operating activities	**€ 77.8**	**€94.5**	**€79.5**

Net cash flows generated from operating activities amounted to €77.8 million for the year ended 31 December 2014, a decrease of €16.7 million from €94.5 million for the year ended 31 December 2013. This decrease was primarily attributable to an increase in change in inventories and in receivables and payables used in operating activities following the creation of initial stock for the launch of several new products.

Net cash flows generated from operating activities amounted to €94.5 million for the year ended 31 December 2013, an increase of €15.0 million from €79.5 million for the year ended 31 December 2012. This increase was primarily attributable to the back-to-normal product mix, following a complete recovery from the earthquake in Mirandola in 2012, partially offset by a decrease in working capital due to the growth of business following the recovery from the aforementioned earthquake.

Investing Activities

The following table sets forth an analysis of cash flow used in investing activities for the six months ended 30 June 2015 and 2014.

	Six months ended 30 June	
(In millions of Euro)	**2015**	**2014**
	(Unaudited)	
Investments in property, plant and equipment	€(12.3)	€(20.4)
Investments in intangibles	(18.7)	(16.4)
Investments in associates	(9.5)	(5.4)
Acquisition of the cannulae manufacturing activities of BEL, net of cash acquired	—	(2.3)
Acquisition of the bradycardia leads business of Oscor, net of cash acquired	—	(8.1)
Proceeds from sale of property, plant and equipment	0.2	0.2
Proceeds from sale of intangible assets	0.0	0.0
Net cash used in investing activities	**€(40.3)**	**€(52.2)**

The net cash flow absorbed by Sorin's investing activities in the first half of 2015 totalled €40.3 million, mainly attributable to (i) €12.3 million for investments in property, plant and equipment; (ii) €18.7 million to investments in intangible assets; and (iii) €9.5 million to investments in associates.

The following table sets forth an analysis of cash flow used in investing activities for the years ended 31 December 2014, 2013 and 2012.

	Year ended 31 December		
(In millions of Euro)	**2014**	**2013**	**2012 (Restated)**
Investments in property, plant and equipment	€ (44.3)	€(33.3)	€(22.7)
Investments in intangibles	(38.0)	(30.5)	(29.9)
Investments in associates	(23.8)	(8.5)	(13.1)
Acquisition of the cannulae manufacturing activities of Bioengineering Laboratories S.p.A, net of cash acquired	(2.3)	0.0	0.0
Acquisition of the bradycardia leads business of Oscor, net of cash acquired	(11.9)	0.0	0.0
Acquisition of the Alcard Industria Mecanica Ltda, subsidiary, net of cash acquired	0.0	(3.1)	0
Acquisition of CalMed. subsidiary, net of cash acquired			(10.5)
Acquisition of Neurotech S.A. subsidiary, net of cash acquired		0.0	(6.1)
Proceeds from sale of property, plant and equipment	0.3	0.2	0.5
Proceeds from sale of intangible assets	0.0	0.1	0.1
Net cash used in investing activities	**€(119.9)**	**€(75.0)**	**€(81.7)**

Net cash flows used in investing activities amounted to €119.9 million for the year ended 31 December 2014, an increase of €44.9 million from €75.0 million for the year ended 31 December 2013. The increase was primarily attributable to investments in plants and equipment, including the modernisation of the plant of Mirandola following the earthquake in 2012; investment in intangibles following the capitalisation of development expenses; and the acquisition of the bradycardia leads business of Oscor in February 2014, amounting to €11.9 million.

Net cash flows used in investing activities amounted to €75.0 million for the year ended 31 December 2013, a decrease of €6.7 million from €81.7 million for the year ended 31 December 2012. The decrease was primarily attributable to lower investment in associates and acquisitions.

Financing Activities

The following table sets forth an analysis of cash flow generated by (used in) financing activities for the six months ended 30 June 2015 and 2014.

(In millions of Euro)	Six months ended 30 June	
	2015	2014
	(Unaudited)	
Purchase of treasury shares	€ (0.1)	€ (0.2)
Proceeds for medium- and long-term borrowings	9.4	22.0
Repayments of medium- and long-term borrowings	(0.6)	(94.2)
Net change in indebtedness under finance leases	0.0	(0.0)
Net change in financial receivables/payables	15.5	70.9
Net cash generated from (used in) financing activities	**€24.2**	**€ (1.6)**

The net cash flow from financing activities was positive by €24.2 million in the first half of 2015, as against a negative cash flow of €1.6 million in the first half of 2014. More specifically, in the six months ended 30 June 2015, the cash flow from financing activities mainly reflects the effect of new financing facilities of €9.4 million, and a net positive change of €15.5 million in financial receivables and payables, due to checking account overdraft facilities.

The following table sets forth an analysis of cash flow generated by (used in) financing activities for the years ended 31 December 2014, 2013 and 2012.

(In millions of Euro)	Year ended 31 December		
	2014	2013	2012 (Restated)
Purchase of treasury shares	€ (5.3)	€ (1.1)	€ (1.3)
Proceeds for medium- and long-term borrowings	99.9	14.3	3.0
Repayments of medium- and long-term borrowings	(94.5)	(0.5)	(0.3)
Net change in indebtedness under finance leases	0.0	0.0	(0.1)
Net change in financial receivables/payables	11.0	(6.1)	(14.4)
Net cash generated from (used in) financing activities	€ 11.1	€ 6.6	€(13.0)

Net cash flows generated from financing activities amounted to €11.1 million for the year ended 31 December 2014, an increase of €4.5 million from €6.6 million for the year ended 31 December 2013. Such increase was primarily attributable to higher cash flows generated from changes in financial receivables/payables in 2014 compared to 2013, partially offset by lower proceeds for medium- and long-term borrowing, net of repayments, and increased cash used in the purchase of treasury shares.

Net cash flows generated from financing activities amounted to €6.6 million for the year ended 31 December 2013, an increase of €19.6 million from €13.0 million of cash used in financing activities for the year ended 31 December 2012. This increase primarily resulted from the new agreement for a facility in U.S. dollars with UniCredit Bank AG (New York branch) consisting of a term loan for US$20 million and a revolving facility.

5.4 Consolidated statement of financial position

(In millions of Euro)	At 30 June 2015 (Unaudited)	At 31 December		Change(*) 30 June 2015 vs 31 December 2014	Change(*) 31 December 2014 vs 31 December 2013
		2014	2013		
Net invested capital	808.2	764.2	651.1	44.0	113.1
Shareholders' equity	654.7	639.8	582.4	14.9	57.4
Net indebtedness	(153.4)	(124.4)	(68.7)	(29.0)	55.7

(*) Changes are shown as positive or negative based on the change in absolute terms.

Net invested capital increased by €44.0 million from €764.2 million at 31 December 2014 to €808.2 million at 30 June 2015, and by €113.1 million from €651.1 million at 31 December 2013 to €764.2 million at 31 December 2014, mainly due to continuous investments in modernisation and equipment, expansion of production capacity and development of products and associates. Shareholders' equity increased by €14.9 million from €639.8 million at 31 December 2014 to €654.7 million at 30 June 2015, and by €57.4 million from €582.4 million at 31 December 2013 to €639.8 million at 31 December 2014, mainly reflecting the positive impact on the currency conversion reserve for the first half of 2015 and the impact of the net profit for 2014 amounting to €52.0 million. Net indebtedness increased by €29.0 million from €124.4 million at 31 December 2014 to €153.4 million at 30 June 2015, and by €55.7 million from €68.7 million at 31 December 2013 to €124.4 million at 31 December 2014, mainly attributable to the investments strategy in associates and acquisitions registered in 2014 and in the first half of 2015.

As a result, the debt/equity ratio increased from 0.12 at 31 December 2013 to 0.19 at 31 December 2014 and to 0.23 at 30 June 2015. The debt/adjusted EBITDA (net of special items) ratio increased from 0.5 at 31 December 2013 to 1.0 at 31 December 2014 and to 1.5 at 30 June 2015.

In February 2014, Sorin acquired the cannulae manufacturing activities of BEL, a company based in Italy that develops, manufactures and distributes disposable medical devices for urology, urodynamics, heart surgery and haemodialysis. The acquisition, amounting to €2.3 million, caused net invested capital to increase by €2.3 million, including €0.8 million for intangible assets. The revenues generated by BEL for the year ended 31 December 2013 amounted to €4.0 million.

The following table sets forth a breakdown of Sorin's net invested capital at 30 June 2015, 31 December 2014 and 2013.

(In millions of Euro)	At 30 June 2015 (Unaudited)	At 31 December 2014	At 31 December 2013	Change(*) 30 June 2015 vs 31 December 2014	Change(*) 31 December 2014 vs 31 December 2013
Property, plant and equipment	€ 136.7	€ 134.2	€108.1	€ 2.5	€ 26.1
Goodwill and other intangibles	431.3	421.1	385.5	10.2	35.7
Equity investments in associates and other companies	59.4	52.4	25.7	7.0	26.7
Capital invested in non-current assets	**627.5**	**607.7**	**519.2**	**19.8**	**88.4**
Inventories	148.1	146.1	127.8	2.0	18.3
Trade accounts receivable	202.9	175.0	165.1	27.9	9.9
Trade accounts payable	(111.5)	(109.3)	(95.3)	(2.2)	(14.0)
Other assets (liabilities)	(22.5)	(19.1)	(30.9)	(3.4)	11.8
Working capital	**216.9**	**192.7**	**166.7**	**24.2**	**26.0**
Provision for employee severance	(29.1)	(29.7)	(26.4)	0.6	(3.3)
Provisions for risks and charges	(7.2)	(6.4)	(8.4)	(0.8)	2.0
Net invested capital	**€ 808.2**	**€ 764.2**	**€651.1**	**€44.0**	**€113.1**

(*) Changes are shown as positive or negative based on the change in absolute terms

Property, plant and equipment increased by €2.5 million from €134.2 million at 31 December 2014 to €136.7 million at 30 June 2015, and by €26.1 million from €108.1 million at 31 December 2013 to €134.2 million at 31 December 2014, as the net result of the following items: (i) an increase in additions, (including purchases or additions from internal production) made to modernise or expand production capacity, totalling €12.3 million in the first half of 2015 and €43.7 million in 2014 (of which €8.9 million related to Mirandola and €4.7 million related to Souzhou); (ii) an increase of €2.7 million for additions to property, plant and equipment as a result of the acquisitions of BEL and Oscor in 2014; (iii) a decrease of €0.3 million in the first half of 2015 and €0.6 million in 2014 due to asset disposals; (iv) a decrease of €11.5 million in the first half of 2015 and €21.7 million in 2014 for the depreciation of the period; and (v) an increase of €2.2 million in the first half of 2015 and €2.1 million in 2014 attributable to translation differences for subsidiaries with reporting currencies different from the Euro.

Goodwill and other intangibles increased by €10.2 million from €421.1 million at 31 December 2014 to €431.3 million at 30 June 2015, and by €35.7 million from €385.5 million at 31 December 2013 to

€421.1 million at 31 December 2014, as the net result of the following items: (i) an increase of €16.4 million in the first half of 2015 and €31.6 million in 2014 for the capitalisation of development costs (including the capitalisation of costs incurred to secure approval from the U.S. FDA to market Sorin products in the United Sates and similar rights); (ii) an increase of €15.1 million for additions to intangible assets resulting from the acquisitions of BEL and Oscor in 2014; (iii) an increase of €2.3 million in the first half of 2015 and €6.4 million in 2014 for miscellaneous purchases including technologies, customer lists, licenses and software; (iv) a decrease of €13.6 million in the first half of 2015 and €24.5 million for amortisation of the period; and (v) an increase of €5.2 million in the first half of 2015 and €4.9 million in 2014 attributable to translation differences for subsidiaries with reporting currencies different from the Euro. The carrying amount of goodwill amounted to €196.8 million at 30 June 2015 and €195.8 million at 31 December 2014, reflecting an increase of €1.0 million in the first half of 2015 and €1.5 million in 2014 attributable to the translation of amounts in currencies different from the Euro.

Equity investments in associates and other companies increased by €7.0 million from €52.4 million at 31 December 2014 to €59.4 million at 30 June 2015, and by €26.7 million from €25.7 million at 31 December 2013 to €52.4 million at 31 December 2014, following (i) the joint venture agreement with MicroPort Scientific Corporation completed in January 2014, amounting to €7.1 million, (ii) a non-controlling interest investment in Respicardia in October 2014, a U.S.-based developer of implantable therapies designed to improve respiratory and cardiovascular health, amounting to €15.8 million; (iii) additional investments in non-controlling interests in Caisson Interventional LLC and HighLife SAS in the first half year of 2015 and Cardiosolutions Inc. in 2014; partially offset by (iv) the losses for the period of affiliated companies valued by the equity method at €3.9 million in the first half of 2015 and €4.9 million in 2014; and (v) currency translation differences of €1.5 million in the first half of 2015 and €3.8 million in 2014.

Inventories increased by €2.0 million from €146.1 million at 31 December 2014 to €148.1 million at 30 June 2015, and by €18.3 million from €127.8 million at 31 December 2013 to €146.1 million at 31 December 2014, as a result of the creation of the initial stock for the launch of several new products.

Trade receivables increased by €27.9 million from €175.0 million at 31 December 2014 to €202.9 million at 30 June 2015, and by €9.9 million from €165.1 million at 31 December 2013 to €175.0 million at 31 December 2014, as a result of increased sales. The average collection period increased from 75 days in 2013 to 77 in 2014 and to 87 at 30 June 2015. Transactions involving non-recourse factoring of receivables decreased by €3.3 million from €36.8 million at 31 December 2014 to €33.5 million at 30 June 2015, and increased by €1.8 million from €35.0 million at 31 December 2013 to €36.8 million at 31 December 2014.

Trade account payables increased by €2.2 million from €109.3 million at 31 December 2014 to €111.5 million at 30 June 2015, and by €14.0 million from €95.3 million at 31 December 2013 to €109.3 million at 31 December 2014, while other net liabilities included in net working capital increased by €3.4 million at 30 June 2015 and decreased by €11.8 million at 31 December 2014, reflecting primarily statutory employee benefits and tax items.

The provision for severance indemnities and other employee benefit provisions decreased by €0.6 million from €29.7 million at 31 December 2014 to €29.1 million at 30 June 2015, and increased by €3.3 million from €26.4 million at 31 December 2013 to €29.7 million at 31 December 2014. The provisions for risks and charges increased by €0.8 million from €6.4 million at 31 December 2014 to €7.2 million at 30 June 2015, and decreased by €2.0 million from €8.4 million at 31 December 2013 to €6.4 million at 31 December 2014, and include provisions for warranties, restructuring programmes and other provisions for specific risks.

A breakdown of Sorin's consolidated shareholders' equity is as follows:

(In millions of Euro)	At 30 June 2015 (Unaudited)	At 31 December 2014	At 31 December 2013	Change(*) 30 June 2015 vs 31 December 2014	Change(*) 31 December 2014 vs 31 December 2013
Share capital	€478.7	€478.7	€478.7	€ —	€ —
Reserves	175.4	109.1	54.8	66.3	54.3
Net profit (loss) for the period	0.6	52.0	48.9	(51.4)	3.1
Consolidated shareholders' equity	**€654.7**	**€639.8**	**€582.4**	**€ 14.9**	**€57.4**

(*) Changes are shown as positive or negative based on the change in absolute terms.

The consolidated shareholders' equity increased by €14.9 million from €639.8 million at 31 December 2014 to €654.7 million at 30 June 2015, due to the combined effect of the following items: (i) the net profit for the half

year amounting to €0.6 million; (ii) the amount attributable to 2015 plans with grants of Sorin Shares (€1.7 million); (iii) the purchases of treasury shares (approximately €0.1 million); (iv) the recognition in equity (reserves) of the effective hedging component of interest rate swaps and currency translation hedges (approximately €0.6 million); (v) the differences from the translation of shareholders' equities of consolidated companies denominated in currencies other than the Euro (approximately €13.2 million).

The consolidated shareholders' equity increased by €57.4 million from €582.4 million at 31 December 2013 to €639.8 million at 31 December 2014, due to the combined effect of the following items: (i) the net profit for the year amounting to €52.0 million; (ii) the amount attributable to 2014 plans with grants of Sorin Shares (€1.6 million); (iii) the purchases of treasury shares to implement the abovementioned plan (approximately €5.3 million); (iv) the recognition in equity reserves of the effective hedging component of interest rate swaps and currency translation hedges (approximately €9.1 million); (v) the remeasurement of net liabilities (assets) for defined benefits (approximately €2.0 million); and (vi) the differences from the translation of shareholders' equities of consolidated companies denominated in currencies other than the Euro (approximately €20.0 million).

The following table sets forth a breakdown of Sorin's net indebtedness at 30 June 2015, 31 December 2014 and 2013.

(In millions of Euro)	At 30 June 2015 (Unaudited)	At 31 December 2014	At 31 December 2013
Non-current financial assets	€ 0.2	€ 0.2	€ 0.2
Current financial assets			
Assets from financial derivatives	0.5	1.2	10.1
Other current financial assets	7.8	7.1	1.9
Cash and cash equivalents	15.1	21.1	51.8
Total financial assets	23.5	29.5	64.0
Non-current financial liabilities			
Liabilities from financial derivatives	(2.6)	(2.2)	(0.6)
Other non-current financial liabilities	(114.1)	(114.1)	(20.7)
Current financial liabilities			
Liabilities from financial derivatives	(1.4)	(1.3)	(1.6)
Other current financial liabilities	(58.9)	(36.3)	(109.8)
Total financial liabilities	(177.0)	(153.9)	(132.7)
Net indebtedness	€(153.4)	€(124.4)	€ (68.7)
Current portion	(36.9)	(8.3)	(47.5)
Non-current portion	(116.5)	(116.1)	(21.2)

Net indebtedness increased by €29.0 million from €124.4 million at 31 December 2014 to €153.4 million at 30 June 2015, and by €55.7 million from €68.7 million at 31 December 2013 to €124.4 million at 31 December 2014. Special items for the period amounted to €31.1 million in the first half of 2015 and €60.7 million in 2014, of which €24.4 million in the first half of 2015 and €38.5 million in 2014 related to business development projects pursued for the implementation of Sorin's long-term growth strategy. In particular, in the first half of 2015, special items also include non-recurring costs related to the Mergers.

In January 2015, Sorin received two loans in support of R&D granted by *Cassa Depositi e Prestiti* with a fixed interest rate of 0.50 per cent, for the amount of €8.5 million and an ordinary bank loan provided by GE Capital Interbanca to variable rate Euribor six months plus a spread of 3.3 per cent. amounting to €0.9 million. Both loans have a repayment plan amortised, maturing 31 December 2019.

In May 2014, Sorin entered into an agreement with the EIB for a new medium-/long-term financing in the amount of €100.0 million. The new financing replaced a similar EIB financing due on 30 June 2014, which was completely repaid.

Other non-current financial liabilities at 30 June 2015 mainly include (i) the instalments due after 30 June 2015 of mortgages taken out in connection with purchases of buildings in Saluggia, amounting to €1.3 million (€1.5 million at 31 December 2014), and of a building in Cantù, acquired from BEL in 2014, amounting to €0.8 million (€0.9 million at 31 December 2014); (ii) a loan of €2.1 million (€2.4 million at 31 December 2014) received from Oséo in connection with business development investments in France; (iii) certain financing

facilities with Novalia SA in Belgium for €1.1 million (€1.3 million at 31 December 2014); (iv) a new facility (US$20 million) from UniCredit Bank AG (New York branch) for €17.8 million (€16.4 million at 31 December 2014); and (v) the new EIB loan for €83.3 million (€91.6 million at 31 December 2014).

Other current financial liabilities were €58.9 million at 30 June 2015 (€36.3 million at 31 December 2014 and €109.8 million at 31 December 2013) and consist mainly of (i) bank account overdrafts and other short-term borrowings totalling €33.6 million (€21.6 million at 31 December 2014 and €4.4 million at 31 December 2013); (ii) liabilities for advances received for the assignment of factored trade receivables amounting to €2.0 million (€2.8 million at 31 December 2014 and €10.4 million at 31 December 2013); and (iii) €19.7 million in instalments due within one year of medium- and long-term facilities (€9.5 million at 31 December 2014, and €0.4 million at 31 December 2013).

For the periods indicated, Sorin was fully in compliance with the covenants of the loan agreement for the facilities provided by the EIB and UniCredit Bank AG.

The following table sets forth a breakdown by maturity of Sorin's net indebtedness at 30 June 2015.

(In millions of Euro)	2015	2016	2017	2018 and Beyond	Total
EIB loan	(8.3)	(16.7)	(16.7)	(58.2)	(99.9)
Medium-long-term loan	(2.8)	(3.6)	(21.4)	(6.1)	(34.0)
Recourse factoring	(2.0)	—	—	—	(2.0)
Other short-term debt	(37.2)	—	—	—	(37.2)
Net assets from financial derivatives	(0.9)	—	—	(2.5)	(3.4)
Other financial assets	7.8	—	—	0.2	7.9
Cash and cash equivalents	15.1	—	—	—	15.1
Total	**(28.3)**	**(20.3)**	**(38.1)**	**(66.7)**	**(153.4)**
Average duration (in years)	2.4				

The following table sets forth a breakdown of the impact of special items on Sorin's net indebtedness at 30 June 2015, 31 December 2014 and 2013.

(In millions of Euro)	Change - 30 June 2015 vs 31 December 2014	Change - 31 December 2014 vs 31 December 2013
Net indebtedness at the beginning of the period	€(124.4)	€ (68.7)
Net indebtedness at the end of the period	(153.4)	(124.4)
Change	(29.0)	(55.7)
Change in amount of non-recourse factoring	(3.4)	1.8
Change in position of exchange rate and interest rate cash flow hedges	(1.3)	(12.8)
Share buyback programme	(0.1)	(5.3)
Restructuring charges	(2.7)	(4.0)
Business development activities	(11.1)	(38.5)
Charges for litigation, settlement and sundry items	(1.3)	(1.9)
Charges related to the proposed merger	(11.1)	
Total effect of changes from special items	(31.1)	(60.7)
Change in net indebtedness before special items	**€ 2.0**	**€ 5.0**

Net indebtedness increased by €29.0 million from €124.4 million at 31 December 2014 to €153.4 million at 30 June 2015, and by €55.7 million from €68.7 million at 31 December 2013 to €124.4 million at 31 December 2014 as a result of the negative impact of special items amounting to €31.1 million in the first half of 2015 and €60.7 million in 2014.

Special items include the following: the effect of an increased use of factoring without recourse (negative for €3.4 million at 30 June 2015, and positive for €1.8 million at 31 December 2014), the negative effect of the difference in the fair value of the portfolio of derivatives hedging interest rates and foreign exchange risks (€1.3 million at 30 June 2015, and €12.8 million at 31 December 2014), the negative effect of share buyback programs (€0.1 million at 30 June 2015, and €5.3 million at 31 December 2014), the negative effect of

restructuring charges (€2.7 million at 30 June 2015, and €4.0 million at 31 December 2014), expenses for miscellaneous disputes (€1.3 million at 30 June 2015, and €1.9 million at 31 December 2014), disbursements for business development activities (€11.1 million at 30 June 2015, and €38.5 million at 31 December 2014) and charges related to the Mergers (€11.1 million at 30 June 2015, and zero at 31 December 2014).

5.5 Capital resources

Sorin maintains an adequate level of capital to meet the growth and operating needs of its segments and protect its viability as a going concern.

The appropriate balance of funding sources, which also serves the purpose of lowering the overall cost of capital, is achieved by an effective mix of risk capital, which is provided permanently by shareholders, and debt capital, which must also be diversified in terms of maturities and currency denominations.

To achieve these goals, management constantly monitors Sorin's debt exposure, in terms of the ratios of indebtedness to shareholders' equity and adjusted EBITDA (net of special items), and the segments' cash flow generating ability.

At 30 June 2015, Sorin held 1,549,587 treasury shares with an average cost of €1.9056 per share (2,722,145 treasury shares at 31 December 2014, with an average cost of €1.8565 per share), which is equal to 0.3237 per cent. (0.5686 per cent. at 31 December 2014) of the total share capital comprised of 478,738,144 ordinary shares (same amount at 31 December 2014), par value €1 each. The treasury shares held are reserved for use in connection with the stock grant plans for the Chairman, the Chief Executive Officer and Sorin employees.

5.6 Contractual obligations

The following table sets forth Sorin's obligations and commitments to make future payments under contracts and contingent commitments at 31 December 2014, assuming exchange and interest rates remain constant at 31 December 2014. Information regarding accrued income tax obligations are not reflected in the table below.

(In millions of Euro)	Total	Less than 1 Year	1 - 5 Years	After 5 Years
Operating leases	€ 17.1	€ 5.7	€ 11.4	€ —
Building leases	79.4	11.2	38.6	29.6
Fx derivatives payables	0.3	0.3	—	—
Interest payments on debt	6.7	1.9	4.7	0.1
Interest payments on interest rate derivatives	4.0	1.1	2.9	—
Factoring (with recourse)	2.4	2.4	—	—
Medium-long term loans/debt	125.7	9.3	141.4	10.0
Debt for capital contributions in associates	4.1	4.1	—	—

Operating leases include operational leases related to equipment and company cars. Building leases represent obligations for commercial and manufacturing sites within Sorin.

Foreign exchange derivatives payables of € 0.3 million reflect the negative fair value of foreign exchange rate hedging contracts (forward and option) with maturity dates in 2015.

Interest payments on debt reflect the amounts of interest due in the next several years on Sorin financing contracts. For financings bearing floating interest rates, the interest rate at 31 December 2014 has been applied.

Interest payments on interest rate swap derivatives reflect the net interest due of all interest rate swaps at 31 December 2014 on the interest rate hedging contracts related to the EIB loan and the UniCredit NY branch loan, from floating to fixed rate. The interest rate at 31 December 2014 has been applied.

Factoring with recourse is the amount of outstanding accounts receivable assigned on a recourse basis, all of which is collectable in 2015.

Medium-long term loans/debt relates to the repayment plan of all medium/long-term financings of Sorin. U.S. dollar and other currencies (other than Euro financings) have been evaluated at the exchange rate applicable at 31 December 2014.

Debt for capital contribution in associates refers to the disbursement of CNY 29.9 million due in 2015 for the last capital injections into the Chinese joint venture with MicroPort and the disbursement of €150,000 to the MD Start capital contribution by Sorin Group Deutschland in the first quarter of 2015.

With respect to loan repayment, Sorin will make significant repayments in 2017 when there will be an EIB repayment of €16.7 million, a repayment to UniCredit NY of €16.4 million, and repayment of other medium-long term financings of €1.2 million, for total repayments of €34.3 million.

6. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

6.1 Overview

As Sorin operates in several markets throughout the globe, it is automatically exposed to market risks related to fluctuations in foreign exchange rates. The exposure to foreign exchange risks is due chiefly to the different geographic distribution of its manufacturing and distribution activities, as a result of which export flows are denominated in currencies that are different from those used in the regions of production. Specifically, Sorin's main exposure arises from net exports from Eurozone countries to countries where other currencies are used (primarily the U.S. dollar, Japanese yen, Canadian dollar, and British pound). Consistent with its risk management policies, Sorin seeks to hedge its exposure to the risk of fluctuations in foreign exchange rates with financial hedging instruments. However, even though Sorin may have hedged its exposure, sudden changes in foreign exchange rates could still have a negative impact on Sorin's operating and financial performance.

To address these risks, Sorin has taken the following actions: it published policies and some procedures that are binding on all Sorin companies; it constantly monitors risk exposure levels through corporate-level departments; it uses derivatives exclusively for non-speculative purposes; it acts as the only counterparty of Sorin's companies in derivatives that hedge market risk related to fluctuations in foreign exchange rates; it manages Sorin's financial resources through a centralised cash management system, obtains adequate credit lines and monitors liquidity projections, consistent with the corporate planning process; and it appropriately balances the average maturity, flexibility and diversification of funding sources.

Sorin's activities expose it to a variety of risks including interest rate risk, foreign currency exchange rate risk, liquidity risk and credit risk. Sorin's overall risk management strategy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on performance through ongoing operational and finance activities. Sorin monitors and manages its exposure to such risks centrally as part of Sorin's overall risk management programme with the objective of seeking to reduce the potential adverse effects of such risks on Sorin's results of operations and cash flow.

Depending on the risk assessment, Sorin uses selected derivative hedging instruments, including principally of interest rate swaps, forward currency contracts and foreign exchange currency options for the purposes of managing interest rate risk and currency risks arising from Sorin's operations and sources of financing. Sorin's policy is not to enter into such contracts for speculative purposes.

The following section provides qualitative and quantitative disclosures on the effects that these risks may have. The quantitative data reported below does not have any predictive value and does not reflect the complexity of the markets or reactions that may result from any changes that are assumed to have taken place.

6.2 Interest rate risk

Sorin's exposure to changes in market interest rates relates primarily to its financial liabilities, which bear floating interest rates. In particular, the facilities bear floating rates of interest linked to Euribor and Libor. Sorin's policy is to manage interest cost using a mix of fixed and variable rate debt. Sorin uses various techniques to mitigate the risks associated with future changes in interest rates, including entering into interest rate swaps. As of 31 December 2014, Sorin had entered into interest rate swaps with a notional value of €96.5 million to swap from floating to fixed rate. After considering such interest rate swaps, approximately 34 per cent. of Sorin's debt portfolio was variable rate at the end of 2014. As of 31 December 2013, Sorin had entered into interest rate swaps with a notional value of €168.1 million to swap from floating to fixed rate, of which €60 million was pre-hedging of the new EIB loan drawn in July 2014. Pre-hedging of the new EIB loan was achieved with forward interest rate swaps (floating to fixed) for a notional amount of €60.0 million. After considering such interest rate swaps for the amount of €108.1 million, approximately 14 per cent. of Sorin's debt portfolio was at variable rates at the end of 2013.

A hypothetical 50 basis points increase in interest rates for the year ended 31 December 2014, with all other variables held constant, would have resulted in a decrease in Sorin's income before income tax for an amount less than €0.5 million.

6.3 Foreign currency exchange rate risk

Sorin operates on an international basis across a number of geographical locations. Sorin is exposed to (i) transactional foreign exchange risk when an entity enters into transactions in a currency other than its functional currency and (ii) translation foreign exchange risk, which arises when Sorin translates the financial statements of its foreign entities into Euro for the preparation of its consolidated financial statements.

Sorin's subsidiaries generally execute their operating activities in their respective functional currencies. In circumstances where Sorin enters into transactions in a currency other than the functional currency of the relevant entity, Sorin seeks to minimise its exposure by creating a natural hedge by netting receipts and payments and by entering into foreign currency forward and option contracts.

The foreign exchange risk is hedged at the budget level, before the revenues and expenses denominated in foreign currencies are generated. In 2013, with regard to transactional risk, Sorin hedged approximately 100 per cent. of its net positions in U.S. dollars, Canadian dollars, Australian dollars, Japanese yen, pounds sterling and Swiss francs. The derivatives used included forward foreign exchange contracts and options. The foreign currency forward and option contracts to hedge the budget for the risk related to revenues and costs denominated in a currency other than Euro, have average maturities from 6 to 12 months and are regularly renewed to provide continuing coverage throughout the year. It is Sorin's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness.

Certain of Sorin's subsidiaries are located in countries that are outside of the Eurozone, particularly in the United States and Canada. As Sorin's reporting currency is the Euro, the income statements of those entities are converted into Euro using the average exchange rate for the period, and while revenues and costs are unchanged in local currency, changes in exchange rates may lead to effects on the converted balances of revenues, costs and the result in Euro. The monetary assets and liabilities of consolidated entities that have a reporting currency other than the Euro are translated into Euro at the period-end foreign exchange rate. The effects of these changes in foreign exchange rates are recognised directly in the consolidated statement of changes in equity within other reserves. Sorin does not cover the translation risk.

Sorin's foreign currency exposure before hedging is primarily due to changes between the Euro, the U.S. dollar and the Japanese yen. For 2014, a hypothetical 10 per cent. increase in the Euro to U.S. dollar exchange rate, with all other variables held constant, would have reduced Sorin's income before income tax by €3.3 million, while a hypothetical 10 per cent. increase in the Euro to Japanese yen exchange rate, with all other variables held constant, would have reduced its income before income tax by €3.3 million.

6.4 Liquidity risk

The liquidity risk is the risk that the financial resources available to Sorin may not be sufficient to meet financial obligations arising from operating and investing activities in accordance with stipulated terms and deadlines.

Sorin's policy is to achieve a balance between average maturity and flexibility and diversification of financial sources. As Sorin manages its financial resources directly (centralised management of liquidity and bank borrowings, negotiation of adequate credit lines and monitoring of future liquidity needs to be consistent with the corporate planning process), this goal is generally pursued by securing access to overdraft facilities, medium- and long-term financing, finance leases, factoring of trade receivables and, lastly, maintaining a minimum required level of liquidity.

At 30 June 2015, Sorin had unused short-term credit lines of approximately €89 million (€74.0 million at 31 December 2014 and €112.0 million at 31 December 2013). On the same date, medium- and long-term borrowings, excluding current instalments, were equal to approximately 82 per cent. of Sorin's total net indebtedness (92 per cent. at 31 December 2014, and 31 per cent. at 31 December 2013).

6.5 Credit risk

The risk related to bank accounts, financial assets and assets from financial derivatives is relatively small, as all bank and financial counterparts have very high credit ratings. Most of the guarantees provided by Sorin derive

from statutory obligations (endorsements given to credit institutions for sureties-the same provided in connection with bidding on calls for tenders and sureties provided to the revenue administration for the VAT consolidated return). As historical data show, any resulting risk is remote.

As the companies of Sorin operate in the medical technology industry, they are not exposed to a significant risk of non-payment by customers because public institutions represent a significant portion of the customer portfolio. However, because Sorin's trade receivable balance is large due to a high days sales outstanding ("**DSO**") index, it is exposed to a liquidity risk due to the aging of the receivables. While Sorin addresses positions that have become objectively uncollectible (bankruptcies, litigations, etc.) by writing down the corresponding receivables, in order to monitor and minimise the credit risk on its trade receivable exposure, Sorin establishes credit limits for private-sector customers, guidelines for securing payment guarantees by customers in at-risk countries (in certain countries sales are allowed only against the issuance of a letter of credit) or with cash in advance payment terms and guidelines for granting payment terms that deviate from standard market terms.

The bad debt policy, based on the average DSO of each Sorin company and the aging of each receivable, defines the method that should be used to compute the amount that should be added to the allowance for past-due accounts of private-sector customers.

Of the receivables that were more than one year past due, which amounted to €4.3 million at 30 June 2015 (€2.5 million at 31 December 2014 and €6.6 million at 31 December 2013), 22 per cent. was owed by public hospitals (27 per cent. at 31 December 2014), mainly in Italy and Spain, that require from their suppliers payment terms averaging more than six months. The remaining 78 per cent. (73 per cent. at 31 December 2014) was owed by private-sector customers, clinics and distributors, with whom Sorin has negotiated repayment plans and new payment terms.

With respect to the total amount of past-due trade receivables, trade receivables totalling €0.2 million at 30 June 2015 were included in two repayment plans (€0.1 million in 2015 were included in two repayment plans at 31 December 2014, compared with €1.3 million and four repayment plans at 31 December 2013).

Trade receivables with current status that had not been written down totalled €138.0 million at 30 June 2015 (€122.3 million at 31 December 2014 and €111.1 million at 31 December 2013). Public institutions owed 18 per cent. of this amount (23.7 per cent. at 31 December 2014 and 44.5 per cent. at 31 December 2013). Sorin's five largest customers in terms of exposure (representing 7.5 per cent. of the total in the first half of 2015 and 7.9 per cent. of the total both in 2014 and 2013) accounted for 5.8 per cent. of net revenues in the first half of 2015 (5.4 per cent. in 2014 and 3.9 per cent. in 2013).

The average number of days of sales increased from 75 days at 31 December 2013 to 77 days at 31 December 2014 and to 87 days at 30 June 2015.

7. OFF-BALANCE SHEET ARRANGEMENTS

Certain potential commitments of Sorin related to the funding of equity method investments are such that Sorin invests in minority shares of companies with assets still in development that often require milestone and/or royalty payments to a third party, contingent upon the occurrence of certain future events. Milestone payments may be required, and are contingent upon the successful achievement of an important point in the development life cycle of a product or upon certain pre-designated levels of achievement in clinical trials. A number of these arrangements give Sorin the discretion to unilaterally make the decision to stop development of a product or cease progress of a clinical trial, which would allow Sorin to avoid making the contingent payments. Although Sorin is unlikely to cease development if a device successfully achieves clinical testing objectives, these are not considered contractual obligations because of the contingent nature of these payments and Sorin's ability to avoid them if Sorin decided to pursue a different path of development. While it is not certain if and/or when these payments will be made, the maturity dates included in the table below reflect Sorin's best estimates.

This estimate is the maximum theoretical commitment in the event (i) all the projects are successful and Sorin exercises all of its buyout options and (ii) all the commitments based on variable earn out are satisfied. For one of the startups, Sorin has the possibility of exercising the buyout in an earlier stage at a lower price, which would reduce the commitments by around €78 million.

	Total	Less than 1 Year	1 - 5 Years	After 5 Years
Potential commitments	663	23	406	233

In the normal course of business, Sorin periodically enters into agreements that require it to indemnify customers or suppliers for specific risks, such as claims for injury or property damage arising out of Sorin's products or the negligence of Sorin's personnel or claims alleging that its products infringe third-party patents or other intellectual property. Sorin's maximum exposure under these indemnification provisions cannot be estimated, and Sorin has not accrued any liabilities within Sorin's consolidated financial statements, with the exceptions of those which will probably require the use of financial resources in an amount that can be estimated reliably.

8. CRITICAL ACCOUNTING POLICIES AND ESTIMATES

8.1 Critical accounting estimates

Sorin's consolidated financial statements are prepared in accordance with the IFRS issued by the International Accounting Standards Board. The preparation of the consolidated financial statements in accordance with the international accounting principles requires the formulation of estimates and assumptions that have an impact on the amounts of assets and liabilities and on revenues and expenses. These estimates were based on past experience and on other factors that were deemed to be reasonable under the relevant circumstances. However, the actual results that will ultimately be recognised may be different from the estimates. Sorin bases its estimates on historical experience, actuarial valuations or various assumptions that are believed to be reasonable under the circumstances.

Estimates and valuations affect the amounts reported in the consolidated financial statements and accompanying notes, including goodwill and intangible assets in general, impairment of assets, deferred-tax assets or liabilities, allowances for doubtful accounts and for obsolete and slow-moving inventory items, legal proceedings and contingent liabilities, pension and post-retirement obligations, sales returns and discounts, stock-based compensation, and, in general, additions to provisions and the definition of fair value of assets and liabilities recognised in connection with business combinations. Estimates and assumptions are reviewed on a regular basis and the impact of any change in the estimates is reflected in the results for the period during which the change was made.

Critical valuation processes and key assumptions used by Sorin for IFRS implementation purposes, which could have a material impact on the data presented in the consolidated financial statements or which entail the risk that there may be material differences compared with the future carrying amounts of assets and liabilities, are reported below.

8.2 Revenue recognition

Revenues are recognised to the extent that it is probable that economic benefits will flow to Sorin and the amount of the benefits can be determined reliably, irrespective of the date of collection. Revenues are measured at the fair value of the consideration received or owed and recognised net of returns, discounts, allowances, bonuses and directly related taxes. Determining when the specific recognition criteria have been met requires Sorin to make assumptions and exercise judgment that could significantly affect the timing and amounts of revenue reported each period.

Revenues from the sale of goods are deemed to have been earned when the risks and benefits significantly inherent in the ownership of the goods have been transferred and the amount of the revenues can be determined reliably. In the case of the sale of goods, this generally occurs when the merchandise is shipped, except when the devices are held by the customer (consignment stock). Sorin carries the equipment as part of property, plant and equipment and depreciates it in three to five years, according to the situation and to the length of agreements.

8.3 Intangible assets

When Sorin acquires a business, the assets acquired, including intangible assets, and liabilities assumed are recorded at their respective fair values as of the acquisition date. Determining the fair value of intangible assets acquired as part of a business combination requires Sorin to make significant estimates. These estimates include the amount and timing of projected future cash flows, the discount rate used to discount those cash flows to present value, the assessment of the asset's life cycle and the consideration of legal, technical, regulatory, economic and competitive risks. The discount rate used is determined at the time of measurement in accordance with accepted valuation methodologies. Goodwill is the excess of the purchase price (consideration) over the estimated fair value of net assets of acquired businesses.

Intangibles are recognised on the asset side of the statement of financial position when it is likely that the use of an asset will generate future benefits and its cost can be measured reliably. Intangibles are booked at their purchase price or internal production cost, inclusive of incidental charges and borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. Intangibles with an indefinite useful life, including goodwill, are not amortised. Instead, they are tested at least once a year for impairment. Intangibles with a finite useful life are amortised on a straight-line basis, based on an asset's estimated useful life.

Development costs incurred in connection with a specific project are capitalised only when Sorin can demonstrate that it possesses the technical capabilities needed to complete the intangible asset and make it available for use or sale; that it intends to complete the asset for the purpose of using it or selling it; that it has developed methods to enable the asset to generate future economic benefits; that it has the technical, financial and other resources needed to complete the development; and that it is able to evaluate reliably the costs attributable to the asset during its development.

During the development period, the asset is tested annually for impairment. Subsequent to the impairment test, development costs are valued at cost less amortisation and any accumulated impairment loss. Amortisation begins when the development is completed and the asset is ready for use. The capitalised cost is amortised over the period during which the underlying project is expected to generate revenues.

Due to the uncertainty associated with R&D projects, there is risk that actual results will differ materially from the original cash flow projections and that the R&D project will not result in a successful commercial product. The risks associated with achieving commercialisation include, but are not limited to, delay or failure to obtain regulatory approvals to conduct clinical trials, delay or failure to obtain required market clearances, delays or issues with patent issuance, or validity and litigation.

Patents are capitalised when they are acquired for consideration or when they are produced internally, provided they have been legally recognised and exist as an identifiable asset. Items purchased from outsiders are booked at cost, plus incidentals. Internally produced items are booked on the basis of the direct costs incurred to obtain legal recognition of the protected rights. In both cases, they are amortised over their useful lives, but not in excess of the period of legal protection.

Trademarks, concessions, licenses and similar rights include the costs incurred to secure manufacturing and/or distribution permits for new products in certain markets, in accordance with CE Marks, U.S. FDA and other regulations. The costs of CE Marks and U.S. FDA certifications are capitalised as assets if they meet the capitalisation requirements of IAS 38 "Intangible Assets" and are amortised over the entire length of the period during which they are expected to generate revenues.

Technologies and other intangible assets refer, for the most part, to the values attributed to medical technologies and customer lists in connection with acquisitions. Amortisation is computed on a straight line over the estimated useful lives of these assets.

Borrowing costs are capitalised when directly attributable to the construction of qualifying assets. A qualifying asset is an asset that necessarily takes a substantial period of time (normally more than a year) to get ready for its intended use. The amount of borrowing costs to be capitalised is calculated, at the end of each period, by applying a capitalisation rate to the expenditures on the asset incurred in each period. The capitalisation rate is the weighted average on the borrowings of Sorin that are outstanding during the period. Sorin considers as qualifying assets the incremental expenditures incurred in each period for multi-year capitalised development projects, capitalised cost for marketing authorisation (U.S. FDA, CE Marks, etc.) and any other similar multi-year capitalised project.

8.4 Property, plant and equipment

Property, plant and equipment are booked at purchase or production cost plus any incidental charges that are attributable directly to the construction or production of an asset and are necessary to make the asset ready for use. Financial expense directly attributable to the acquisition, construction or production of an asset that requires a relatively long time before it is ready for use (qualifying asset) is capitalised as part of the asset's cost.

Maintenance and repair costs that do not extend the useful lives of assets are charged to income in the year they are incurred. The amounts booked to assets are depreciated annually on a straight-line basis at a rate that reflects

the estimated useful lives of the assets. No depreciation is taken until the assets are put into service. Land, including appurtenant land, is not depreciated. Assets are impaired when there is an indication that the value of an asset may be written down.

Equipment includes equipment owned by Sorin (HLMs or autotransfusion systems) installed at a hospital within an "equipment on loan" agreement and depreciated.

Leasehold improvements that meet the requirements of IAS 16 "Property, Plant and Equipment" are classified as property, plant and equipment and depreciated over the asset's remaining useful life or the remainder of the lease, whichever is shorter.

8.5 Investment in associates

Sorin invests in minority shares of startup companies with R&D projects that can further the pursuit of Sorin's strategy of innovation and development of new therapies. Associated companies, which are companies that Sorin does not control but can influence significantly, directly or indirectly, are valued by the equity method. Under the equity method, an investment in an associated company is initially recognised at cost and the investment's carrying amount is increased or reduced to recognise the investor company's pro rata interest in the profit or loss reported by the investee company after the date of acquisition. Goodwill attributable to the associate is included in the investment's carrying amount. Sorin reflects in its income statement its pro rata interest in the profit or loss of the associated company. Unrealised gains or losses resulting from transactions between Sorin and an associate are eliminated proportionately to the percentage interest held in the associate. If necessary, the associate's financial statements are restated to make them consistent with Sorin's accounting principles. On each reporting date, Sorin determines if there is any objective evidence that the investment in the associated company is to be impaired. If that is the case, Sorin determines the amount of the loss as the difference between the associate's recoverable value and its carrying amount, recognising this difference in its income statement.

8.6 Recoverable value of non-current assets

Non-current assets include property, plant and equipment, other intangible assets, goodwill, investments in associates and other financial assets. Sorin periodically reviews the carrying amount of its non-current assets when facts and circumstances require such a revision. Goodwill and other assets with an indefinite useful life are tested for impairment once a year and whenever circumstances suggest that their recoverable value may be impaired.

For impairment testing purposes, goodwill acquired through business combinations was allocated to the following cash generating units: Cardiac Surgery and CRM, consistent with Sorin's operating characteristics and management's strategic vision.

The recoverable amount of the cash generating units was determined based on their value in use, computed using a projection of the cash flow estimates from the latest five-year plan. The recoverable value depends to a significant extent on the discount rate used in the cash flow discounting model, as well as on the cash inflows expected in the future and the growth rate used for extrapolation purposes.

The initial capitalisation of development costs is based on management's belief that the project's technical and economic feasibility can be confirmed. The recoverable amount of capitalised projects is determined based on their value in use, computed using a projection of the estimates of the cash flows deriving from forecasts of costs to complete and revenues from the sale of products resulting from the projects in question. The recoverable value depends to a significant extent on the discount rate used in the cash flow discounting model, as well as on the cash inflows expected in the future.

8.7 Provisions for risks and charges and contingent liabilities

Provisions for risks and charges are recognised to cover losses and charges of a determined nature, the existence of which is certain or probable, but the amount and/or date of occurrence of which cannot be determined exactly.

Provisions for future risks and charges are established to recognise a current (legal or implied) obligation that arises from past events, the satisfaction of which will probably require the use of financial resources in an amount that can be estimated reliably. In case of material contingent liabilities, when a reliable prediction cannot be formulated about the outcome of the dispute or litigation and/or the amount of the obligation cannot be determined with sufficient reliability, Sorin describes these events in the notes to the financial statements.

This provision for product warranties refers to the commitments that, pursuant to contract, law or commercial practice, arise from warranties provided with regard to products for a specific length of time or usage, from the time of delivery to customers, special contract clauses notwithstanding. At the end of each reporting period, and at least once a year, this provision is recomputed to determine if it is adequate, taking into account, among others, any changes in warranty terms (duration, coverage, etc.).

This provision for restructuring charges is recognised when there is a constructive obligation to carry out a restructuring process or when a detailed, formal plan identifies an activity or part of an activity that is affected by the restructuring process. The plan must also state the location of such process and the number of employees affected and define a detailed cost estimate and an appropriate implementation schedule.

Other provisions generally refer to any disputes and litigations with employees and legal costs for proceedings involving Sorin companies. Sorin is involved in a number of legal actions involving product liability, intellectual property disputes and others. The outcomes of these legal actions are not within Sorin's complete control and may not be known for prolonged periods of time. In some actions, the claimants seek damages, as well as other relief that could require significant expenditures or result in lost revenues. Sorin records a provision as liability in its consolidated financial statements when a loss is known or considered probable and the amount can be reasonably estimated. If a loss is reasonably possible, but not probable, or cannot be reasonably estimated, the risk is disclosed in the notes to the consolidated financial statements. When determining the estimated loss or range of loss, significant judgment is required to estimate the amount and timing of a loss to be recorded. Estimates of probable losses resulting from litigation and governmental proceedings are inherently difficult to predict, particularly when the matters are in early procedural stages.

8.8 Receivables and factoring

Receivables and other current financial assets include trade receivables and other financial receivables generated in the normal course of business and advances to suppliers. Following initial recognition, they are valued at their amortised cost, using the effective discount rate method, net of any provision for impairment losses. The process of computing the allowance for doubtful accounts includes a write-down for specific receivables and a write-down for categories of receivables. Sorin performs an analysis of individual receivables the collection of which is questionable (past-due receivables, disputed receivables, etc.), estimating a specific write-down for each receivable or, in the event that an analysis of individual receivables proves to be too onerous or unfeasible, develops an estimate for homogeneous categories to provide for the possibility that the future collection of these receivables may be questionable. The estimate of the write-down is not generic, as receivables are grouped into homogeneous categories, based both on past experience and current market conditions.

Sorin assigns a portion of its trade receivables through factoring transactions. Accounts receivable assigned without recourse are deleted from the asset side of the statement of financial position when the assignment transaction transfers substantially all risks and benefits inherent in the ownership of the receivables. In all other cases of assignments without recourse or assignments with recourse, the receivables stay on the statement of financial position and the advance received from the factor is recognised as a financial liability.

When all risks and benefits inherent in the ownership of the leased assets are transferred to the lessee, assets held under a finance lease are booked as property, plant and equipment and the corresponding liability to the lessor is recognised as a financial liability. At the beginning of a lease, assets held under a finance lease are valued at the lower of their fair value or the present value of the minimum payments owed under the lease. They are depreciated over the asset's estimated useful life in the same manner as property, plant and equipment that Sorin owns outright.

Lease payments are broken down between principal, which is deducted from the indebtedness to the lessor, and interest, which is recognised as a financial expense, so that a constant interest rate is applied to the outstanding lease balance.

8.9 Financial derivatives

Sorin uses financial derivatives (mainly forward and option currency contracts and interest rate swaps) for the purpose of hedging the risk of fluctuations in foreign exchange and interest rates. Initially, derivatives are recognised at their fair value on the date when the contracts are executed. Subsequently, their fair value is tested at regular intervals using for the forward currency contracts the forward interest rates applied to contracts with a similar profile and maturity and for the interest rate swaps the market value for similar instruments. Any gain or loss that results from this valuation process is recognised on the statement of financial position as either an asset or a liability from a financial derivative.

Gains or losses that result from the valuation at fair value of financial derivatives that meet the requirements of IAS 39 for hedge accounting treatment are recognised as follows:

- In the income statement when they are realised, in the event that the financial instrument in question is designated as hedging the risk of changes in the fair value of an asset or liability (fair value hedge), thereby offsetting the gains or losses recognised in the income statement as a result of the process of valuing the hedged asset or liability.
- In the statement of comprehensive income for the effective portion of the hedge and in the income statement for the ineffective portion of the hedge, in the event that the financial instrument in question is designated as hedging the cash flow of a given asset or liability (cash flow hedge). Gains or losses recognised in the statement of comprehensive income are transferred to the income statement when the economic effects of the hedged assets or liabilities are reflected in the results for the period. When a hedge expires or is cancelled, any amount previously recognised in the statement of comprehensive income is transferred to the income statement.

Gains or losses from the valuation of financial derivatives that do not qualify for hedge accounting are recognised in profit or loss.

To measure the fair value of its derivative transactions (transactions to hedge foreign exchange and interest rate risks), Sorin determines the mark-to-market of each transaction based both on prices quoted on active markets-for example, the spot exchange rate for a currency, for forward foreign exchange transactions-and on observable market inputs developed for the same measurement-for example, the fair value of an interest rate swap (using the interest rate curve) or the measurement of a currency option (combining quoted prices and observable variables, such as volatility). Sorin uses data provided by Bloomberg as the source for determining quoted and observable prices and analysing market variables. More specifically, Sorin uses the following techniques to compute the fair value of outstanding derivatives:

- For forward currency transactions, fair value is determined using, for each contract, the forward market exchange rate on the reporting date: the difference compared with the contractual forward exchange rate is discounted to present value at the same reporting date.
- For interest rate swaps, fair value is determined considering the present value of interest flows computed on the notional amount of each contract using the forward interest curve existing on the reporting date.
- For currency options, fair value is determined using the market value of each contract on the reporting date, developed by Bloomberg, which computes the present value, on the same reporting date, of all variables of the option's price: forward exchange rate, volatility, etc.

The credit risk of the counterparties used by Sorin is quoted on the market through the respective credit default swap rate. The fair value of each contract with a positive balance (asset) is adjusted based on the abovementioned counterparty rate, computed over the contract's remaining duration. On the other hand, the fair value of each contract with a negative balance (liability) is adjusted taking into account the default risk of Sorin. As this risk is not quoted, it was determined starting with Sorin's average cost of funding, decreased by the risk-free interest rate, computed by interpolation, based on the average duration of Sorin's financial debt.

8.10 Employee benefits

The provisions for employee benefits and the respective assets, costs and net financial expenses are measured with an actuarial method that requires the use of estimates and assumptions to determine the net value of the obligation or asset. The actuarial valuation process requires the development of assumptions regarding discount rates, the expected rate of return on future investments, future wage increases, mortality rates and future increases in pension benefits. Due to the long-term nature of these plans, these estimates are subject to a high degree of uncertainty. These assumptions are reviewed once a year.

The provision for employee severance indemnities, which is mandatory for Italian companies, is considered:

- A defined-benefit plan with respect to the benefits that vested up to 31 December 2006, as well as with respect to benefits vesting from 1 January 2007 and on, but limited to employees of companies with 50 employees or less who chose to leave their vested benefits with the company; and
- A defined-contribution plan with respect to benefits vesting from 1 January 2007 on for employees who opted for alternative pension plans and, in the case of companies with more than 50 employees, employees who chose to leave their vested benefits with the company.

The provision for employee severance indemnities, which can be construed as a defined-benefit plan, is valued by the Projected Unit Credit Method, based on actuarial and financial assumptions (actuarial assumptions: mortality, turnover, and disability of the population included in the plan; financial assumptions: discount rate, rate of wage increases, and capitalisation rate). The increase in the present value of the provision for employee severance indemnities is recognised as personnel expense except for the revaluation of the net liability, which is recognised among other components of the comprehensive income statement. In the case of severance benefits vested up to 31 December 2006, the cost no longer includes a component for future wage increases.

Vested severance benefits under a provision for employee severance indemnities, which can be construed as a defined-contribution plan, are also recognised as personnel expense and, until their actual disbursement, the offsetting statement of financial position entry is posted to other current liabilities.

Other provisions for employee benefits, which are recognised by Sorin in some European countries, the United States and Japan, are defined-benefit plans. Accordingly, they are valued by the Projected Unit Credit Method, based on actuarial assumptions. The increase in the present value of the provision for employee severance indemnities is recognised as personnel expense except for the revaluation of the net liability, which is recognised among other components of the comprehensive income statement.

Sorin awards additional benefits to some employees through equity settled compensation plans (stock grant plans). These plans represent a component of the beneficiary's compensation and their cost is measured based on the fair value of the abovementioned instruments on the grant date. Changes in fair value after the grant date have no effect on the valuation of the plans. The cost of equity settled transactions and the corresponding increase in shareholders' equity are recognised over the period from the grant date to the vesting date. Until the vesting date, the cumulative costs recognised for such transactions at the end of each reporting period reflect vesting period maturities and the best available estimate of the number of equity instruments that will actually vest. The gain or loss recognised in profit or loss is equal to the difference in the cumulative cost recognised at the beginning and the end of the reporting year. Long-term incentive plans that call for the award of stock grants to employees require the recognition of a liability and of the corresponding costs attributable to each reporting period by each of the group's companies. The measurement of these financial statement items requires the formulation of an estimate of the number of shares that will be awarded through a stochastic simulation model that takes into account the correlations existing among the plan's conditions (including performance of the Sorin stock versus the FTSE Italia Industrial and S&P 500 Healthcare indices).

8.11 Income taxes

Sorin's tax rate is based on income, statutory tax rates, and tax planning opportunities available to Sorin in the various jurisdictions in which Sorin operates. Income tax uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Due to the wide range of Sorin's international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to taxable income and income tax expense already recorded. Sorin records provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which Sorin operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective domiciles of Sorin's companies. Deferred tax assets are recognised for unused tax losses and tax credits to the extent that it is probable that taxable income will be available against which the losses and tax credits can be utilised. Significant judgement is required to determine the amount of deferred tax assets that can be recognised.

Each company within Sorin recognises its current tax obligation by booking a tax liability based on a reasonable valuation of the amount payable for direct taxes, determined in accordance with the tax laws in force in each country and taking into account any tax loss carryforwards or exemptions. Deferred-tax assets and liabilities are computed on the temporary differences that arise between the carrying amounts and the tax bases of assets and on items like tax loss carryforwards usable in future years that, while not recognised on the statement of financial position, have the potential of creating tax credits in future years. Deferred-tax assets and liabilities are computed based on projected tax rates in each country in the year in which the assets are realised or the liabilities extinguished. Deferred-tax liabilities are recognised on all taxable temporary differences, except in the following cases:

- Deferred-tax liabilities on retained earnings of subsidiaries are recognised only if there is a real intention of distributing those earnings; and
- Deferred-tax liabilities on reserves of Sorin, the taxation of which has been suspended, are recognised only if there is a high probability that conditions requiring the payment of income taxes will occur.

Deferred-tax assets, including those arising from a tax loss carryforward and unused tax credits, are recognised in the financial statements only to the extent that it is likely that Sorin will generate sufficient taxable income against which these temporary deductible differences can be offset. Income taxes due on items recognised directly in equity are also reflected directly in equity.

At 31 December 2014, Sorin held deferred-tax assets as deductible temporary differences and theoretical tax benefits for losses brought forward totalling €141.4 million, €52.0 million of which were not recognised in the financial statements. At 31 December 2013, the corresponding amounts were €129.4 million and €60.2 million, respectively. Sorin recognised deferred-tax assets up to the amount for which recoverability is deemed probable, based on the results projected in Sorin's five-year plan, conservatively reduced to reflect the uncertainty inherent in estimates.

8.12 Guarantees, retained or contingent interests, derivative instruments, and/or variable interest

The following guarantees provided by Sorin were outstanding as of 30 June 2015:

- Endorsements provided to credit institutions for securities provided in connection with bidding on calls for tenders for Sorin products of €24.4 million (€31.6 million at 31 December 2014 and €25.1 million as at 31 December 2013).
- Securities totalling €11.9 million provided to the Italian Tax Administration - Milan VAT Office, in connection with the filing of a consolidated VAT return (€5.2 million at 31 December 2014 and €1.5 million at 31 December 2013).
- Other securities provided to outsiders totalling €5.1 million (€5.2 million as at 31 December 2014 and €5.7 million at 31 December 2013). The total amount includes €4.4 million provided as security for the lease of the production facility in Vancouver, Canada (€4.4 million at 31 December 2014 and €4.8 million at 31 December 2013).

In addition, some buildings in Saluggia and Cantù collateralise loans received to purchase those buildings. Approximately €1.3 million (€1.5 million as at 31 December 2014) and €0.8 million (€0.9 million as at 31 December 2014) of the non-current loans remain outstanding for the Saluggia and Cantù buildings, respectively.

9. CURRENT TRADING AND PROSPECTS

Sorin announced its results for the six months ended 30 June 2015 on 30 July 2015. Sorin's revenues for the six month period were €405.0 million, an increase of 3.0 per cent. at comparable foreign exchange rates and 10.4 per cent. as reported, in each case, compared with the same period in 2014. This revenue growth was in part attributable to the growth in the Cardiac Surgery segment, which saw revenues total €272.9 million, up by 12.7 per cent. (3.1 per cent. at constant exchange rates) compared with the same period in 2014, primarily resulting from the higher than expected growth in the HLM product segment, particularly in China, Europe and emerging markets, as well as strong sales of oxygenators following the launch of INSPIRE™ in the U.S. and Japan. The CRM unit reported revenues of €130.8 million for the six months ended 30 June 2015, which represented a 6.0 per cent. growth (2.7 per cent. at constant exchange rates) against the corresponding period in 2014. Growth in the CRM unit was boosted by strong sales to its Japanese distribution partner following the launch of the KORA 100 pacemaker, which received approval from the Japanese Pharmaceuticals and Medical Devices Agency in February 2015. Adjusted net profit[(1)] was €24.2 million, up 8.1 per cent. compared to €22.4 million in the first half of 2014, including a €3.5 million negative impact from Sorin's New Ventures unit and also reflecting a €5.2 million unfavourable foreign exchange effect.

Since 1 July 2015 Sorin's legacy Cardiac Surgery segment continued to show solid performance while CRM performance was weak, caused by three principal factors: Sorin's strategic repositioning of CRM in the U.S., its decision not to sell from the existing product range to Sorin's partner in Japan in the third quarter of 2015 in anticipation of the launch of Sorin's new full body MRI compatible pacemaker expected in the fourth quarter of 2015, and finally, softer than expected sales of defibrillators in Europe, resulting in part from the decision of customers to postpone purchases to take advantage of the Platinium new generation defibrillator product launch expected to occur in the fourth quarter of 2015. The launch of the next generation *Kora 250 Pacemaker* is expected to allow Sorin to start restoring its historical market share in Japan later this year. Sorin has historically performed strongly in the second half of the year as a consequence of a number of external drivers, such as hospitals and public administrators spending their residual budgets at the end of the calendar year, typically investing in capital equipment such as HLM. In the fourth quarter of 2015, the legacy Sorin business is expected to benefit from a favourable comparison in the Heart Valve product line as the sales of Perceval were capped by a severe production capacity limitation in the fourth quarter of 2014.

Notes

(1) Net profit before after-tax non-recurring income and expenses (special items).

The medical device industry is showing a positive trend in terms of volumes, due to the increase of procedures in emerging markets, especially in cardiac surgery, and to the aging of the population worldwide. However the industry is nonetheless also facing challenges such as the combination of pricing reductions, mainly in cardiac rhythm management, and an increased cost required to launch new products, which is putting operating margins under pressure. Overall, there is still a large set of unmet clinical needs that should create opportunities for Sorin's innovative product portfolio.

PART V
OPERATING AND FINANCIAL REVIEW OF CYBERONICS

The discussion of Cyberonics' financial condition and results of operations should be read in conjunction with the information appearing elsewhere in this Prospectus including the "Presentation of Information", and the audited consolidated historical financial information relating to Cyberonics for the 52 weeks ended 24 April 2015, 25 April 2014 and 26 April 2013 and the unaudited consolidated quarterly financial statements for Cyberonics for Cyberonics Q1 2016 and Cyberonics Q1 2015, which are included herein beginning on page 246 of this Prospectus. Unless otherwise indicated, the selected financial information in this Part V has been extracted without material adjustment from the historical consolidated financial information relating to Cyberonics, which is included herein beginning on page 246 of this Prospectus. This discussion involves forward-looking statements that reflect the current view of management and involve risks and uncertainties. Cyberonics' actual results could differ materially from those contained in any forward-looking statements as a result of factors discussed below and elsewhere in this Prospectus, particularly the risk factors discussed in the section entitled "Risk Factors" of this Prospectus.

1. OVERVIEW

Cyberonics is a medical device company, incorporated in 1987, engaged in the design, development, sale and marketing of medical devices for epilepsy, depression and heart failure. Cyberonics' seminal product, the VNS Therapy System, is an implantable device that provides neuromodulation therapy for the treatment of drug-resistant epilepsy and TRD. Cyberonics' latest product, the VITARIA™ System, approved in Europe but not the U.S., is an implantable device that provides a form of neuromodulation therapy for the treatment of CHF. Cyberonics commenced a limited market launch in Europe of the VITARIA System, with the first commercial implant in early June 2015. Cyberonics is also developing non-implantable device solutions for the management of epilepsy.

Cyberonics' VNS Therapy System and VITARIA System include the following:

- an implantable pulse generator to stimulate the vagus nerve;
- a lead that conducts current pulses from the pulse generator to the vagus nerve;
- a surgical instrument 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
- in the VNS Therapy System, magnets to suspend or induce stimulation manually.

The VNS Therapy System pulse generator and lead are surgically implanted, generally during an outpatient procedure. The battery contained in the generator has a finite life, which varies according to the model and the stimulation parameters used for each patient. At or near the end of the useful life of a battery, a patient may, with the advice of a physician, choose to implant a new generator, with or without replacing the original lead.

2. KEY FACTORS AFFECTING OPERATIONS AND FINANCIAL CONDITION

The following are a description of the principal factors which have affected Cyberonics' results of operations and financial condition for periods covered by the historical financial information on Cyberonics included in this Prospectus.

Regulatory

Cyberonics operates on an international basis in the highly regulated medical devices market. Cyberonics' products are subject to regulation by numerous government agencies, including the U.S. FDA and comparable agencies outside the United States. Cyberonics' ability to enter new markets or to offer new products in existing markets depends on Cyberonics' ability to comply with laws and regulations governing the development, testing, manufacturing, labelling, marketing and distribution of its devices. The process of obtaining regulatory clearances or approvals to market a medical device or modify an existing product can be costly and time-consuming.

Payment coverage

Cyberonics' financial performance is dependent on the existence and timing of any approvals, changes, or non-coverage determinations for reimbursement of its products by Third Party Payers. Major Third Party Payers for healthcare provider services in the U.S. and elsewhere continue to work to contain healthcare costs. In particular, Cyberonics' ability to successfully expand the commercialisation of the VNS Therapy System depends on it obtaining and maintaining favourable insurance coverage, coding and reimbursement for the device, the implant procedure and follow-up care. This coverage allows customers to invoice and be paid by Third Party Payers. Cyberonics currently has broad coverage, coding and reimbursement for the VNS Therapy System for the treatment of refractory epilepsy. Cyberonics estimates that the CMS pays for approximately 25 per cent. to 30 per cent. of the VNS Therapy System implants under Medicare and approximately 20 per cent. to 25 per cent. under Medicaid. CMS issues an annual update to the reimbursement amounts available to customers under Medicare. The Medicaid reimbursement rates, while based on the CMS rates, vary by state. Decreases in reimbursement rates or a change in reimbursement methodology by CMS could have an adverse impact on Cyberonics' business and operating results.

R&D activities

Cyberonics' product development efforts are directed toward improving the VNS Therapy System and the VITARIA System, improving their efficacy, and developing new products that provide additional features and functionality. Cyberonics is conducting ongoing product development activities to enhance the VNS Therapy System and the VITARIA System pulse generator, lead and programming software and to introduce new products. It supports a variety of studies for product development efforts and to build clinical evidence for the VNS Therapy System and the VITARIA System. Cyberonics is required to obtain appropriate U.S. and international regulatory approvals, and clinical studies may be a prerequisite to regulatory approvals for some products. The R&D efforts require significant funding to complete and may not be successful. Even if successful, additional clinical studies may be needed to achieve regulatory approval and to commercialise any or all new or improved products. Cyberonics' sponsored research, development and regulatory approval activities amounted to US$43.3 million, US$46.6 million and US$41.6 million in the fiscal years 2015, 2014 and 2013, respectively.

Following an internal review of R&D activities, Cyberonics is engaging in a re-design of certain aspects of its wireless Centro™ generator that resulted in the write-off of certain obsolete inventory items, production equipment and software that amounted to a loss of US$1.6 million, which was charged to R&D expense in the consolidated statement of income. Cyberonics also decided to abandon its pursuit of neurological signal feedback and processing technology, and as a result, it fully impaired certain intellectual property and wrote-off obsolete software for a loss of US$0.5 million, which was also charged to R&D expense.

Competition

The healthcare industry is characterised by extensive research efforts and rapid technological progress. As other forms of neurostimulation are investigated and developed for epilepsy, depression, or heart failure, they may emerge as competition for the VNS Therapy System. In addition, the development by others of new treatment methods with novel drugs or medical devices for epilepsy, depression, or heart failure, could render the VNS Therapy System non-competitive or obsolete. Advancements in surgical techniques could make surgery a more attractive therapy. Existing and future drug therapies are the primary competition for the VNS Therapy System in the near term for epilepsy and depression, and existing device therapies are the primary competition in heart failure. Any neurostimulation techniques could prove to be more effective, more accessible, more predictable, or more rapidly acting than the VNS Therapy System.

Cyberonics faces competition from small, emerging or large medical device or pharmaceutical companies that have the technology, experience and capital resources to develop alternative devices for the treatment of epilepsy and depression. These competitors or potential competitors could have substantially greater financial, manufacturing, marketing and technical resources than Cyberonics has, and as a result, may develop technologies, obtain patents and regulatory approvals for products that are more effective in treating epilepsy or depression than Cyberonics current or future products.

Patent litigation

There has been substantial litigation regarding patent and other intellectual property rights in the medical device industry. From time to time, Cyberonics may need to engage in litigation to enforce patents issued or licensed to

it, to protect trade secrets or know-how, to defend against claims of infringement of the rights of others or to determine the scope and validity of the proprietary rights of others. Litigation could be costly and could divert attention from other functions and responsibilities. Adverse determinations in litigation could subject Cyberonics to significant liabilities to third parties, could require it to seek licenses from third parties and could prevent it from manufacturing, selling or using the VNS Therapy System, any of which could severely harm the business.

In the 2014 fiscal year, Cyberonics settled a lawsuit relating to a 1988 patent license agreement with Dr. Jacob Zabara, resulting in a US$7.4 million charge, before a tax benefit of US$2.7 million.

Currency exchange rates

Cyberonics operates in a number of international markets and is exposed to the impact of foreign currency exchange rate movements, particularly with respect to the U.S. dollar versus the Euro. The effect on Cyberonics' earnings of its aggregate foreign currency exchange gains (losses) before tax for the fiscal years 2015, 2014 and 2013 were approximately US$441,000, US$(295,000) and US$(304,000), respectively. Cyberonics did not enter into any foreign exchange derivatives in these fiscal years.

Tax

Cyberonics is resident in the U.S. for U.S. tax purposes. Cyberonics' effective tax rate has depended on U.S. federal income tax, state and non-U.S. income taxes and permanent differences. Permanent differences relate to transactions that are reported for U.S. GAAP purposes, but are not reported for income tax purposes in accordance with the Internal Revenue Code. Cyberonics' effective tax rate for fiscal years 2015, 2014 and 2013 was 35.2 per cent., 31.3 per cent. and 38.4 per cent.

Cyberonics is subject to income tax examinations for its U.S. federal income taxes, non-U.S. income taxes and state and local income taxes for fiscal year 1992 and subsequent years, with certain exceptions. Tax authorities may disagree with certain positions it has taken and assesses additional taxes and as a result, it establishes reserves for uncertain tax positions, which require a significant degree of management judgement. Cyberonics regularly assesses the likely outcomes of its tax positions in order to determine the appropriateness of the reserves for uncertain tax positions. The total amount of unrecognised tax benefit, as of 24 April 2015, if recognised, would reduce the income tax expense by approximately US$5.8 million. Cyberonics is unable to estimate the amount of change in the unrecognised tax benefits over the next 12 months; however, it does not anticipate a significant change.

3. BASIS OF PREPARATION AND EXPLANATION OF KEY LINE ITEMS

3.1 Basis of preparation

The audited consolidated historical financial statements for Cyberonics for the 52 weeks ended 24 April 2015, 25 April 2014 and 26 April 2013 and the unaudited consolidated quarterly financial statements for Cyberonics for Cyberonics Q1 2016 and Cyberonics Q1 2015, which are included in this Prospectus starting on page 246, have been prepared in accordance with U.S. GAAP. Full details of the basis of preparation of the historical financial statements is included in note 1 to the financial statements.

3.2 Explanation of key line items

Net sales

Net sales is made up of net product sales and unit sales. Net product sales represent revenue from sales of generators, leads and other items related to Cyberonics' devices. Unit sales are based on the number of generators sold. Cyberonics splits net product sales and unit sales between the U.S. and International, with product shipped to destinations outside the U.S. being classified as "International".

Net sales has also included license revenue, consisting of the amortisation of deferred license revenue, which was fully amortised in the 2014 fiscal year.

Cost of sales

Cyberonics' cost of sales in the period under review consisted primarily of direct labour, allocated manufacturing overhead, the acquisition cost of raw materials and components and the medical device excise tax.

SG&A expenses

Cyberonics' SG&A expenses, which exclude transaction expenses incurred in connection with the Mergers, are comprised of sales, marketing, general and administrative activities.

R&D expenses

Cyberonics' R&D expenses consist of product and process development, product design efforts, clinical trial programmes and regulatory activities.

Other income (expense), net

This line item primarily results from Cyberonics' foreign currency transaction gains and losses. Cyberonics operates in a number of international markets and is exposed to the impact of foreign currency exchange rate movements, particularly with respect to the US dollar versus the Euro.

Income taxes

Cyberonics pays U.S. federal income tax, state income tax and foreign income tax. Cyberonics' effective tax rate is also driven by permanent differences, which relate to transactions that are reported for U.S. GAAP purposes but are not reported for income tax purposes in accordance with the Internal Revenue Code.

4. RESULTS OF OPERATIONS

4.1 Cyberonics Q1 2016 compared to Cyberonics Q1 2015

(a) Net Sales

The table below illustrates comparative net product revenue and unit sales by geographic area. Product shipped to destinations outside the U.S. is classified as "International" sales. Figures in the table below are shown in thousands, except unit sales and percentages.

	For the Thirteen Weeks Ended (US$)		
	24 July 2015	25 July 2014	% Change
	(Unaudited)		
Net product sales			
United States	$67,727	58,838	15.1%
International	13,284	13,166	0.9%
Total net product sales[1]	$81,011	72,004	12.5%
Unit Sales			
United States	2,664	2,500	6.6%
International	1,173	1,024	14.6%
Total unit sales[2]	3,837	3,524	8.9%

(1) Net product sales represent revenue from sales of generators, leads and other items related to Cyberonics' device.
(2) Unit sales are based on the number of generators sold.

U.S. net product sales for Cyberonics Q1 2016 increased by US$8.9 million, or 15.1 per cent., as compared to Cyberonics Q1 2015, due to an increased generator unit sales volume of 6.6 per cent. and an increased average selling price of 8.5 per cent. The unit sales growth rate of 6.6 per cent. increased as compared to the equivalent prior year period growth rate of 1.8 per cent., primarily due to the approval of Cyberonics' latest product, the AspireSR generator, in the U.S. market. The average selling price increased by 8.5 per cent. as compared to the equivalent prior year period growth rate of 2.6 per cent., primarily due to increased sales of the higher-priced AspireSR generator. Cyberonics launched the AspireSR generator in the U.S. in Cyberonics Q1 2016. The favourable selling-price increase was partially offset by an unfavourable effect from lower lead sales as a percentage of generator sales.

International net product sales for Cyberonics Q1 2016 increased by US$118,000, or 0.9 per cent., as compared to Cyberonics Q1 2015, due to an increased unit sales volume of 14.6 per cent., offset by a 13.6 per cent. decreased average selling price. The unit growth rate of 14.6 per cent. was consistent with the equivalent prior-year period growth rate of 13.9 per cent. Unit sales gains in both fiscal periods were primarily due to strong

growth in market areas serviced by distributors. The average quarterly selling price decreased by 13.6 per cent., as compared to the equivalent prior year period selling price growth rate of 5.3 per cent. The current fiscal period's decrease in average selling price was due primarily due to a 10.5 per cent. unfavourable foreign currency effect and the unfavourable effect of increased sales through lower-margin sales to distributors. On a constant currency basis, international revenues would have increased by 11.4 per cent.

(b) Cost of Sales and Expenses

The table below illustrates Cyberonics' cost of sales and major expenses as a percentage of net sales.

	For the Thirteen Weeks Ended		
	24 July 2015	25 July 2014	% Change
	(Unaudited)		
Cost of sales	11.6%	8.9%	2.7%
Selling, general and administrative	41.6%	45.9%	(4.3%)
R&D	12.4%	14.7%	(2.3%)
Merger Related Expenses	8.1%	—	8.1%

Cost of Sales

Cost of sales consists primarily of direct labour, allocated manufacturing overhead, the acquisition cost of raw materials and components and the medical device excise tax. Cyberonics' cost of sales as a percentage of net sales for Cyberonics Q1 2016 increased 2.7 per cent., as compared to the prior fiscal year's equivalent quarter. This increase was primarily due to the higher cost of the AspireSR generator, including higher patent license royalties, as well as the cost of the new programming tablet required by doctors for the AspireSR generator, which was launched in the U.S. during Cyberonics Q1 2016.

SG&A Expenses

SG&A expenses are comprised of sales, marketing, general and administrative activities. SG&A expenses as a percentage of net sales for Cyberonics Q1 2016 decreased 4.3 per cent., as compared to Cyberonics Q1 2015. This decrease was due to more efficient use of sales and marketing expenses, reduced stock-based compensation and a favourable impact from foreign currency translation gains.

R&D Expenses

Cyberonics incurred R&D expenses related to its product design and development efforts, clinical study programs and regulatory activities. R&D expenses as a percentage of sales for Cyberonics Q1 2016 decreased 2.3 per cent. to 12.4 per cent., as compared to Cyberonics Q1 2015. This decrease was primarily due to the completion or reduction of R&D work as a result of Cyberonics' ongoing review of projects and priorities.

Impairment of Investment

Cyberonics recorded an impairment of US$2.1 million during Cyberonics Q1 2016. Cyberonics partially impaired its investment in the convertible preferred stock of Cerbomed, a privately-held, European development-stage company developing a transcutaneous vagus nerve stimulation (t-VNS) device for several indications, including the treatment of drug-resistant epilepsy. Based on share prices from recent private equity offerings, Cyberonics estimate that Cerbomed's fair value was US$3.1 million, as compared to its original cost basis of US$5.1 million, and as a result Cyberonics recorded the impairment.

Other Income (Expense), Net

Other Expense of US$3,948 and Other Income of US$171,455 for Cyberonics Q1 2016 and Cyberonics Q1 2015, respectively, consisted primarily of foreign exchange gains and losses. Cyberonics operate in a number of international markets and is exposed to the risk of foreign currency exchange rate movements, particularly with respect to the U.S. dollar versus the Euro. Cyberonics does not currently hedge its foreign currency risks.

Income Taxes

Cyberonics' effective tax rates were 35.4 per cent. and 39.1 per cent. for Cyberonics Q1 2016 and Cyberonics Q1 2015, respectively. The effective tax rate, for Cyberonics Q1 2016, was primarily comprised of its federal income tax rate of 35 per cent., state and foreign income taxes, permanent differences and discrete items. During

Cyberonics Q1 2016, Cyberonics recorded a deferred tax asset for the Cerbomed impairment. The impairment, once realised for income tax purposes, would be a capital loss, which can only be offset by capital gains. Cyberonics recorded a valuation allowance against the deferred tax asset because Cyberonics is not anticipating generating capital gains to offset this loss. The valuation allowance increased Cyberonics' effective tax rate by approximately 4.0 per cent., which was offset by the favourable tax effect from its Costa Rica manufacturing facility of 2.5 per cent., and the 2.1 per cent. favourable effects of treating the financial statement impact of the expenses related to the Mergers and the Cerbomed impairment as discrete items. The effective tax rate for Cyberonics Q1 2015 was 39.1 per cent., primarily comprised of its federal income tax rate of 35 per cent., plus state and foreign income taxes, permanent differences and discrete items. Cyberonics recorded a 2.6 per cent. unfavourable discrete item related to a change in its international ownership structure.

4.2 Fiscal year ended 24 April 2015 compared to fiscal year ended 25 April 2014

(a) Net Sales

The table below illustrates comparative net product sales and unit sales by geographic area and license revenues. Product shipped to destinations outside the U.S. is classified as "International" sales. Figures in the table below are shown in thousands, except unit sales and percentages.

	52 Weeks Ended (US$)		
	24 April 2015	25 April 2014	% Change
Net product sales			
United States	$235,712	225,455	4.5%
International	55,846	55,091	1.4%
Total net product sales[1]	$291,558	280,546	3.9%
Unit Sales			
United States	9,850	9,714	1.4%
International	4,665	4,268	9.3%
Total unit sales[2]	14,515	13,982	3.8%
Licensing Revenue	$	1,468	(100.0%)

(1) Net product sales represent revenue from sales of generators, leads and other items related to Cyberonics' device.
(2) Unit sales are based on the number of generators sold.

U.S. net product sales for the 52 weeks ended April 24, 2015 increased US$10.3 million, or 4.5 per cent., as compared to the 52 weeks ended April 25, 2014, due to increased generator unit sales volume of 1.4 per cent. and an increased average selling price of 3.2 per cent. The decreased generator unit growth rate of 1.4 per cent. as compared to the prior year unit growth rate of 4.0 per cent. was primarily due to a lower adoption rate for new patients. The average selling price increased 3.2 per cent. this year as compared to the prior year's price growth rate of 3.9 per cent. This decrease in the growth rate was primarily due to the unfavourable effect of a decline in lead sales as a percent of generator sales. Cyberonics' generator replacement growth rate has increased as compared to the prior fiscal year and was slightly less than the expected mid-single digit growth rate.

International net product sales for the 52 weeks ended 24 April 2015 increased by US$0.8 million, or 1.4 per cent., as compared to the 52 weeks ended 25 April 2014, due to a generator unit sales volume increase of 9.3 per cent., offset by a 7.9 per cent. decreased average selling price. Generator unit sales increased in most of Cyberonics' international markets. The unit growth rate of 9.3 per cent. decreased as compared to the equivalent prior year period growth rate of 18.6 per cent., however, last year's growth rate included one customer order that accounted for a significant part of the prior year's volume growth. If the order is excluded from Cyberonics' prior year's sales, this year's unit growth rate would have been 15.4 per cent. The average selling price decreased by 7.9 per cent. due to a 5.5 per cent. unfavourable foreign currency effect, a 0.7 per cent. unfavourable effect due to a decline in lead sales as a percent of generator sales and the effect of an increase in sales through lower margin distributors, partially offset by a favourable impact from increasing sales of the higher priced AspireSR generator. On a constant currency basis, international revenues would have increased by 6.8 per cent., and if it also excluded the one order from prior year results, international revenues would have grown by 16.9 per cent. Overall sales, both domestic and international, on a constant currency basis and if it also excluded the one order from prior year results, would have grown by 6.8 per cent.

Cyberonics' license revenue has consisted of the amortisation of deferred license revenue. The deferred revenue consisted of a one-time up-front receipt of US$9.5 million in December 2007 for the licensing of certain of Cyberonics' patent and patent applications. During fiscal year 2014, all deferred revenue was fully amortised, and Cyberonics has not received any additional licensing revenue

(b) Cost of Sales and Expenses

The table below illustrates the cost of sales and major expenses as a percent of net sales:

	52 Weeks Ended		
	24 April 2015	25 April 2014	% Change
Cost of sales	9.4%	9.7%	(0.3%)
Selling, general and administrative	42.4%	42.8%	(0.4%)
Research and development	14.8%	16.5%	(1.7%)
Merger expenses	3.0%	0.0%	3.0%
Litigation settlement	0.0%	2.6%	(2.6%)

Cost of Sales

Cost of sales consisted primarily of direct labour, allocated manufacturing overhead, the acquisition cost of raw materials and components, and the medical device excise tax. Cyberonics' cost of sales as a percent of net sales for fiscal year 2015, at 9.4 per cent. was not materially different from the rate for fiscal year 2014 of 9.7 per cent.

SG&A expenses, excluding merger expenses

SG&A expenses, which exclude transaction expenses incurred in connection with the Mergers, are comprised of sales, marketing, general and administrative activities. SG&A expenses as a percent of net sales for the 52 weeks ended April 24, 2015, at 42.4 per cent., as compared to the prior year's rate of at 42.8 per cent., was materially unchanged.

R&D expenses

R&D expenses consist of product and process development, product design efforts, clinical trial programmes and regulatory activities. R&D expenses for the 52 weeks ended April 24, 2015 decreased, as a percent of net sales, by 1.7 per cent. to 14.8 per cent., as compared to the prior year, representing a decrease of US$3.3 million in expenditures. R&D spending decreased due to completion of work, adaption to longer developmental schedules or cancellation of work. Following an internal review of R&D activities, Cyberonics is engaging in a re-design of certain aspects of the wireless Centro™ generator that resulted in the write-off of certain obsolete inventory items, production equipment and software that amounted to a loss of US$1.6 million, which was charged to R&D expense in the consolidated statement of income. Cyberonics also decided to abandon the pursuit of neurological signal feedback and processing technology, and as a result, it fully impaired certain intellectual property and wrote-off obsolete software for a loss of US$0.5 million, also charged to R&D expense.

Merger Expenses

Cyberonics incurred US$8.7 million in fiscal year 2015 in expenses related to the Mergers. These expenses consisted of professional fees for legal services, accounting services, due diligence, a fairness opinion and the preparation of registration and regulatory filings in the U.S. and Europe. Cyberonics reported these expenses as a separate operating expense in the consolidated statement of income.

Litigation Settlement

Cyberonics settled a lawsuit relating to its 1988 patent license agreement with Dr. Jacob Zabara, resulting in a US$7.4 million charge, before a tax benefit of US$2.7 million, recorded as a separate item in its operating expenses in the consolidated statement of income in fiscal year 2014.

Other Income (Expense), Net

Other income (expense), net was US$0.5 million and (US$0.3) million during the fiscal years 2015 and 2014, respectively, which were primarily the result of Cyberonics' foreign currency transaction gains and losses.

(c) Income Taxes

Cyberonics' effective tax rate for the fiscal year 2015 was 35.2 per cent., primarily due to the U.S. federal income tax, state and foreign income taxes, and permanent differences. Permanent differences for fiscal year 2015 included: (i) the domestic production activities deduction of US$2.6 million, which resulted in a 2.9 per cent. reduction to the effective tax rate, (ii) US$3.2 million of federal and state R&D tax credits, which included the recognition this fiscal year of prior year unrecognised R&D tax credits, for a 3.6 per cent. reduction to the effective tax rate, and (iii) other permanent differences, such as non-deductible officer's compensation, subpart F income incurred by its European subsidiary, Cyberonics Europe, BVBA, adjustments related to a change in international structure and non-deductible meals and entertainment, which resulted in an increase in the effective tax rate of 2.5 per cent.

Cyberonics' effective tax rate for the fiscal year 2014 was 31.3 per cent., primarily due to the U.S. federal income, state and foreign income taxes, the release of the Cyberonics Europe BVBA valuation allowance on its NOL and other permanent differences.

Cyberonics has not provided for U.S. income taxes for the undistributed earnings of foreign subsidiaries. These earnings, while not material to the consolidated statements of income, are intended to be permanently reinvested outside the United States.

4.3 Fiscal year ended 25 April 2014 compared to fiscal year ended 26 April 2013

(a) Net sales

The table below illustrates comparative net product sales and unit sales by geographic area and Cyberonics' license revenues. Product shipped to destinations outside the U.S. is classified as "International" sales. Figures in the table below are shown in thousands, except unit sales and percentages.

	52 Weeks Ended (US$)		
	25 April 2014	26 April 2013	% Change
U.S.	$225,455	$208,859	$ 7.9%
International	55,091	43,967	25.3%
Total net product sales[1]	$280,546	$252,826	$11.0%
Unit Sales			
U.S.	9,714	9,340	4.0%
International	4,268	3,598	18.6%
Total unit sales[2]	13,982	12,938	8.1%
Licensing Revenue	$ 1,468	$ 1,494	$ (1.7%)

(1) Net product sales represent revenue from sales of generators, leads and other items related to Cyberonics' device.
(2) Unit sales are based on the number of generators sold.

U.S. net product sales for the 52 weeks ended 25 April 2014 increased US$16.6 million, or 7.9 per cent., as compared to the 52 weeks ended 26 April 2013, due to increased unit sales of 4.0 per cent. and an increased average selling price of 3.9 per cent. The average selling price increased due to continued higher market penetration of Cyberonics' higher priced AspireHC generator and price increases effective 1 January 2013 and 1 January 2014. The unit sales increase in the U.S. was 4.0 per cent., which was less than the equivalent prior period growth rate of 10.5 per cent., due in part to certain circumstances occurring in the third quarter, which ended 24 January 2014. These circumstances included a combination of holidays that fell in the middle of the week, inclement weather that disrupted hospital and patient schedules and the disruptive effects of health insurance coverage changes. The approval by the U.S. FDA of a competitive implantable neuromodulation device for the treatment of epilepsy in November 2013 may have contributed to the decrease in the growth rate. Cyberonics' generator replacement growth rates have declined as compared to the prior fiscal year and were slightly less than its expected mid-single digit growth rate.

International net product sales for the 52 weeks ended 25 April 2014 increased by US$11.1 million, or 25.3 per cent., as compared to the 52 weeks ended 26 April 2013, due to increased unit sales of 18.6 per cent. and an increased average selling price of 6.7 per cent. Unit sales increased in the majority of Cyberonics' international markets and the average selling price increased due to the mix of sales by country; however, two related

shipments to one customer accounted for a significant part of its international growth. Without this one customer, Cyberonics' international unit growth was 12.3 per cent., and its average selling price increased 2.2 per cent. In addition, Cyberonics experienced a favourable foreign currency impact on international revenues of US$1.0 million due to the strengthening of the Euro against the U.S. dollar and British pound. On a constant currency basis, international revenues would have increased by 22.9 per cent., and if it also excluded the one order from the results, international revenues would have grown by 12.1 per cent. Overall sales, both domestic and international, on a constant currency basis and if it also excluded the one order from prior year results, would have grown by 8.7 per cent.

Cyberonics' licence revenue has consisted of the amortisation of deferred licence revenue. The deferred revenue consisted of a one-time up-front receipt of US$9.5 million in December 2007 for the licensing of certain of Cyberonics' patent and patent applications. During the fiscal year 2014, all deferred revenue was amortised.

(b) Cost of Sales and Expenses

The table below illustrates Cyberonics' cost of sales and major expenses as a percent of net sales:

	52 Weeks Ended		
	25 April 2014	**26 April 2013**	**% Change**
Cost of sales	9.7%	8.6%	1.1%
Selling, general and administrative	42.8%	44.2%	(1.4%)
Research and development	16.5%	16.3%	0.2%
Litigation settlement	2.6%	0.0%	2.6%

Cost of Sales

Cost of sales consisted primarily of direct labour, allocated manufacturing overhead, the acquisition cost of raw materials and components, and the medical device excise tax. Cyberonics' cost of sales as a percentage of net sales for fiscal year 2014 increased by 1.1 per cent. to 9.7 per cent. when compared to fiscal year 2013. This increase was primarily the result of the medical device excise tax on devices sold domestically, which added an incremental US$2.3 million, or 0.8 per cent., to the cost of sales. This excise tax was applied to medical devices sold domestically by Cyberonics with effect from 1 January 2013.

SG&A Expenses

SG&A expenses consisted of sales, marketing, general and administrative costs. SG&A expenses decreased by 1.4 per cent. to 42.8 per cent. as a percentage of net sales when comparing fiscal year 2014 to fiscal year 2013. These decreases were primarily due to more efficient use of Cyberonics' sales and marketing expenditures and a reduction in stock-based compensation expense.

R&D Expenses

R&D expenses consist of product and process development, product design efforts, clinical trial programmes and regulatory activities. R&D expenses for fiscal year 2014 increased, as a percentage of net sales, by 0.2 per cent. to 16.5 per cent., as compared to fiscal year 2013, representing an increase of US$5.0 million in expenditures. These increases were due to Cyberonics' on-going product development efforts for the treatment of refractory epilepsy, its clinical development efforts with respect to the VITARIA System for the treatment of CHF.

Litigation Settlement

Cyberonics settled a lawsuit relating to its 1988 patent license agreement with Dr. Jacob Zabara, resulting in a US$7.4 million charge, before a tax benefit of US$2.7 million, recorded as a separate item in its operating expenses in the consolidated statement of income during the fiscal year 2014.

Impairment of Investment - Convertible Debt

During the fiscal year 2013, Cyberonics determined that the fair value of its investment in a convertible debt instrument of NeuroVista Corporation, a privately-held, development-stage medical device company, was below the carrying value and, as a result, it recorded an other-than-temporary impairment loss of US$4.1 million, which was recorded as a non-operating expense in the consolidated statement of income. Further, during the fiscal year

2013, NeuroVista advised Cyberonics that an event of default had occurred under the terms of the convertible debt security, and as a result it settled the debt instrument in a foreclosure sale and took possession of the company's tangible and intangible assets. Cyberonics estimated the fair value of the assets obtained in foreclosure at US$1.45 million, which resulted in no gain or loss on the foreclosure settlement of the debt instrument.

Gain on Warrants' Liability

In September 2005, in conjunction with the issuance of US$125 million of senior subordinated convertible notes, all of which were retired by September 2012, Cyberonics sold warrants for US$25.2 million to Merrill Lynch International. The warrants were recorded as common stock warrants in the equity section of the consolidated balance sheets. The warrants entitled the holder to receive the net value for the purchase of 3,012,050 shares of Cyberonics common stock for the amount in excess of US$50.00 per share. The warrant agreement was amended during the fiscal year 2013, and as a result, a portion of the common stock warrants were reclassed to a liability and were settled in fiscal year 2013, for a gain of US$1.3 million.

Other Expense, Net

Other expense, net was US$0.3 million and US$0.3 million during fiscal years 2014 and 2013, respectively, which was primarily the result of Cyberonics' foreign currency transaction gains and losses.

(c) Income Taxes

Cyberonics' effective tax rate for the fiscal year 2014 was 31.3 per cent., primarily due to U.S. federal income tax, plus state and foreign income taxes, the release of the Cyberonics BVBA valuation allowance on its NOL and other permanent differences. At 25 April 2014, Cyberonics had a valuation allowance of US$1.9 million against a capital loss carryforward, excess tax benefits from stock-based award exercises and vesting for state tax purposes and pre-operating expenses in Costa Rica.

The 7.1 per cent. reduction in the tax rate as compared to fiscal 2013 was primarily due to a higher than expected U.S. R&D tax credit, the Texas R&D tax credit, which was enacted during fiscal year 2014 and applied to Cyberonics' tax year ended 26 April 2013, and the release of the valuation allowance on the Cyberonics Europe BVBA NOLs.

During fiscal year 2014, Cyberonics released a valuation allowance of US$1.7 million, which related to the utilisation of foreign NOLs associated with the fiscal year 2014 profitable foreign operations. During the fiscal year 2014, the Belgium tax authority concluded an audit of Cyberonics' European subsidiary, Cyberonics Europe BVBA, with respect to transfer pricing for fiscal years 2011 and 2010, and as a result Cyberonics agreed to forfeit approximately US$18.9 million in Cyberonics Europe BVBA's NOL carryforwards, and reduced its deferred tax assets by approximately US$6.4 million and released an equal amount of valuation allowance. Cyberonics periodically reviewed the activity of Cyberonics Europe BVBA in order to determine if the balance of the NOL is more likely than not recoverable. After considering all the available evidence, Cyberonics' management concluded in the quarter ended 25 April 2014, that the NOL was more likely than not recoverable, and as a result Cyberonics released the valuation allowance. The release of the valuation allowance reduced Cyberonics' tax provision for the fiscal year 2014 by US$3.5 million, which reduced its effective tax rate by 4.4 per cent.

During fiscal year 2014, Cyberonics filed its fiscal year 2013 U.S. federal tax return, generated an R&D tax credit greater than its original estimate, and as a result, recorded a reduction to the effective tax rate of 1.0 per cent. In addition, during fiscal year 2014, Cyberonics reduced its effective tax rate by 1.3 per cent. due to the Texas R&D tax credit that was enacted and applied to the fiscal tax years 2014 and 2013.

Cyberonics has not provided for U.S. income taxes for the undistributed earnings of its foreign subsidiaries. These earnings, while not material to its consolidated statements of income, are intended to be permanently reinvested outside the United States.

5. LIQUIDITY AND CAPITAL RESOURCES

5.1 Overview

Cyberonics' current primary sources of liquidity are cash flows from operations.

Cyberonics monitors cash flow closely through its finance function. A cash report is prepared on a weekly basis and is provided to certain members of the finance team. In addition, cash flow measures are prepared as part of Cyberonics' overall budgeting processes and performance is monitored.

Cyberonics does not have any outstanding credit facilities or debt securities and has not entered into any hedging transactions during the period under review.

In fiscal years 2015, 2014 and 2013, Cyberonics repurchased shares of Cyberonics Common Stock pursuant to share repurchase plans approved by Cyberonics' board of directors.

5.2 Cash flow analysis

(a) Cyberonics Q1 2016 compared to Cyberonics Q1 2015

Net cash provided by (used in) operating, investing and financing activities for Cyberonics Q1 2016 and Cyberonics Q1 2015 was as follows (in thousands):

	For the Thirteen Weeks Ended (US$)		
	24 July 2015	25 July 2014	Change
	(Unaudited)		
Operating activities	$18,738	$ 18,098	$ 640
Investing activities	18,354	(1,809)	20,163
Financing activities	1,039	(11,794)	12,833
Effect of exchange rate changes on cash and cash equivalents	41	(115)	156
Net increase	$38,172	$ 4,380	$33,792

(b) Fiscal year 2015 compared to fiscal year 2014

In fiscal years 2015 and 2014 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):

	52 Weeks Ended (US$)	
	24 April 2015	25 April 2014
Operating activities	$ 79,675	$ 54,196
Investing activities	(9,765)	(34,412)
Financing activities	(48,256)	(37,267)
Effect of exchange rate changes on cash and cash equivalents	(766)	74
Net increase (decrease)	$ 20,888	$(17,409)

(c) Fiscal year 2014 compared to fiscal year 2013

In fiscal years 2014 and 2013, 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):

	52 Weeks Ended (US$)	
	25 April 2014	26 April 2013
Operating activities	$ 54,196	$ 79,054
Investing activities	(34,412)	(35,993)
Financing activities	(37,267)	(18,850)
Effect of exchange rate changes on cash and cash equivalents	74	(157)
Net increase (decrease)	$(17,409)	$ 24,054

(d) Operating activities

Cyberonics Q1 2016 compared to Cyberonics Q1 2015

Cash provided by operating activities increased by US$0.6 million to US$18.7 million during Cyberonics Q1 2016 as compared to Cyberonics Q1 2015. The comparative change was primarily due to deferred taxes, the impairment of Cyberonics' investment in Cerbomed, trade accounts receivables, and accounts payable and accrued liabilities. Trade accounts receivable increased during Cyberonics Q1 2016 by US$4.5 million, primarily due to increased sales; in the prior fiscal period, trade accounts receivables fell by US$2.1 million primarily due to significant remittances from a single international customer. Total current and non-current liabilities increased during Cyberonics Q1 2016 by US$5.4 million, due primarily to the financial, legal and professional fees related to the Mergers, as compared to a decrease in accounts payable and accrued expenses during Cyberonics Q1 2015, by US$5.0 million, primarily due to the settlement of prior year-end incentive compensation accruals.

Fiscal year 2015 compared to fiscal year 2014

Cash provided by operating activities during fiscal year 2015 increased as compared to fiscal year 2014 by US$25.5 million, to US$79.7 million, primarily due to a US$3.0 million increase in net income, an increase in non-cash operating expenses of US$17.9 million, and a decrease in cash outflow from operating assets and liabilities of US$4.6 million. The increase in non-cash expenses in fiscal year 2015 as compared to the prior year was due primarily to the increase in the utilisation of deferred tax assets of US$14.6 million. The utilisation of deferred tax assets related to (i) the usage of tax credits and net operating losses in Europe, (ii) an adjustment to deferred tax assets related to filing tax accounting method changes, and (iii) an adjustment related to changes in the ownership structure in Europe. The decrease in cash outflow from operating assets and liabilities was primarily the result of improved cash flow from accounts receivable and operating liabilities offset by inventory build-up. Accounts receivables improved cash flows by US$8.0 million, due to the collection this year of US$3.8 million from a single international customer plus the effect of slower sales growth in the final quarter of fiscal year 2015 as compared to fiscal year 2014. Payables and accrued liabilities added US$5.5 million to operating cash flow due to increased balances in these accounts as compared to fiscal year 2014. Accruals for accounting and legal fees increased due to the Mergers, the effect of which was partially offset by a reduction to the bonus compensation accruals at year end as compared to the prior year end. This cash flow improvement from operating assets and liabilities was partially offset by increased inventory purchases of US$7.4 million, as compared to the equivalent prior-year period, which was primarily due to increased purchases to ensure an adequate supply of new programming tablets and increased inventory levels at Cyberonics' new Costa Rica manufacturing plant.

Fiscal year 2014 compared to fiscal year 2013

Cash provided by operating activities during fiscal year 2014 decreased as compared to fiscal year 2013 by US$24.9 million to US$54.2 million, primarily due to a decrease in non-cash operating expenses of US$29.9 million, an increase in operating cash assets of US$1.0 million and a decrease in operating cash liabilities of US$4.5 million, offset by increased net income of US$8.5 million. Non-cash operating expenses decreased in fiscal year 2014 primarily due to the decrease in the utilisation of deferred tax benefit from NOLs of US$27.6 million. The cash flow decrease from operating assets was primarily due to prepayment of fiscal year 2015 federal income tax in fiscal year 2014. The cash flow decrease from operating liabilities was primarily due to lower incentive compensation accruals for fiscal year 2014 as compared to fiscal year 2013.

(e) Investing activities

Cyberonics Q1 2016 compared to Cyberonics Q1 2015

Cash received from investing activities increased by US$20.2 million to US$18.4 million during Cyberonics Q1 2016, as compared to Cyberonics Q1 2015, primarily due to the transfer of Cyberonics' US$20.0 million certificate of deposit to cash equivalents from short-term investments, which resulted from a change in the maturity period to three months from six months. In addition, Cyberonics purchased property, plant and equipment of US$1.7 million and US$1.8 million during Cyberonics Q1 2016 and Cyberonics Q1 2015, respectively, primarily for manufacturing equipment and infrastructure improvements.

Fiscal year 2015 compared to fiscal year 2014

Cash used in investing activities decreased by US$24.6 million to US$9.8 million during fiscal year 2015 as compared to fiscal year 2014. For the comparative periods, Cyberonics' funding of short-term investments fell by

US$8.0 million due to having nearly reached its preferred level of investment in short-term securities last fiscal year. During fiscal year 2015, it moved an additional US$1.9 million to commercial paper from cash. The short-term securities mature six months from purchase date. The property, plant and equipment investments fell by US$8.5 million for comparable periods primarily due to completion of the new Costa Rica manufacturing facility, a decrease in headquarters building improvements and a decrease in software systems infrastructure spending. Fiscal year 2015 investments in intangible assets and cost-method equity investments fell by US$8.0 million, as the only expenditure in fiscal 2015 was the purchase of an additional tranche of convertible preferred stock in Cerbomed, a European company developing a transcutaneous VNS device for the treatment of epilepsy, for €1.0 million, or approximately US$1.2 million.

Fiscal year 2014 compared to fiscal year 2013

Cash used in investing activities was US$34.4 million in fiscal year 2014 compared to US$36.0 million for fiscal year 2013. The plant, property and equipment investments increased by US$5.5 million, to US$15.2 million due to increased investments in the headquarters building, in software systems infrastructure and in the Costa Rica manufacturing facility. These increases were partially offset by a decrease in expenditures for short-term investments in certificates of deposit of US$5.0 million. Cyberonics purchased US$3.8 million in intangible assets during fiscal 2014 and US$4.6 million in fiscal year 2013 primarily related to patents focused on sleep apnea treatment, the integration of magnetic resonance imaging compatibility for the leads and the development of the cardiac-based seizure detection capabilities. In fiscal 2014, Cyberonics invested €1.0 million, or US$1.4 million, in preferred stock of Cerbomed and US$4.0 million in ImThera Medical, Inc. ImThera Medical, Inc. is developing an implantable neurostimulation device system for the treatment of obstructive sleep apnea.

(f) Financing activities

Cyberonics Q1 2016 compared to Cyberonics Q1 2015

Cyberonics' financing activity netted cash receipts of US$1.0 million for Cyberonics Q1 2016, as compared to cash used of US$11.8 million during Cyberonics Q1 2015, primarily because Cyberonics' treasury stock purchases decreased by US$11.6 million. Cyberonics' board of directors authorises purchases of its common stock on the open market, and the volume and timing of such purchases depend on the market conditions and other factors. The most recent plan approved by the board of directors, in November 2014, was the authorisation to repurchase 1.0 million shares, however, in February 2015, Cyberonics' treasury stock purchase plan under Rule 10b5-1 of the U.S. Exchange Act terminated, and Cyberonics stopped repurchasing shares of its stock.

Fiscal year 2015 compared to fiscal year 2014

Cash used in financing activities during fiscal year 2015 increased as compared to fiscal year 2014 by US$11.0 million to US$48.3 million. This increase in overall financing cash outflow was primarily due to decreased cash inflows of (i) US$21.9 million primarily related to excess tax benefits from the utilisation of equity-based net operating loss carry-forwards, and (ii) US$6.6 million in proceeds from the exercise of options for common stock. Excess tax benefits are derived from activity in the equity compensation plan and are considered a financing cash source. These effects were partially offset by the decreased cash outflow of US$17.3 million for the purchase of treasury stock. The board of directors of Cyberonics authorises purchases of its common stock on the open market, and the volume and timing of such purchases depend on the market conditions and other factors. On 18 November 2014, the Cyberonics board authorised the repurchase of one million shares; however, on 27 February 2015, Cyberonics' treasury stock purchase plan under Rule 10b5-1 of the U.S. Exchange Act, entered into under the authority of the board of directors of Cyberonics, terminated, and Cyberonics stopped repurchasing shares of its stock.

Fiscal year 2014 compared to fiscal year 2013

Cash used in financing activities during fiscal year 2014 increased by US$18.4 million as compared to fiscal year 2013. This increase was primarily due to increased treasury stock purchases of US$39.3 million, partially offset by increased financing cash inflow from equity-based tax benefits of US$22.3 million.

During fiscal year 2014, Cyberonics repurchased shares at a cost of US$69.5 million pursuant to the repurchase plans of the board of directors and repurchased shares from its employees related to payroll tax withholding at a cost of US$2.9 million.

6. CONTRACTUAL OBLIGATIONS

A summary of Cyberonics' contractual obligations as of 24 April 2015 are as follows (figures stated in US$):

Contractual obligations:	Less than one year	One to three years	Three to five years	Over five years	Total Contractual Obligations
Operating leases[1]	US$1,133,282	US$1,355,772	US$ 538,538	US$ 391,438	US$ 3,419,030
Inventory purchases[2]	7,129,865	—	—	—	7,129,865
Investments[3]	—	1,000,000	—	—	1,000,000
Other[4]	1,168,852	1,320,388	1,610,388	1,010,945	5,110,573
Total[5]	US$9,431,999	US$3,676,160	US$2,148,926	US$1,402,383	US$16,659,468

(1) Reflects operating lease obligations related to facilities, office equipment and automobiles.
(2) Reflects inventory purchase commitments. These purchase commitments do not exceed the projected manufacturing requirements and are in the normal course of business.
(3) Reflects a contractually optional but expected future payment for patent and patent rights related to the project to integrate magnetic resonance imaging compatibility with Cyberonics' leads.
(4) Reflects expected future payments in connection with: (i) long-term service and consulting agreements, and (ii) minimum royalty fees.
(5) The table above does not reflect the unrecognised tax benefits of US$5.8 million due to Cyberonics' inability to make a reasonably reliable estimate of the timing of any income tax payments.

7. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

7.1 Overview

Cyberonics is exposed to certain market risks as part of its ongoing business operations, including risks from foreign currency exchange rates, concentration of credit and concentration of procurement suppliers that could adversely affect its consolidated balance sheet, net income and cash flow. It manages these risks through regular operating and financing activities and, at certain times, derivative financial instruments.

7.2 Foreign currency exchange rate risk

Due to the global reach of its business, Cyberonics is also exposed to market risk from the impact of foreign currency exchange rate movements on earnings, particularly with respect to the US dollar versus the Euro and British Pound. Cyberonics chooses not to offset its foreign currency exchange exposures for a variety of reasons, including but not limited to immateriality, accounting considerations and the prohibitive economic cost of offsetting particular exposures. Based on the exposure to foreign currency exchange rate risk, and not taking into consideration foreign currency derivative offsets, a sensitivity analysis indicates that if the US dollar had uniformly weakened 10 per cent. against the Euro and the British Pound, the effect on net income after tax for the fiscal year ended 24 April 2015 would have been favourable by approximately US$853,000 or 1.5 per cent. Conversely, if the US dollar had uniformly strengthened 10 per cent. against the Euro and the British Pound, the impact on net income after tax for the fiscal year ended 24 April 2015 would have been unfavourable by approximately US$577,000 or 1.0 per cent.

7.3 Concentration of credit risk

Cyberonics' trade accounts receivable represent potential concentrations of credit risk. This risk is limited due to the large number of customers and their dispersion across a number of geographic areas and Cyberonics' efforts to control its exposure to credit risk by monitoring the receivables and the use of credit approvals and credit limits. In addition, historically, Cyberonics has had strong collections and minimal write-offs. While it believes that its reserves for credit losses are adequate, essentially all of its trade receivables are concentrated in the hospital and healthcare sectors in the U.S. and several other countries, and accordingly, it is exposed to their respective business, economic and country-specific variables. Although it does not currently foresee a concentrated credit risk associated with these receivables, repayment is dependent on the financial stability of these industry sectors and the respective countries' national economies and healthcare systems.

8. CRITICAL ACCOUNTING POLICIES AND ESTIMATES

8.1 Overview

Cyberonics has adopted various accounting policies to prepare its consolidated financial statements in accordance with U.S. GAAP.

To prepare Cyberonics' consolidated financial statements in conformity with U.S. GAAP, management makes estimates and assumptions that may affect the reported amounts of the assets and liabilities, the disclosure of contingent liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates. Cyberonics considers estimates to be critical if it is required to make assumptions about material matters that are uncertain at the time of estimation, or if materially different estimates could have been made or it is reasonably likely that the accounting estimate will change from period to period. The following are areas requiring management's judgement that Cyberonics considers critical:

8.2 Intangible Assets

Intangible assets shown on the consolidated balance sheet are finite-lived assets. "Developed Technology Rights" consists primarily of purchased patents, related know-how and licensed patent rights. "Other Intangible Assets" consist of purchased clinical data. Cyberonics amortises its intangible assets over their useful lives, generally the life of the patents, using the straight-line method. The carrying value of intangible assets amounted to US$10.2 million at 24 April 2015, with an average amortisation period of 15 years. The determination of useful lives and impairment is subject to a high degree of estimation and management judgement. Cyberonics evaluates intangible assets each reporting period to determine whether events and circumstances indicate either a different amortisation period or impairment. Impairment indicators include a determination that a patent or technology lacks future utility. In fiscal year 2015, Cyberonics recorded an impairment loss for intangible assets of US$0.5 million.

8.3 Investments in Equity Securities

Cyberonics invested in the convertible preferred shares of two privately-held start-up entities. The investments are accounted for under the cost-method and have a total carrying value of US$17.1 million as of 24 April 2015. The carrying value of these entities is reviewed each reporting period for events or changes in circumstances that indicate an impairment of investment. Impairment indicators include failed clinical studies, adverse regulatory actions, changes in the investees' competitive position and difficulty in raising funds. If an impairment indicator is identified, the measurement of any potential impairment is subject to a high degree of management judgment, as these investments do not have quoted market prices. Cyberonics has not recorded any impairment of these investments.

8.4 Stock-Based Compensation

Stock Option Awards

Cyberonics' stock option award compensation expense is based on the fair market value of awards. The fair market value of an award is amortised ratably over the award vesting period. Cyberonics uses the Black-Scholes option pricing methodology to estimate the grant date fair market value of stock option awards. This methodology takes into account variables such as the future expected volatility of the stock price, the amount of time expected to elapse between the date of grant and the date of exercise and a risk-free interest rate. Fair values of stock options issued in the future may vary significantly from fair values recorded in the current period depending on its estimates and judgements regarding these variables and therefore expense in future periods may differ significantly from current-period expense.

Restricted Stock and Restricted Stock Unit Awards

Service-Based Restricted Stock

Cyberonics grants restricted stock and restricted stock units at no purchase cost to the grantee. The fair market values of serviced-based restricted stock and restricted stock units are determined using the market closing price on the grant date and compensation is expensed ratably over the vesting period. Calculation of compensation for service-based restricted share awards requires estimation of, and depends upon, forfeiture rates. Compensation expense may vary significantly from estimates if employee turnover rates differ from expectations.

Market and Performance-Based Restricted Stock and Performance-Based Restricted Stock Units

Cyberonics grants restricted stock and restricted stock unit awards subject to market or performance conditions that vest based on the satisfaction of the conditions of the award. The fair market values of market condition-based awards are determined using the Monte Carlo simulation method. The Monte Carlo simulation method is

subject to variability as several factors utilised must be estimated, including the derived service period estimate based on Cyberonics' judgement of likely future performance and its stock price volatility. The fair value of performance-based awards is based on the market closing price on the grant date. The amount of compensation expense recognised depends on management's estimates of likely future performance. If performance differs from Cyberonics' management's estimates, compensation expense could be significantly different from Cyberonics' management's current expectations.

8.5 Income Taxes

Cyberonics is subject to federal, state and foreign income taxes, and it uses significant judgement and estimates in accounting for income taxes. This involves assessing changes in temporary differences resulting from differing treatment of events for tax and accounting purposes. These assessments result in deferred tax assets and liabilities, which are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Actual tax expense may significantly differ from Cyberonics' expectations if, for example, judicial interpretations of tax law, tax regulations or tax rates change.

Cyberonics is also subject to income tax examinations for U.S. federal income taxes, non-U.S. income taxes and state and local income taxes for fiscal year 1992 and subsequent years, with certain exceptions. Tax authorities may disagree with certain positions Cyberonics has taken and assess additional taxes and as a result, Cyberonics establishes reserves for uncertain tax positions, which require a significant degree of management judgement. It regularly assesses the likely outcomes of its tax positions in order to determine the appropriateness of the reserves for uncertain tax positions; however, the actual outcome of an audit can be significantly different than expectations, which could have a material impact on the tax provision. The total amount of unrecognised tax benefit, as of 24 April 2015, if recognised, would reduce income tax expense by approximately US$5.8 million.

Cyberonics is required to periodically assess the recoverability of deferred tax assets by considering whether it is more likely than not that some or all of the actual benefit of those assets will be realised. To the extent that realisation does not meet the "more-likely-than-not" criterion, Cyberonics establishes a valuation allowance. It periodically reviews the adequacy and necessity of the valuation allowance by considering significant positive and negative evidence relative to its ability to recover deferred tax assets and to determine the timing and amount of valuation allowance that should be released. Changes in the assessment of the factors related to the recoverability of the deferred tax assets could result in materially different income tax provisions. As of 24 April 2015, Cyberonics' valuation allowances of US$1.6 million that are primarily related to a capital loss carryforward and pre-operating expenses in Costa Rica. If the valuation allowances related to these two items were to be released, the tax provision would be reduced by US$1.5 million.

8.6 Property, Plant and Equipment

Property, plant and equipment is carried at cost, less accumulated depreciation. Maintenance, repairs and minor replacements are charged to expense as incurred, while significant renewals and improvements are capitalised. Cyberonics computes depreciation using the straight-line method over estimated useful lives. Leasehold improvements are depreciated over the life of the lease contract plus expected extensions. Capital improvements to the building are added as building components and depreciated over the useful life of the improvement or the building, whichever is less. Property, plant and equipment is reviewed for impairment annually.

8.7 Revenue Recognition

Product Revenue

Cyberonics sells its products through a direct sales force in the U.S., and primarily through a direct sales force in the international market. However, Cyberonics also uses independent distributors in some international markets. Cyberonics recognises revenue when persuasive evidence of a sales arrangement exists, title to the goods and risk of loss transfers to customers or to independent distributors, the selling price is fixed or determinable and collectability is reasonably assured. Cyberonics estimates expected sales returns based on historical data and record a reduction of sales with a return reserve. Cyberonics records state and local sales taxes net by excluding sales tax from revenues. Cyberonics' products consist of multiple components. These components typically include a pulse generator, a lead that connects the pulse generator to the vagus nerve, surgical instruments, the tunnelling tool, instruction manuals, an accessory pack used to test the function of the device prior to

implantation, and for some products, patient kits consisting of magnets to suspend or induce stimulation manually. Cyberonics also provides equipment, consisting of a hand-held computer and programming wand, to enable the treating physician to set the pulse generator stimulation parameters for the patient. The instruction manuals, patient kits and the programming equipment are generally provided free of charge. All components not provided free of charge have separate pricing and are ordered and sold separately to customers.

In some international markets, Cyberonics has established distribution agreements with independent distributors to better suit the needs of local customers, such as in Italy, the Balkans, countries in Eastern Europe, Canada, Mexico, Australia, parts of Central and South America, the Middle East, China, Japan, and other parts of Asia. The distribution agreements generally grant the distributor exclusive sales rights with requirements for regulatory compliance for the particular territory. Such contracts typically cover a 12 month period, although there are some contracts for longer periods. Terms and conditions may be different for sales to distributors, as compared to sales through the direct sales force, but such differences do not result in different revenue recognition practices.

License Revenue

Cyberonics records upfront payments received under license agreements as deferred revenue on the consolidated balance sheet and recognises license revenue over the period it is obliged to prosecute the licensed patent applications.

9. CURRENT TRADING AND PROSPECTS

As announced in the Cyberonics Q1 2016 results, Cyberonics delivered record worldwide net sales in the last fiscal quarter ended 24 July 2015 of US$81 million. In particular, Cyberonics' net sales in the U.S. reached a new record of US$67.7 million, which was an increase of 15 per cent. against the corresponding period in Cyberonics' fiscal year 2015. This increase was primarily driven by the strong demand for the AspireSR generator following receipt of the U.S. FDA's approval for the device in the U.S. market in June 2015. The AspireSR generator accounted for 38 per cent. of all units sold in the United States, and 27 per cent. of all international unit sales, in the fiscal quarter ended 24 July 2015.

With respect to third-party reimbursement in the U.S. market, the CMS annually updates and issues its reimbursement rates under the comprehensive ambulatory payment classification system. It is estimated that CMS pays for approximately 25 per cent. to 30 per cent. of the VNS Therapy System implants performed in the U.S. under Medicare and approximately 20 per cent. or more under Medicaid, although this varies by hospital. On 31 October 2014, CMS released the calendar year 2015 final comprehensive ambulatory payment classification rates. The VNS Therapy-related rates decreased, as compared to the calendar year 2014 final rates, by 5.3 per cent. for full systems and 0.8 per cent. for generator-only replacements. These rate decreases were due to a change in reimbursement methodology, whereby CMS reassigned neurostimulation-related procedures within a smaller number of comprehensive ambulatory payment classification categories. The calendar year 2014 rates increased over the calendar year 2013 rates by 7.7 per cent. for full systems and 5.1 per cent. for generator-only replacements. The calendar year 2013 reimbursement rates increased over the calendar year 2012 rates by 5.7 per cent. for full systems and 7.9 per cent. for generator-only replacements. Cyberonics believes reimbursement or payment rates from private insurers were largely unchanged over the past fiscal year.

With the launch of the VITARIA generator in Europe and the launch of the AspireSR generator in the U.S. market, Cyberonics has confidence that, on a constant currency basis, sales growth rates for the legacy Cyberonics business through the remainder of what would have been Cyberonics' 2016 fiscal year will be higher than in the recently completed fiscal year and more in line with Cyberonics' historical averages. Cyberonics expects the legacy Cyberonics business to face certain challenges which may impact consolidated gross margins resulting from shipping an increased volume of its new and more expensive programming tablet that it provides free to physicians and hospitals worldwide, a larger portion of its production to originate from its new Costa Rica manufacturing plant that is not expected to be operating at full capacity, and increased royalty fee expense due to the royalty fees for AspireSR sales. With respect to reimbursement rates, CMS has not yet released the calendar year 2016 final comprehensive ambulatory payment classification rates.

PART VI
CAPITALISATION AND INDEBTEDNESS

Capitalisation and Indebtedness of Sorin

The following tables set out the capitalisation and indebtedness of Sorin as at 31 August 2015:

	As at 31 August 2015[1]
	€ millions
Total current debt	
Guaranteed[2]	24.7
Secured[3]	0.4
Unguaranteed / unsecured	58.8
Total current debt	**83.9**
Total non-current debt (excluding current portion of the long term debt)	
Guaranteed[2]	110.6
Secured[3]	2.1
Unguaranteed / unsecured	3.9
Total current debt	**116.6**

Notes:

(1) This statement of indebtedness has been prepared under IFRS using policies which are consistent with those used in the preparing Sorin's unaudited consolidated financial statements for the eight months ended 31 August 2015.

(2) This item relates to loans guaranteed by sureties granted by and on behalf of certain Sorin group companies.

(3) This item relates to loans secured by mortgages.

	As at 31 August 2015[1]
	€ millions
Shareholders' equity	
Share capital	478.7
Share premium	7.7
Legal reserves	72.3
Other reserves[1][2]	(115.2)
Total capitalisation[3]	**443.5**

Notes:

(1) Other reserves includes currency translation reserve and inflation adjustment reserve pursuant to legal requirements.

(2) Other reserves and total capitalisation do not include the profit and loss account reserve.

(3) There has been no material change in Sorin's capitalisation since 31 August 2015.

Total indebtedness	**200.5**

The following table sets out the net consolidated financial indebtedness of Sorin as at 31 August 2015[1].

	As at 31 August 2015
	€ millions
Cash and cash equivalents	17.4
Total liquidity	**17.4**
Current financial receivables	**7.8**
Current bank borrowings	59.4
Current portion of non-current bank loans	19.6
Other current financial debt[3]	4.9
Current financial debt	**83.9**
Net current financial indebtedness	**58.7**
Non-current bank loans	113.8
Other non-current financial debt[4]	2.8
Non-current financial indebtedness	**116.6**
Net financial indebtedness	**175.3**

Notes:

(1) Sorin had no indirect or contingent indebtedness as at 31 August 2015 other than as disclosed in paragraph 5.6 of Part IV (*Operating and financial review of Sorin*).

(2) The indebtedness information has been prepared under IFRS using policies which are consistent with those used in the preparing Sorin's unaudited consolidated financial statements for the eight months ended 31 August 2015.

(3) Other current financial debt includes financial derivatives (foreign exchange contracts) and the advances on assigned trade receivables.

(4) Other non-current financial debt mainly relates to financial derivatives (interest rate swaps).

Capitalisation and indebtedness of Cyberonics

The table below sets out Cyberonics' capitalisation as at 24 July 2015.

The capitalisation information has been extracted without material adjustment from Cyberonics' financial statements included in the Appendix - "Cyberonics' Financial Statements" as at 24 July 2015.

	As at 24 July 2015
	US$ thousands
Shareholders' equity	
Share capital	321
Additional paid-in capital	451,618
Treasury stock	(245,765)
Total capitalisation as at 24 April 2015	**206,174**

Total capitalisation above does not include retained earnings and other comprehensive loss, which amounted to US$87,009,260 as of 24 July 2015.

The table below sets out Cyberonics' indebtedness as at 24 July 2015. This statement of indebtedness has been extracted without material adjustment from Cyberonics' financial statements included in the Appendix "*Cyberonics' Financial Statements*" as at 24 July 2015.

	As at 24 July 2015
	US$ thousands
Total current debt	
Guaranteed	—
Secured	—
Unguaranteed/unsecured	—
Total non-current debt (excluding current portion of long-term debt)	
Guaranteed	—
Secured	—
Unguaranteed/unsecured	—
Total	—

The table below sets out Cyberonics' net indebtedness as at 24 July 2015. This statement of indebtedness has been extracted without material adjustment from Cyberonics' financial statements included in the Appendix "*Cyberonics' Financial Statements*" as at 24 July 2015.

	As at 24 July 2015
	US$ thousands
Liquidity	
Cash	142,353
Cash equivalents	20,006
Trading securities	6,996
Total liquidity	**169,355**
Current debt	
Guaranteed	—
Secured	—
Unguaranteed/Unsecured	—
Non-current debt	
Guaranteed	—
Secured	—
Unguaranteed/Unsecured	—
Total debt	—
Net funds	**169,355**

Cyberonics is involved in litigation as described in paragraph 10.2 of Part XIII (*Additional Information*) of this Prospectus. No estimate can be given of the potential loss or damages in relation to these matters.

PART VII
HISTORICAL CONSOLIDATED FINANCIAL INFORMATION RELATING TO SORIN

The audited consolidated financial statements of Sorin included in the Sorin Group Annual Reports for the financial years ended 31 December 2014, 31 December 2013, and 31 December 2012, together with the audit reports thereon, are incorporated by reference into this document. The unaudited half year report for the six months ended 30 June 2015 is also incorporated by reference into this document.

The consolidated financial statements of Sorin as of and for the financial year ended 31 December 2014, the financial year ended 31 December 2013 and the financial year ended 31 December 2012 were prepared in accordance with IFRS, were audited and the audit report for each such financial year was unqualified. The consolidated financial statements of Sorin as of and for the six months ended 30 June 2015 were prepared in accordance with IFRS and were unaudited.

PART VIII
HISTORICAL CONSOLIDATED FINANCIAL INFORMATION RELATING TO CYBERONICS

The audited consolidated financial statements of Cyberonics for the 52 weeks ended 24 April 2015, 25 April 2014 and 26 April 2013, together with the independent audit reports in respect of those financial statements, are included herein starting on page 246. The financial information relating to Cyberonics in this Prospectus has been prepared in accordance with U.S. GAAP.

The unaudited consolidated quarterly financial statements of Cyberonics for Cyberonics Q1 2016 and Cyberonics Q1 2015 are also included herein starting on page 295.

PART IX
PRO FORMA FINANCIAL INFORMATION

SECTION A: UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE COMBINED GROUP

The unaudited pro forma statement of net assets at 24 July 2015, the unaudited pro forma income statement for the twelve months ended 24 April 2015, the unaudited interim pro forma income statement for the three months ended 24 July 2015 and the related notes thereto set out in Section A of this Part IX (together the "**Unaudited Pro Forma Financial Information**") have been prepared on the basis of the notes set out below to illustrate the effect of the Mergers on the statement of net assets and results of operations of LivaNova.

The Unaudited Pro Forma Financial Information has been prepared in accordance with Annex II of the PD Regulation and in a manner consistent with the accounting policies to be adopted by LivaNova in preparing its consolidated financial statements for the year ending 31 December 2015 (in millions of US dollars). It should be noted that the consolidated financial information of Cyberonics are prepared in accordance with U.S. GAAP and presented in millions of US dollars. Historical data of Cyberonics reflected in the Unaudited Pro Forma Financial Statements was therefore derived from the consolidated financial statements of Cyberonics prepared in accordance with U.S. GAAP and, where applicable, have been adjusted to the IFRS to be adopted by LivaNova, as further discussed in this Prospectus.

The Unaudited Pro Forma Financial Information does not constitute financial statements within the meaning of Section 434 of the Companies Act 2006. Shareholders should read the whole of this Prospectus and not rely solely on the summarised financial information contained in this Part IX. PricewaterhouseCoopers LLP's report on the Unaudited Pro Forma Financial Information is set out in Section B of this Part IX.

Introduction

The Unaudited Pro Forma Financial Information has been prepared in order to illustrate the effects of the Sorin Merger and the Cyberonics Merger. In particular, the Unaudited Pro Forma Financial Information has been prepared to illustrate the pro forma effects of the Mergers on the statement of net assets and results of operations of LivaNova. Based on the terms of the Mergers, Cyberonics and Sorin will converge under the common control of LivaNova, a newly incorporated company based in the United Kingdom, which will be listed both on NASDAQ and the LSE.

The Unaudited Pro Forma Financial Information is based on information and assumptions that Cyberonics and Sorin believe are reasonable, including assumptions regarding the terms of the Mergers. The Unaudited Pro Forma Financial Information, which has been produced for illustrative purposes only, by its nature addresses a hypothetical situation and, therefore, does not represent the LivaNova's actual financial position or results.

The unaudited pro forma statement of net assets at 24 July 2015 gives effect to the Mergers as if they had occurred on 24 July 2015. The unaudited pro forma income statements for the twelve months ended 24 April 2015 and the three months ended 24 July 2015 are presented as if the Mergers had taken place at the beginning of the relevant periods. In particular, as pro forma information is prepared to illustrate retrospectively the effects of transactions that will occur subsequently using generally accepted regulations and reasonable assumptions, there are limitations that are inherent to the nature of pro forma information. As such, had the Mergers taken place on the dates assumed above, the actual effects would not necessarily have been the same as those presented in the Unaudited Pro Forma Financial Information. Furthermore, in consideration of the different purpose of the pro forma information as compared to the historical financial statements and the different methods of calculation of the effects of the Mergers on the pro forma statement of net assets and the pro forma income statements, these statements should be read and interpreted without comparisons between them.

The Unaudited Pro Forma Financial Information does not attempt to predict or estimate the future results of LivaNova and should not be used for this purpose.

Lastly, please note that as LivaNova, the issuer, was incorporated on 20 February 2015 as a wholly-owned subsidiary of Sorin, LivaNova's financial data is included in the consolidated financial information of Sorin. LivaNova has prepared its first individual financial statements with reference to the period from 20 February 2015 (date of incorporation) to 31 March 2015 and has not conducted any business operations other than that which is incidental to its formation and in connection with the transactions contemplated by the Merger Agreement.

Unaudited Pro Forma Financial Information

This section presents the unaudited pro forma statement of net assets at 24 July 2015, the unaudited pro forma income statements for the three months ended 24 July 2015 and the 12 months ended 24 April 2015, and the related explanatory notes. Certain amounts included in this unaudited pro forma financial information have been rounded for ease of preparation. Accordingly, numerical figures shown as totals in certain tables may not be the exact arithmetic aggregations of the figures that precede them.

Unaudited pro forma consolidated statement of net assets at 24 July 2015

(In millions of U.S. Dollars)		*Pro forma Adjustments*				
	Historical Cyberonics Inc. Reclassified	Historical Sorin S.p.A	Cyberonics U.S. GAAP to IFRS Adjustments	Acquisition Accounting	Note Reference	Pro Forma Combined Group
	Note 1	**Note 2**	**Note 3**	**Note 4**		**Total**
Non-current assets						
Property, plant and equipment	40.7	153.4	(2.3)	40.6	3(a); 4(e)	232.4
Intangible assets	9.9	263.1	6.2	510.9	3(b); 4(d)	790.1
Goodwill	—	220.7	—	389.9	4(h)	610.6
Investments in associates valued by the equity method	15.1	62.7	—	—		77.8
Non-current financial assets	—	4.1	—	—		4.1
Deferred taxes assets	6.9	79.7	8.4	(50.9)	3(d); 4(g)	44.1
Other non-current assets	2.0	1.2	—	—		3.2
Total non-current assets	**74.6**	**784.9**	**12.3**	**890.6**		**1,762.4**
Current assets						
Inventories	24.7	166.1	—	35.9	4(f)	226.7
Trade receivables, net	55.0	227.6	—	—		282.6
Other receivables	6.7	19.2	—	—		25.9
Assets from financial derivatives	—	0.6	—	—		0.6
Other current financial assets	7.0	8.7	—	—		15.7
Tax credits	7.8	21.2	(7.8)	—	3(c)	21.2
Cash and cash equivalents	162.4	16.9	—	(28.2)	4(c)	151.1
Total current assets	**263.6**	**460.3**	**(7.8)**	**7.8**		**723.9**
Total assets	**338.2**	**1,245.2**	**4.5**	**898.3**		**2,486.3**
Non-current liabilities						
Liabilities from financial derivatives	—	2.9	—	—		2.9
Non-current financial liabilities	—	128.0	—	—		128.0
Other liabilities	1.3	2.9	—	—		4.2
Provisions	5.8	0.3	—	—		6.1
Provision for employee severance indemnities and other provisions for employee benefits	1.7	32.6	—	—		34.3
Government grants	—	2.5	—	—		2.5
Deferred tax liabilities	—	41.1	—	170.3	4(g)	211.4
Total non-current liabilities	**8.7**	**210.4**	**—**	**170.3**		**389.4**
Current liabilities						
Trade payables	5.8	125.1	—	—		130.9
Other payables	30.5	85.0	—	6.6	4(i)	122.1
Liabilities from financial derivatives	—	1.6	—	—		1.6
Other current financial liabilities	—	66.0	—	—		66.0
Provisions	—	7.8	—	—		7.8
Taxes payable	—	15.1	—	—		15.1
Total current liabilities	**36.3**	**300.6**	**—**	**6.6**		**343.5**
Total liabilities	**45.0**	**510.9**	**—**	**176.9**		**732.8**
NET ASSETS	**293.2**	**734.3**	**4.5**	**721.4**		**1,753.4**

Note 1 - Cyberonics' reclassified consolidated statement of net assets at 24 July 2015

Cyberonics' reclassified consolidated statement of net assets at 24 July 2015 is based on Cyberonics' consolidated net assets at 24 July 2015, extracted from the unaudited interim consolidated financial statements of Cyberonics for the thirteen weeks ended 24 July 2015, included in the Form 10-Q filed with the SEC by Cyberonics on 20 August 2015, prepared in accordance with U.S. GAAP and then adjusted in order to align it with the presentation criteria to be adopted by LivaNova. A reconciliation is presented below:

(In millions of U.S. Dollars)

Cyberonics' statement of net assets line items	Cyberonics statement of net assets line items at 24 July 2015(*)	LivaNova statement of net assets line items	Cyberonics statement of net assets at 24 July 2015 under LivaNova's statement of net assets presentation
		Non-current assets	
Property, plant and equipment, net	40.7	Property, plant and equipment	40.7
Intangible assets, net	9.9	Intangible assets	9.9
		Goodwill	—
Investments in equity securities	15.1	Investments in associates valued by the equity method	15.1
		Non-current financial assets	—
Deferred tax assets non-current, net	6.9	Deferred taxes assets	6.9
Other assets	2.0	Other non-current assets	2.0
	74.6	**Total non-current assets**	**74.6**
		Current assets	
Inventories	24.7	Inventories	24.7
Accounts receivable, net	55.0	Trade receivables, net	55.0
Other current assets	6.7	Other receivables	6.7
		Assets from financial derivatives	—
Short-term Investments	7.0	Other current financial assets	7.0
Deferred tax assets current, net	7.8	Tax credits	7.8
Cash and cash equivalents	162.4	Cash and cash equivalents	162.4
	263.6	**Total current assets**	**263.6**
		Total assets	**338.2**
		Non-current liabilities	
		Liabilities from financial derivatives	—
		Non-current financial liabilities	—
		Other liabilities	1.3
Long-term liabilities	8.7	Provisions	5.8
		Provision for employee severance indemnities and other provisions for employee benefits	1.7
			8.7
		Government grants	—
		Deferred-tax liabilities	—
	8.7	**Total non-current liabilities**	**8.7**
		Current liabilities	
Accounts payable	5.8	Trade payables	
Accrued liabilities	30.5	Other payables	5.8
		Liabilities from financial derivatives	30.5
		Other current financial liabilities	—
		Provisions	—
		Taxes payable	—
	36.3	**Total current liabilities**	**36.3**
		Total liabilities	**45.0**
Total Stockholders' Equity	**293.2**	**NET ASSETS**	**293.2**

(*) Cyberonics' statement of net assets line items are directly extracted from the Cyberonics' consolidated balance sheet as at 24 July 2015 as set out in Part VIII (Historical Consolidated Financial Information relating to Cyberonics). The order of the line items may be different to those in the Cyberonics statement of net assets to allow each line to be matched to the presentational format of LivaNova.

Note 2 - Sorin's consolidated statement of net assets at 30 June 2015

(In millions)	As at 30 June 2015 (€)	As at 30 June 2015 (US$)
	Note 2 (a)	**Note 2 (b)**
Non-current assets		
Property, plant and equipment	136.7	153.4
Intangible assets	234.6	263.1
Goodwill	196.8	220.7
Investments in associates valued by the equity method	55.9	62.7
Non-current financial assets	3.7	4.1
Deferred taxes assets	71.1	79.7
Other non-current assets	1.1	1.2
Total non-current assets	**699.9**	**784.9**
Current assets		
Inventories	148.1	166.1
Trade receivables, net	202.9	227.6
Other receivables	17.2	19.2
Assets from financial derivatives	0.5	0.6
Other current financial assets	7.8	8.7
Tax credits	18.9	21.2
Cash and cash equivalents	15.1	16.9
Total current assets	**410.4**	**460.3**
Total assets	**1,110.3**	**1,245.2**
Non-current liabilities		
Liabilities from financial derivatives	2.6	2.9
Non-current financial liabilities	114.1	128.0
Other liabilities	2.6	2.9
Provisions	0.3	0.3
Provision for employee severance indemnities and other provisions for employee benefits	29.1	32.6
Government grants	2.3	2.5
Deferred tax liabilities	36.6	41.1
Total non-current liabilities	**187.6**	**210.4**
Current liabilities		
Trade payables	111.5	125.1
Other payables	75.8	85.0
Liabilities from financial derivatives	1.4	1.6
Other current financial liabilities	58.9	66.0
Provisions	6.9	7.8
Taxes payable	13.5	15.1
Total current liabilities	**268.0**	**300.6**
Total liabilities	**455.6**	**510.9**
NET ASSETS	**654.7**	**734.3**

Note 2(a): This is the historical Sorin's consolidated statement of net assets at 30 June 2015, directly extracted from the unaudited condensed consolidated interim financial statements of Sorin for the six months ended 30 June 2015, prepared in accordance with IFRS and presented in Euros.

Note 2(b): Sorin's consolidated statement of net assets has been translated from Euro to US$ using the exchange rate at 31 August 2015, equal to € / US$ 1.1215.

Note 3 - Cyberonics U.S. GAAP vs IFRS Adjustments

Note 3(a): US$2.3 million of capitalised software development costs has been reclassified from "Property, plant and equipment" to "Intangible assets".

Note 3(b): Intangible assets have been increased by US$6.2 million as a result of:

- The US$2.3 million reclassified soft development costs as noted in 3(a) above; and
- Additional capitalised development costs of US$3.9 million which were historically, expensed by Cyberonics under U.S. GAAP. Under IFRS, development costs incurred in connection with a specific project are eligible for capitalisation only when an entity can demonstrate the following: that it possesses the technical capabilities needed to complete the intangible asset and make it available for use or sale, that it intends to complete the asset for the purpose of using it or selling it, that it has developed methods to enable the asset to generate future economic benefits; that it has the technical, financial and other resources needed to complete the development and that it is able to evaluate reliably the costs attributable to the asset during its development. Therefore, the pro forma adjustment, of US$3.9 million reflects the capitalisation of development costs net of accumulated amortisation, for which the criteria provided by IAS 38 are met, and an adjustment of US$1.5 million to recognise the related tax effect (as a reduction of "Deferred taxes assets").

Note 3(c): US$7.8 million of deferred income tax assets included in current "Tax credits" have been reclassified to "Deferred taxes assets", consistent with the requirements of IFRS.

Note 3(d): Deferred tax assets have been increased by US$8.4 million as a result of:

- the US$7.8 million reclassified tax credits as noted in 3(c) above; and
- US$2.1 million of deferred tax arising on share based payments as a result of the conversion to IFRS. Under U.S. GAAP, deferred tax assets for awards that will result in a deduction are calculated based on the cumulative costs recognised and trued up or down upon realisation of the tax benefit. If the tax benefit exceeds the deferred tax asset, the excess ("windfall benefit") is credited directly to shareholders equity. Any shortfall of the tax benefit below the deferred tax asset is charged to shareholders equity to the extent of prior windfall benefits, and to tax expense thereafter. Under IFRS, deferred tax assets are calculated based on the estimated tax deduction determined at each reporting date under applicable tax law (e.g., intrinsic value). If the tax deduction exceeds cumulative compensation cost, deferred tax based on the excess is credited to shareholders equity. If the tax deduction is less than or equal to cumulative compensation cost, deferred taxes are recorded in income. Therefore, the pro forma adjustment relates to the tax effect recognised on the share-based payment arrangements as a deferred tax asset (for an amount of US$2.1 million), with an offsetting entry to shareholders equity;
- less the US$1.5 million deferred tax on capitalisation of development costs as noted in 3(b) above.

It should be noted that a preliminary analysis of U.S. GAAP to IFRS differences and related accounting policies has been completed based on information available to date. However, following the completion of the Mergers, a final analysis will be undertaken. As a result of that analysis, LivaNova's management may identify differences that, when finalised, could have a material impact on this Unaudited Pro Forma Financial Information.

Note 4 - Acquisition Accounting (statement of net assets)

For accounting purposes, the Mergers are treated as the acquisition of Sorin by Cyberonics and is accounted for in accordance with IFRS 3 - "Business Combinations". In the pro forma consolidated statement of net assets, the consideration was allocated between the assets acquired and liabilities assumed of Sorin based on a preliminary estimate of their fair value made by the management of Cyberonics and Sorin. The difference between the amount paid and the fair value of the assets and liabilities of Sorin was recorded as goodwill. In this regard it is noted that Cyberonics has made a preliminary allocation of the consideration to the assets acquired and, therefore, the final allocation may differ significantly from the preliminary allocation. Furthermore, the final valuation could result in significant differences between the final results and those used for the preliminary estimate of fair values used in the Unaudited Pro Forma Financial Information.

In accordance with IFRS 3, paragraph 33, in a transaction in which the consideration transferred is represented by equity instruments of the buyer, the determined price of the acquisition is measured as the fair value of the interests of the acquired company. In this case, following the application of the accounting provisions above, the fair value of the equity interests of Sorin on the Valuation Date has been measured, since the transaction involves obtaining LivaNova Shares in exchange for Sorin Shares, without the recognition of additional fees. For the purposes of the Unaudited Pro Forma Financial Information, the date of the acquisition was assumed to be the

Valuation Date, which is the most recent available date for the preparation of the same. Lastly, the fair value of the acquisition will be subject to change until the completion of the Mergers, and therefore, could be significantly different from that determined on the Valuation Date.

Determination of the consideration for the purposes of the Unaudited Pro Forma Financial Information

Based on the above information, the consideration for the purposes of the Unaudited Pro Forma Financial Information, is determined as follows:

(In millions of U.S. Dollars)	**Amount**	**Note**
Determination of the purchase price:		
Fair value of the LivaNova shares transferred to the Sorin Shareholders	1,471.7	4(a)
Fair value of the LivaNova shares transferred to the holders of Sorin share awards	10.4	4(b)
Fair value of the LivaNova shares transferred to the holders of Sorin stock appreciation rights	2.4	4(b)
Total fair value of consideration transferred:	**1,484.5**	
Net assets acquired (net book value at 30 June 2015)	734.3	2(b)
(-)Transactions costs expected to be incurred by Sorin	(6.0)	4(c)
(-)Write-off of the pre-existing value of goodwill (net book value at 30 June 2015)	(220.7)	2(b)
(-)Write-off of the pre-existing value of intangible assets (net book value at 30 June 2015)	(263.1)	2(b)
Adjusted value of net assets acquired	**244.6**	
Fair value of identifiable intangible assets	774.0	4(d)
Fair value increase of tangible assets	40.6	4(e)
Fair value increase of inventories	35.9	4(f)
Tax effect of the above adjustments	(221.3)	4(g)
Preliminary goodwill	**610.6**	

(a) For the purposes of the preparation of the Unaudited Pro Forma Financial Information, the fair value of the shares transferred to the Sorin Shareholders, considering the market price of the shares of Cyberonics Common Stock on the Valuation Date (as defined below), is calculated as follows:

	Number of shares (thousands)	**Amount US$**
Total number of Sorin shares outstanding (at 31 August 2015)	477,189	
Sorin Merger Exchange Ratio(*)	0.0472	
Number of LivaNova shares to be issued (477.2 million shares x 0.0472 exchange ratio)	22,523	
Value of the Cyberonics shares at 31 August 2015		65.34
Fair value of the LivaNova shares transferred to the Sorin shareholders (22.5 million shares x US$65.34 per share)		**1,471,700,000**

(*) Based on the terms of the Merger Agreement, on the Sorin Merger Effective Date, each Sorin Shareholder will receive LivaNova Shares for each Sorin Share owned, on the basis of the Sorin Merger Exchange Ratio. On the Cyberonics Merger Effective Date, each Cyberonics Stockholder will receive one LivaNova Share for each share of Cyberonics Common Stock owned.

For the purposes of the Unaudited Pro Forma Financial Information, the total consideration to be received by the holders of Sorin Shares reflects the estimated fair value of the equity issuance, which is based on the closing price of Cyberonics Common Stock of US$65.34 per share on 31 August 2015 (hereinafter the "**Valuation Date**"). Sorin Shareholders will receive LivaNova Shares as consideration in connection with the Sorin Merger as discussed above; however, because Cyberonics is the acquirer for accounting purposes, the Unaudited Pro Forma Financial Information reflect the estimated fair value of the equity to be issued by LivaNova to Sorin Shareholders. The amount of total consideration is not necessarily indicative of the actual consideration that will be transferred in the Mergers to Sorin Shareholders.

(b) In accordance with IFRS 2 - "Share-based payment" and IFRS 3 - "Business Combinations", for the preparation of the Unaudited Pro Forma Financial Information, the fair value of share incentive granted to employees of Sorin, equal to US$27.7 million, was partially allocated to the consideration of acquisition, for a total amount of US$12.8 million (of which US$10.4 million related to restricted stock

unit, performance share, and deferred bonus share plans and US$2.4 million related to stock appreciation rights). This value is, therefore, the fair value of the payments related to services provided by employees of Sorin before the business combination. The residual amount of US$14.9 million will be recognised in the income statement of LivaNova after the effective date of the Mergers.

The fair value of share incentive was determined, among other things, considering (i) the number of share awards granted to employees of Sorin at the Valuation Date (equal to 7,895,742, including 455,079 relating to restricted stock units, 5,719,133 related to performance shares and 1,721,530 regarding deferred bonus shares) and (ii) changes to these plans as a result of the Mergers.

In particular it is noted that:

- at the Sorin Effective Date, any vesting conditions originally applicable to the performance share and restricted stock plans will accelerate at 100 per cent. of the target level and will be converted into a number of LivaNova Shares determined by the Sorin Merger Exchange Ratio (except for the Sorin 2012-2014 LTIP). In particular, the incentive performance share plan and restricted stock plan for the years 2013-2015 and 2014-2016 will vest at the effective date of the Mergers, and will be settled through a number of LivaNova Shares equivalent to the vesting percentage of the last completed plan (2012-2014), weighted for the period of time between the start date of the plan and the date of the Mergers. The remainder, complementary to the 100 per cent, will be settled at 28 February 2016 and 2017, assuming the eligible employees meet service performance conditions of such plans. The performance share incentive plan for the years 2012-2014 will be settled partially in Sorin Shares, based on the actual vesting (30.57 per cent.) determined according to the business performance achieved and, for the remainder, shares in LivaNova at the effective date of the Mergers. The restricted stock incentive plan for the years 2012-2014, vested entirely at 31 December 2014, will be settled through Sorin Shares;
- the stock appreciation rights outstanding on the Valuation Date, are equal to 3,939,084. Each stock appreciation right pertaining to Sorin employees will be converted into a similar right with regard to the LivaNova Shares determined by the Sorin Merger Exchange Ratio. The exercise price will be equal to the ratio between (i) the exercise price defined in the original plans and (ii) the Sorin Merger Exchange Ratio. The fair value of these instruments is equal to US$3.7 million. For the preparation of the Unaudited Pro Forma Financial Information, US$2.4 million was allocated to the consideration of acquisition, while US$1.3 million will be recognised in the income statement of LivaNova after the effective date of the Mergers.

(c) Cash and cash equivalents will reduce by US$28.2 million, as a result of:

- US$6.6 million of estimated paid Sorin transaction costs of which US$6.0 million (€5.4 million using an exchange rate €/US$ equal to 1.1215 on 31 August 2015) cannot be capitalised. The remaining US$15.1 million (€13.5 million using an exchange rate €/US$ equal to 1.1215 on 31 August 2015) of the US$21.7 million (€19.2 million using an exchange rate €/US$ equal to 1.1215 on 31 August 2015) estimated merger-related transaction costs have not been paid; and
- US$21.5 million of estimated paid transaction costs of the Cyberonics transaction (all of which cannot be capitalised). The remaining US$6.6 million of the estimated merger-related transaction costs have not been paid.

(d) The value of intangible assets and the remaining useful life, in years, were estimated as follows:

(In millions of U.S. Dollars, unless otherwise noted)	**Years**	**Amount**
Customer relationships	14	326.0
Technological developments	11-13	314.0
In process R&D	10-15	78.0
Trademarks	10	56.0
Estimated fair value of identified intangible assets		774.0
Less pre-existing Sorin intangible assets		(263.1)
Pro forma adjustment for estimated fair value of identifiable intangible assets		**510.9**

Developed technology, in process R&D and trademarks were valued using the Relief from Royalty Method, a variation of the Income Approach. Customer relationships were determined using the Multi-period Excess Earnings Method, a variation of the Income Approach.

The Relief from Royalty Method under the Income Approach estimates the cost savings that accrue to a company for which it would otherwise have to pay royalties or license fees on revenues earned through the use of the asset. The discount rate used is determined at the time of measurement based on an analysis of the implied internal rate of return of the transaction, weighted average cost of capital and weighted average return on assets.

The Multi-period Excess Earnings Method estimates fair value of an intangible asset by deducting expected costs, including income taxes, from expected revenues attributable to that asset to arrive at after-tax cash flows. From such after-tax cash flows, after-tax contributory asset charges are deducted to arrive at incremental after-tax cash flows. These resulting cash flows are discounted to their present value. The discount rate used is determined at the time of measurement based on an analysis of the implied internal rate of return of the transaction, weighted average cost of capital and weighted average return on assets.

Significant assumptions inherent in the development of intangible asset fair values, from the perspective of a market participant, include: the amount and timing of projected future cash flows (including revenue, cost of sales, R&D costs, sales and marketing expenses, capital expenditures and working capital requirements) as well as estimated contributory asset charges; the discount rate selected to measure inherent risk of future cash flows; and the assessment of the asset's life cycle and the competitive trends impacting the asset, among other factors. These assumptions will be adjusted accordingly, if the final identifiable intangible asset valuation generates results that differ from the pro forma estimates or if the above scope of intangible assets is modified, including corresponding useful lives and related amortisation methods. The final valuation will be completed within 12 months from the completion of the mergers.

The estimate of the remaining useful life of intangible assets is based on a preliminary assessment of the assets being acquired and, therefore, may change following the completion of the assessment process.

The pro forma adjustments identified a US$510.9 million adjustment to the carrying value of intangible assets (US$263.1 million) to their fair value (US$774.0 million) determined on a provisional basis at the date of preparation of the Pro Forma Financial Information.

(e) Reflects the pro forma adjustments of US$40.6 million to adjust the book value of property, plant and equipment (US$153.4 million) to the fair value (US$194.0 million) determined on a provisional basis at the date of preparation of the Pro Forma Financial Information.

(f) Reflects the pro forma adjustments of US$35.9 million to adjust the carrying amount of inventories (US$166.1 million) to the fair value (US$202.0 million) determined on a provisional basis at the date of preparation of the Pro Forma Financial Information and calculated based on the estimated realisable value of the inventories over the first year following the merger.

(g) Reflects the adjustment to deferred tax assets and liabilities resulting from pro forma fair value adjustments for the assets and liabilities to be acquired, calculated on the basis of the tax rates of the jurisdictions to which they refer to. Although not reflected in the pro forma financial statements, the effective tax rate of LivaNova could be significantly different depending on post-merger activities, such as the geographical mix of taxable income affecting state and foreign taxes, among other factors.

(In millions of U.S. Dollars)	**Amount**
Adjustments to deferred tax asset (decrease of DTA)	50.9
Adjustments to deferred tax liability (increase of DTL)	(170.3)
Deferred tax impact of fair value adjustments	**(221.3)**

(h) Reflects the preliminary determination of goodwill on the basis of the estimated fair value of the Sorin net assets acquired, in accordance with IFRS, at 31 August 2015. Furthermore, certain current market based assumptions used will be updated upon completion of the Mergers. LivaNova's management believes that the estimated fair values utilised for the assets to be acquired and liabilities to be assumed are based on reasonable estimates and assumptions. Preliminary fair value estimates may change as additional information becomes available and such changes could be material, as certain valuations and other studies have yet to commence or progress to a stage where there is sufficient information for a definitive measurement.

(In millions of U.S. Dollars)	**Amount**
Goodwill	610.6
Less pre-existing Sorin goodwill	(220.7)
Pro forma adjustment	**389.9**

(i) US$6.6 million increase in other payables caused by:

- US$4.9 million of additional accrued compensation expense for payments to be made to certain executives of Cyberonics; and
- US$1.7 million of additional accrued compensation expense for payments to be made to certain executives of Sorin (€1.5 million using an exchange rate of €/US$ equal to 1.1215 on 31 August 2015) and certain executives of Cyberonics (US$ 4.9 million) as a result of the Mergers.

Unaudited pro forma consolidated income statement for the twelve months ended 24 April 2015

(In millions of U.S. Dollars)		*Pro forma Adjustments*				
	Historical Cyberonics Inc.	Historical Sorin S.p.A Reclassified	Cyberonics U.S. GAAP to IFRS Adjustment	Acquisition Accounting	Note Reference	Pro Forma Combined Group
	Note 5 (a)	**Note 6**	**Note 7**	**Note 8**		**Total**
Net sales	291.6	963.9	—	—		1,255.5
Cost of sales	27.3	435.2	—	1.3	8(a)	463.8
Gross profit	**264.2**	**528.7**	**—**	**(1.3)**		**791.6**
Operating expenses:						
Selling, general and administrative	123.6	339.3	—	23.2	8(a)	486.1
Research and development	43.3	103.9	(4.0)	0.2	7(a); 8(a)	143.4
Merger expenses	8.7	7.7	—	62.6	8(b)	79.0
Litigation settlement	—	—	—	—		—
Total operating expenses	**175.6**	**450.9**	**(4.0)**	**86.1**		**708.6**
Income from operations	**88.7**	**77.8**	**4.0**	**(87.4)**		**83.1**
Interest income(expense), net	0.2	(8.3)	—	—		(8.1)
Income from/(expense on) investments in associates	—	(7.7)	—	—		(7.7)
Other income (expense), net	0.5	(3.2)	—	—		(2.7)
Income before income tax	**89.3**	**58.6**	**4.0**	**(87.4)**		**64.5**
Income tax expense	31.4	7.1	1.5	(24.3)	7(b); 8(a)(b)	15.7
Net Income	**57.8**	**51.5**	**2.5**	**(63.1)**		**48.7**

Unaudited pro forma income statement for the three months ended 24 July 2015

(In millions of U.S. Dollars)		*Pro forma Adjustments*				
	Historical Cyberonics Inc.	Historical Sorin S.p.A Reclassified	Cyberonics U.S. GAAP to IFRS Adjustment	Acquisition Accounting	Note Reference	Pro Forma Combined Group
	Note 5 (b)	**Note 6**	**Note 7**	**Note 8**		**Total**
Net sales	81.0	238.3	—			319.3
Cost of sales	9.4	109.3	—	0.3	8(a)	119.0
Gross profit	**71.6**	**129.1**	**—**	**(0.3)**		**200.3**
Operating expenses:						
Selling, general and administrative	33.7	85.2	—	6.2	8(a)	125.1
Research and development	10.1	24.4	0.2	0.1	7(a); 8(a)	34.8
Merger expenses	6.5	18.3	—	(24.8)	8(c)	—
Litigation settlement	—	—	—	—		—
Total operating expenses	50.3	127.8	0.2	(18.6)		159.7
Income from operations	**21.3**	**1.2**	**(0.2)**	**18.2**		**40.5**
Interest income(expense), net	—	(1.8)	—	—		(1.8)
Income from/(expense on) investments in associates	(2.1)	(2.4)	—	—		(4.5)
Other income (expense), net	—	(0.7)	—	—		(0.7)
Income before income tax	**19.2**	**(3.6)**	**(0.2)**	**18.2**		**33.6**
Income tax expense	6.8	(5.9)	1.6	4.2	7(b); 8(a)(d)	6.7
Net Income	**12.4**	**2.3**	**(1.8)**	**14.0**		**26.9**

Note 5 - Cyberonics' consolidated income statement

Note 5(a): Cyberonics' consolidated income statement for the twelve months ended 24 April 2015 has been extracted from the audited consolidated financial statements of Cyberonics for the fifty-two weeks ended 24 April 2015, included in the Form 10-K filed with the SEC by Cyberonics on 16 June 2015, prepared in accordance with U.S. GAAP.

Note 5(b): Cyberonics' consolidated income statement for the three months ended 24 July 2015 has been extracted from the unaudited interim consolidated financial statements of Cyberonics for the thirteen weeks ended 24 July 2015, included in the Form 10-Q filed with the SEC by Cyberonics on 20 August 2015, prepared in accordance with U.S. GAAP.

Note 6 - Reclassified Sorin's consolidated income statement

It should be noted that:

- Sorin's most recent fiscal year ended on 31 December 2014. In order to have financial information on a twelve month basis and on a three-month basis which compares with the financial information of Cyberonics for the fiscal year ended 24 April 2015 and for the quarter ended 24 July 2015, the "Historical Sorin S.p.A. Reclassified" financial information is based on the consolidated income statement of Sorin (i) for the twelve months ended 31 March 2015 and (ii) for the three months ended 30 June 2015, respectively. A reconciliation is provided below (Note 6(a)).
- certain reclassifications have been made to Sorin's income statement to align it to the presentation format to be used by LivaNova. These adjustments are discussed below (Note 6(b));
- Sorin's income statements reclassified for the twelve months ended 31 March 2015 and for the three months ended 30 June 2015 have been translated from Euro to US$ (Note 6(c)), which will represent going forward the presentation currency of the Combined Group.

Note 6(a)

A reconciliation of Sorin's consolidated income statement for the twelve months ended 31 March 2015 is as follows:

(In millions of Euro)	Year ended 31 December 2014[3]	Add: Three months ended 31 March 2015[4]	Less: Three months ended 31 March 2014[4]	Total: Twelve months ended 31 March 2015[5]
Net sales[1]	746.9	189.4	176.3	760.0
Cost of sales[2]	308.0	82.0	72.0	318.0
Gross profit	**438.9**	**107.3**	**104.3**	**441.9**
Operating expenses:				
Selling, general and administrative[2]	285.2	75.1	69.2	291.1
Research and development[2]	80.3	20.4	19.7	81.0
Special items[2]	(0.4)	10.0	1.2	8.4
Litigation settlement[2]	—	—	—	—
Total operating expenses[2]	**365.2**	**105.5**	**90.1**	**380.5**
Income from operations[1]	**73.7**	**1.9**	**14.2**	**61.3**
Interest income(expense), net[2]	(7.8)	(3.1)	(1.8)	(9.1)
Income from/(expense on) investments in associates[1]	(4.9)	(1.7)	(0.6)	(6.0)
Other income (expense), net[1]	—	—	—	—
Income before income tax [1]	**61.0**	**(2.9)**	**11.9**	**46.2**
Income tax expense[1]	9.0	(1.4)	2.0	5.6
Net Income[1]	**52.0**	**(1.5)**	**9.9**	**40.6**

(1) These amounts can be directly extracted from the consolidated income statements included in the annual and interim reports of Sorin for the year ended 31 December 2014 and for the three months ended 31 March 2015 and 2014.

(2) These amounts can be directly extracted from the consolidated income statements included in the report on operations of the consolidated annual and interim reports of Sorin for the year ended 31 December 2014 and for the three months ended 31 March 2015 and 2014. These income statements are presented in a format by function, which will represent going forward the format used by the Combined Group.

(3) The Sorin income statement's line items for the year ended 31 December 2014 specifically identified in the table can be directly extracted from the audited consolidated financial statements of Sorin for the year ended 31 December 2014, prepared in accordance with IFRS. The other line items have been reclassified by function as explained above.

(4) The Sorin income statement's line items for the three months ended 31 March 2014 and 2015 specifically identified in the table can be directly extracted from the unaudited condensed consolidated interim financial statements of Sorin for the three months ended 31 March 2015, prepared in accordance with IFRS. The other line items have been reclassified by function as explained above.

(5) The twelve month period ended 31 March 2015 is calculated as the sum of the year ended 31 December 2014 and of the three months ended 31 March 2015, less the three months ended 31 March 2014.

A reconciliation of Sorin's consolidated income statement for the three months ended 30 June 2015 is as follows:

(In millions of Euro)	Six months ended 30 June 2015[3]	Less: Three months ended 31 March 2015[4]	Total: Three months ended 30 June 2015[5]
Net sales[1]	405.0	189.4	215.6
Cost of sales[2]	176.1	82.0	94.1
Gross profit	**229.0**	**107.3**	**121.6**
Operating expenses:			
Selling, general and administrative[2]	156.5	75.1	81.4
Research and development[2]	41.9	20.4	21.6
Special items[2]	27.5	10.0	17.5
Litigation settlement[2]	—	—	—
Total operating expenses[2]	**226.0**	**105.5**	**120.5**
Income from operations[1]	**3.0**	**1.9**	**1.1**
Interest income(expense), net[2]	(5.3)	(3.1)	(2.2)
Income from/(expense on) investments in associates[1]	(3.9)	(1.7)	(2.2)
Other income (expense), net[1]	—	—	—
Income before income tax[1]	**(6.2)**	**(2.9)**	**(3.3)**
Income tax expense[1]	(6.8)	(1.4)	(5.4)
Net Income[1]	**0.6**	**(1.5)**	**2.1**

(1) These amounts can be directly extracted from the consolidated income statements included in the interim reports of Sorin for the three months ended 31 March 2015 and for the six months ended 30 June 2015.

(2) These amounts can be directly extracted from the consolidated income statements included in the report on operations of the consolidated interim reports of Sorin for the three months ended 31 March 2015 and for the six months ended 30 June 2015. These income statements are presented in a format by function, which will represent going forward the format used by the Combined Group.

(3) The Sorin income statement's line items for the six months ended 30 June 2015 specifically identified in the table can be directly extracted from the unaudited condensed consolidated interim financial statements of Sorin for the six months ended 30 June 2015, prepared in accordance with IFRS. The other line items have been reclassified by function as explained above.

(4) The Sorin income statement's line items for the three months ended 31 March 2014 and 2015 specifically identified in the table can be directly extracted from the unaudited condensed consolidated interim financial statements of Sorin for the three months ended 31 March 2015, prepared in accordance with IFRS. The other line items have been reclassified by function as explained above.

(5) The three month period ended 30 June 2015 is calculated as the difference between the half-year ended 30 June 2015 and the three months ended 31 March 2015.

Note 6(b)

Twelve months ended 31 March 2015

(In millions)	Twelve months ended 31 March 2015 (€)	Reclassifications (€)	Note Reference	Twelve months ended 31 March 2015 Reclassified (€)	Twelve months ended 31 March 2015 Reclassified (US$)
	A	**B**		**Total (A+B)**	**Note 6(c)**
Net sales	760.0	—		760.0	963.9
Cost of sales	318.0	25.1	6b (i)	343.2	435.2
Gross profit	**441.9**	**(25.1)**		**416.8**	**528.7**
Operating expenses:					
Selling, general and administrative	291.1	(23.6)	6b (i) (ii)	267.5	339.3
Research and development	81.0	0.9	6b (iii)	81.9	103.9
Special items	8.4	(8.4)	6b (i) (ii) (iii) (iv)	—	—
Merger expenses	—	6.1	6b (iv)	6.1	7.7
Litigation settlement	—	—		—	—
Total operating expenses	**380.5**	**(25.1)**		**355.5**	**450.9**
Income from operations	**61.3**	**—**		**61.3**	**77.8**
Interest income(expense), net	(9.0)	2.5	6b (v)	(6.5)	(8.3)
Income from/(expense on) investments in associates	(6.0)	—		(6.1)	(7.7)
Other income (expense), net	—	(2.5)	6b (v)	(2.5)	(3.2)
Income before income tax	**46.2**	**—**		**46.2**	**58.6**
Income tax expense	5.6	—		5.6	7.1
Net Income	**40.6**	**—**		**40.6**	**51.5**

Three months ended 30 June 2015

(In millions)	Three months ended 30 June 2015 (€)	Reclassifications (€)	Note Reference	Three months ended 30 June 2015 Reclassified (€)	Three months ended 30 June 2015 Reclassified (US$)
	A	**B**		**Total (A+B)**	**Note 6(c)**
Net sales	215.6	—		215.6	238.3
Cost of sales	94.1	4.8	6b (i)	98.9	109.3
Gross profit	**121.6**	**(4.8)**		**116.8**	**129.0**
Operating expenses:					
Selling, general and administrative	81.4	(4.4)	6b (i) (ii)	77.1	85.2
Research and development	21.6	0.5	6b (iii)	22.0	24.4
Special items	17.5	(17.5)	6b (i) (ii) (iii) (iv)	—	—
Merger expenses	—	16.6	6b (iv)	16.6	18.3
Litigation settlement	—	—		—	—
Total operating expenses	**120.5**	**(4.8)**		**115.7**	**127.9**
Income from operations	**1.1**	**—**		**1.1**	**1.1**
Interest income(expense), net	(2.2)	0.6	6b (v)	(1.6)	(1.8)
Income from/(expense on) investments in associates	(2.2)	—		(2.2)	(2.4)
Other income (expense), net	—	(0.6)	6b (v)	(0.6)	(0.7)
Income before income tax	**(3.3)**	**—**		**(3.3)**	**(3.8)**
Income tax expense	(5.4)	—		(5.4)	(5.9)
Net Income	**2.1**	**—**		**2.1**	**2.1**

The reclassifications have been made in order to align revenues and expenses in Sorin's consolidated income statement to the presentation to be adopted by LivaNova for its consolidated income statement. The reclassifications on Sorin's consolidated income statement are discussed below:

(i) The adjustments to "Cost of sales" include the reclassifications of:

a. shipping costs out of "Selling, general and administrative" and into "Cost of sales";

b. medical device excise tax out of "Selling, general and administrative" and into "Cost of sales";

c. certain special items expenses totalling €0.7 million and €10.2 million for the three months ended 30 June 2015 and the twelve months ended 31 March 2015, respectively, out of "Special items" and into "Cost of sales" which mainly relates to the impact of the returns of old generation devices in Japan and to other restructuring costs.

(ii) To reclassify certain special items income totalling €0.2 million and €8.8 million for the three months ended 30 June 2015 and the twelve months ended 31 March 2015, respectively, out of "Special items" and into "Selling, general and administrative" which mainly relates to the positive impact of the insurance indemnities for earthquake damages partially offset by the negative effect of other litigation costs.

(iii) To reclassify certain special items expenses totalling €0.4 million and €0.9 million for the three months ended 30 June 2015 and the twelve months ended 31 March 2015, respectively out of "Special items" and into "Research and development".

(iv) To reclassify certain special items expenses totalling €16.6 million and €6.1 million for the three months ended 30 June 2015 and the twelve months ended 31 March 2015, respectively out of "Special items" and into "Merger expenses".

(v) To reclassify the impact of foreign currency on commercial and financial transactions from "Interest income (expense), net" to "Other income (expense), net".

Note 6(c)

Sorin's income statements reclassified have been translated using an average exchange rate of € / US$ 1.1053 for the three months ended 30 June 2015 and an average exchange rate of € / US$ 1.2683 for the twelve months ended 31 March 2015.

Note 7 - Cyberonics U.S. GAAP vs IFRS Adjustments

Note 7(a): There is a US$4.0 million reduction in research and development costs, reflecting the capitalisation of certain development costs (referred to in Note 3(b)). This reflects:

- US$3.9 million of reclassified development costs; and
- US$0.1 million of associated amortisation for the 12 months ended 24 April 2015 and US$0.2 million of amortisation for the three months ended 24 July 2015.

Note 7(b): There is a US$1.5 million increase in tax expense for the 12 months ended 24 April 2015 as a result of the capitalisation of development costs as noted in 7(a) above. There was an additional US$0.1 million of tax expense relating to share based payments in the three months ended 24 July 2015.

Note 8 - Acquisition Accounting (Consolidated income statement)

(a) Depreciation and amortisation of intangible and tangible assets are calculated on the basis of the preliminary estimate of the fair value adjustments taking into account the remaining useful life of intangible assets, property, plant and equipment acquired. The estimated remaining useful life is based on a preliminary assessment; if additional analysis were to carry out, the estimate of the useful life may be different. The following table shows the pro forma adjustments related to depreciation and intangible assets and the related tax impact, as shown in note 8(d) below, calculated based on the tax rate applicable to the case.

		Amount
(In millions of U.S. Dollars)	**For the twelve months ended 24 April 2015**	**For the three months ended 24 July 2015**
Depreciation of PP&E	2.8	0.7
Allocated to:		
Cost of sales	1.3	0.3
Selling, general and administrative	1.3	0.3
Research and development	0.2	0.1
Amortisation of intangibles (wholly allocated to Selling, general and administrative expenses)	21.9	5.9
Total pro forma adjustment	**24.7**	6.6

(b) Reflects the total estimated acquisition related transaction costs. The total amount is as follows:

(In millions of U.S. Dollars)	**Amount**
Merger related transaction cost expensed by Cyberonics at 24 April 2015	8.7
Merger related transaction cost expensed by Sorin at 30 June 2015	7.7
Merger related transaction costs expensed in the twelve months ended 24 April 2014	16.4
Cyberonics' estimated merger-related transaction costs(2)	28.1
Sorin's estimated merger-related transaction costs(2)	21.7(1)
Cyberonics' estimated compensation expense(2)	4.9
Sorin's estimated compensation expense(2)	7.9(1)
Total pro forma adjustment	62.6
Total	**79.0**

(1) Based on the average rate of €/US1.2683 for the twelve months ended 31 March 2015.
(2) The sum of these items represents the pro forma adjustment.

(c) The US$24.8 million decrease in merger expenses arise from:

- the US$19.7 million elimination of merger related transaction costs already expensed in Cyberonics' and Sorin's historical statements of operations; and
- the removal of US$5.1 million (or €4.7 million based on an average exchange rate of €/US$ 1.1053 for the three months ended 30 June 2015) accrued during the period for payments to certain Sorin executives upon close of the transaction. This adjustment has been made as all non-recurring costs related to the transaction have already been included in the unaudited pro forma income statement for the most recently completed financial year, to which is referred.

(d) Estimated income tax provision (benefit) included in the pro forma statements of operations is as follows:

(In millions of U.S. Dollars)	Amount					
	For the twelve months ended 24 April 2015			For the three months ended 24 July 2015		
	Pre-tax impact	Tax impact	Note reference	Pre-tax impact	Tax impact	Note reference
Tax on:						
Merger-related transactions costs:						
Cyberonics	28.1	(6.5)	8(d)(i)(a)	(3.6)	1.4	8(d)(i)(b)
Sorin	21.7	(6.0)	8(d)(ii)(a)	(18.3)	5.0	8(d)(ii)(b)
Compensation expenses:						
Cyberonics	4.9	(1.5)	8(d)(iii)	—	—	
Sorin	7.9	(2.2)	8(d)(iv)	—	—	
Fair value adjustments	24.7	(8.1)	8(d)(v)(a)	6.6	(2.2)	8(d)(v)(b)
Total	**87.4**	**(24.3)**		**15.3**	**4.2**	

(i) Cyberonics merger-related transactions costs:

(A) For the 12 months ended 24 April 2015 US$28.1 million of merger expenses have been recorded in the income statement (Note 8(b)). Of the US$28.1 million, US$17.1 million is tax deductible, at a statutory blended Federal and State tax rate of 38.01%, this results in a reduction in tax expense of US$6.5 million.

(B) For the three months ended 24 July 2015 US$6.5 million (Note 5(b)) of merger expenses were recorded in income statement. As a pro forma adjustment, these expenses have been removed from the three month income statement and recognised instead in the pro forma for the 12 months ended 24 April 2015, within the US$28.1 million as per note 8(d)(i)(a). Of the US$6.5 million merger expenses, US$3.6 million was tax deductible, at a statutory blended Federal and State tax rate of 38.01%, this results in an additional tax expense of US$1.4 million for the three months.

(ii) Sorin merger-related transactions costs:

(A) For the 12 months ended 24 April 2015 US$21.7 million of merger expenses (or €17.2 million based on an average exchange rate of €/US$ 1.2683 for the 12 months ended 31 March 2015) have been recorded in the income statement (Note 8(b)). As this is wholly tax deductible, at a statutory tax rate of 27.5%, this results in a reduction in tax expense of US$6.0 million.

(B) For the three months ended 24 July 2015 US$18.3 million (Note 6(b)) of merger expenses were recorded in income statement. As a pro forma adjustment, these expenses have been removed from the three month income statement and recognised instead in the pro forma for the 12 months ended 24 April 2015, within the US$21.7 million as per note 8(d)(ii)(a). As the US$18.3 million merger expenses were wholly tax deductible, at a statutory tax rate of 27.5%, this results in an additional tax expense of US$5.0 million for the three months.

(iii) Cyberonics compensation expenses: The US$4.9 million expense of additional accrued compensation to payments made to certain executives of Cyberonics (Note 4(i)). The blended tax rate applied to the US$4.9 million is 31.1% resulting in a reduction of tax expense of US$1.5 million.

(iv) Sorin compensation expenses: The US$7.9 million (or €6.2m based on an average exchange rate of €/US$ 1.2683 for the twelve months ended 31 March 2015) expense of additional accrued compensation to payments made to certain executives of Sorin (Note 4(i)). The statutory tax rate applied to the US$7.9 million is 27.5% resulting in a reduction to the tax expense of US$2.2 million.

(v) Fair value adjustments:

(A) For the 12 months ended 24 April 2015 the total impact of the fair value adjustments to depreciation and amortisation expense is US$24.7 million (Note 8(a)), using a blended rate of 32.8% the tax impact is a reduction in tax expense of US$8.1 million.

(B) For the three months ended 24 July 2015 the total impact of the fair value adjustments to depreciation and amortisation expense is US$6.6 million (Note 8(a)), using a blended rate of 32.8% the tax impact is a reduction in tax expense of US$2.2 million.

SECTION B: REPORTING ACCOUNTANT'S REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The Directors and Proposed Directors (the "**Directors**")
LivaNova PLC
C/O Legalinx Limited
1 Fetter Lane
London
EC4A 1BR

12 October 2015

Dear Sirs

LivaNova PLC (the "Company")

We report on the pro forma financial information (the "**Pro Forma Financial Information**") set out in section A of Part IX of the Company's prospectus dated 12 October 2015 (the "**Prospectus**") which has been prepared on the basis described in the notes to the Pro Forma Financial Information, for illustrative purposes only, to provide information about how the proposed acquisition by Cyberonics, Inc. of Sorin S.p.A., might have affected the financial information presented on the basis of the accounting policies to be adopted by the Company in preparing the financial statements for the period ending 31 December 2015. This report is required by item 7 of Annex II to the PD Regulation and item 20.2 of Annex I to the PD Regulation and is given for the purpose of complying with that PD Regulation and for no other purpose.

Responsibilities

It is the responsibility of the directors of the Company to prepare the Pro Forma Financial Information in accordance with Annex II of the PD regulation and item 20.2 of Annex I to the PD Regulation

It is our responsibility to form an opinion, as required by item 7 of Annex II to the PD Regulation and item 20.2 of Annex I to the PD Regulation as to the proper compilation of the Pro Forma Financial Information and to report our opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro Forma Financial Information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and for any responsibility arising under item 5.5.3R(2)(f) of the Prospectus Rules to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of Annex I to the PD Regulation, consenting to its inclusion in the Prospectus.

PricewaterhouseCoopers LLP, 1 Embankment Place, London, WC2N 6RH
T: +44 (0) 20 7583 5000, F: +44 (0) 20 7212 4652, www.pwc.co.uk

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro Forma Financial Information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Opinion

In our opinion:

a) the Pro Forma Financial Information has been properly compiled on the basis stated; and

b) such basis is consistent with the accounting policies of the Company.

Declaration

For the purposes of Prospectus Rule 5.5.3 R(2)(f), we are responsible for this report as part of the Prospectus and we declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2 of Annex I to the PD Regulation.

Yours faithfully

PricewaterhouseCoopers LLP
Chartered Accountants

PART X
EXPLANATORY NOTE REGARDING UNAUDITED PROSPECTIVE FINANCIAL INFORMATION FOR CYBERONICS FOR 2015, SORIN FOR 2015 AND FOR SORIN AND CYBERONICS FOR 2016-2019

1. Cyberonics 2015 Projections

Financial projections for the year ending 31 December 2015 of Cyberonics' EBITDA, earnings per share and income from operations (the "**Cyberonics 2015 Projections**") were disclosed in the Registration Statement. The Cyberonics 2015 Projections were prepared by the management of Cyberonics for the purposes of the respective boards of Sorin and Cyberonics' consideration of the Mergers and the preparation of fairness opinions by their respective financial advisers. The Cyberonics 2015 Projections were included in the Registration Statement in accordance with the relevant SEC disclosure requirements.

The Cyberonics 2015 Projections were based on estimates made by Cyberonics' management at the time of their preparation. The Cyberonics 2015 Projections were prepared on a US GAAP basis in US dollars (but were not prepared with a view toward public disclosure or with a view toward compliance with the published guidelines of the SEC, the guidelines established by the American Institute of Certified Public Accountants for the preparation and presentation of prospective financial information, or GAAP, and therefore may not reflect all GAAP accruals and adjustments), on the basis of Cyberonics' continued operation as an independent company. No transaction or merger expenses were included. In addition, the Cyberonics 2015 Projections were prepared on a calendar year basis rather than on the basis of Cyberonics' fiscal year, which ends in late April, or at the end of a scheduled SEC reporting period.

As part of the Combined Group, the actual results of Cyberonics for the calendar year ending 31 December 2015 are expected to differ significantly from the Cyberonics 2015 Projections as a result of the following:

- While the Cyberonics 2015 Projections were prepared on a US GAAP basis, they were not prepared with a view toward public disclosure or with a view toward compliance with the published guidelines of the SEC, the guidelines established by the American Institute of Certified Public Accountants for the preparation and presentation of prospective financial information, or GAAP, and not all expected costs were included. In particular, transaction and integration costs were not included in the Cyberonics 2015 Projections. Transaction costs totalled approximately US$9 million from 1 January 2015 to 31 May 2015 and are expected to amount to approximately US$34 million in total by the end of 2015, which is more than 30 per cent. of the income from operations forecast for Cyberonics for the year ending 31 December 2015 in the Cyberonics 2015 Projections. In addition, one-off costs related to synergy and restructuring charges were not included in the Cyberonics 2015 Projections.
- 31 December 2014 did not coincide with the end of a SEC reporting period for Cyberonics and therefore no audit review paralleled the forecast period. Moreover, since Cyberonics anticipates that results for its current fiscal year (2016) will be reported on a fiscal year basis ending 31 December 2015, its first reporting period after this change is expected to be based on actual results of the eight months between the end of Cyberonics' 2015 fiscal year on 24 April 2015 and 31 December 2015, which falls short of a full financial year. This would mean the Cyberonics 2015 Projections will be incomparable with actual results.
- Subsequent to the preparation of the Cyberonics 2015 Projections, Cyberonics wrote down the value of certain assets by US$1.8 million on a pre-tax basis.
- Cyberonics assumed for the purposes of preparing the Cyberonics 2015 Projections that an important product approval (AspireSR) would be received from the U.S. FDA in April 2015; the approval was actually received in June 2015.
- Purchase price adjustments will be substantial, including those for inventory and amortisation of intangibles, and will exceed US$25 million each year.
- The Cyberonics 2015 Projections were prepared as part of a longer outlook as the projections represent only one year of a five year outlook, and, therefore, may not be indicative of results in that one year on a standalone basis.
- The Cyberonics 2015 Projections were prepared on a different basis of materiality compared with that applied to the preparation of Cyberonics' audited financial statements.

Consequently, the Cyberonics 2015 Projections do not reflect the Current Directors and the Proposed Directors' view of the future financial performance of Cyberonics nor of the Combined Group on consummation of the Mergers, and, therefore, the Cyberonics 2015 Projections are not included in this Prospectus.

2. Sorin 2015 Guidance and Sorin 2015 Projections

On 16 March 2015, Sorin announced its financial results for the year ending 31 December 2014. In that announcement, Sorin provided guidance in respect of its expected adjusted net profit and adjusted earnings per share for the current financial year ending 31 December 2015 (the "**Sorin 2015 Guidance**"). On 29 April 2015, Sorin announced its first quarter 2015 financial results, which reconfirmed the Sorin 2015 Guidance.

In addition, financial projections for the year ending 31 December 2015 of Sorin's EBITDA (the "**EBITDA Estimate**") and adjusted net profit (together, the "**Sorin 2015 Projections**") were disclosed in the Registration Statement. The Sorin 2015 Projections were prepared by the management of Sorin on the basis of a strategic plan approved by the board of directors of Sorin in November 2014, several months prior to approval of the Mergers. The Sorin 2015 Projections were included in the Registration Statement in accordance with the relevant SEC disclosure requirements. The EBITDA Estimate has not otherwise been released to the market and Sorin has not provided EBITDA guidance to the market since 2011.

The Sorin 2015 Projections were also repeated in the Information Document, as required by applicable CONSOB regulation and practice.

In its results for the second quarter of 2015, released on 30 July 2015, Sorin explained that, in light of the upcoming Mergers, it had decided to discontinue its full year 2015 profit guidance. The guidance related to Sorin as a stand-alone business without considering the effects of the Mergers, potential synergies and the impact of strategic decisions that may be taken following closing of the Mergers which are expected to differ significantly from decisions that would have been taken by Sorin as a stand-alone business. Given this, Sorin stated that it no longer considers the previously communicated profit guidance to be useful information for its shareholders.

The Mergers will be transformational for Sorin and strategic and operating decisions are already being taken in respect of its business that are different in material respects from those that would have been taken for Sorin on a stand-alone basis. As part of the Combined Group, the actual results of Sorin for the calendar year ending 31 December 2015 are expected to differ significantly from the Sorin 2015 Guidance and the Sorin 2015 Projections as a result of the following:

- No synergy benefits were included in the Sorin 2015 Guidance or the Sorin 2015 Projections.
- The accounting of share-based compensation relating to Sorin's previous stock plans will be materially different to what was approved for the purposes of the Sorin 2015 Guidance and the Sorin 2015 Projections for two reasons:
  - an accelerated 100 per cent. vesting was granted to plan beneficiaries; and
  - accounting of the plans will change due to an increase in Sorin's share price.
- Sorin will incur increased interest costs on borrowings to cover cash outflows associated with one-off costs that were not taken into account in preparing the Sorin 2015 Guidance or the Sorin 2015 Projections, including: restructuring costs; transaction costs; change in control costs; retention bonuses; and closing awards. Sorin estimates that the quantum of such impact during 2015 could be in the region of approximately €0.5 million.

In addition, it is expected that, with effect from closing of the Mergers, the new LivaNova executive leadership team may take different strategic or operating decisions from that planned when Sorin acted as a stand-alone business. Capital allocation decisions will be aimed at optimising LivaNova's long-term financial results, with a potential impact on the legacy Sorin business. Strategic decisions on overlapping programmes could have a material impact. For example:

- Sorin and Cyberonics currently have overlapping R&D programmes in respect of heart failure. Each company has a plan to obtain approval for its heart failure devices. To obtain the necessary approval, a clinical study, costing US$25-30 million is needed. LivaNova management will need to decide whether to cancel one of the two studies and proceed with only one device.
- The two Sorin business units will have to compete with the one Cyberonics business unit for R&D resources. Some programmes could be abandoned in the Cardiac Surgery, CRM or Neuromodulation business unit to the benefit of one of the other business units.

Consequently, the Sorin 2015 Guidance and the Sorin 2015 Projections do not reflect the Current Directors and the Proposed Directors' view of the future financial performance of Sorin nor of the Combined Group on consummation of the Mergers and, therefore, the Sorin 2015 Guidance and the Sorin 2015 Projections are not included in this Prospectus.

3. Cyberonics and Sorin 2016-2019 Projections

Financial projections for the four years ending 31 December 2019 of Sorin's EBITDA and adjusted net profit and Cyberonics' EBITDA, earnings per share and income from operations were disclosed in the Registration Statement (the "**2016 - 2019 Projections**"). The 2016 - 2019 Projections were made available to Cyberonics' and Sorin's respective boards and financial advisers and were included in the Registration Statement in accordance with the relevant SEC disclosure requirements. The 2016 - 2019 Projections in respect of Sorin were also repeated in the Information Document, as required by applicable CONSOB regulation and practice.

The 2016 - 2019 Projections in respect of Sorin were derived from its five year strategic plan approved by Sorin's board of directors in November 2014, which relates to Sorin on a standalone basis and was based on its continued operation as an independent group. The plan does not reflect any synergies, opportunities, reorganisation, restructuring or transaction costs associated with the Mergers.

The 2016 - 2019 Projections in respect of Cyberonics were prepared on the same basis as the Cyberonics 2015 Projections as set out above.

As part of the Combined Group, the actual results of Sorin and Cyberonics for the four years ending 31 December 2019 will differ significantly from the 2016 - 2019 Projections for reasons including the following:

- Synergy opportunities and savings in tax and financing costs. Further details of the expected short-term and long-term synergies expected to result from the Mergers are set out in paragraph 10 of Part I ("*Information on the Mergers*") of this Prospectus.
- Transaction costs. Sorin currently estimates that the aggregate amount of expenses it will incur for legal, financial, accounting and other professional advisers and equity issuance costs related to the Mergers will equal approximately €23.9 million and Cyberonics currently estimates that the aggregate amount of such expenses that it will incur will equal approximately US$34 million.
- The costs of integration, reorganisation and restructuring to be carried out following completion of the Mergers, which are expected to be substantial.
- The ongoing impact of the purchase accounting adjustments that would be recorded to adjust the assets and liabilities of Sorin (as the acquired entity for accounting purposes) to their estimated fair value, which would be expected to have a significant ongoing impact on Sorin's adjusted net profit for 2016 to 2019. These include adjustments to intangible assets, such as customer relationships, developed technology, in-process R&D and trademarks, property, plant and equipment, and the related deferred income tax aspects.

Consequently, the 2016 - 2019 Projections do not reflect the Current Directors and the Proposed Directors' view of the future financial performance of Sorin or Cyberonics nor of the Combined Group on consummation of the Mergers, and, therefore, the 2016 - 2019 Projections are not included in this Prospectus.

Neither the Registration Statement nor the Information Document forms part of this Prospectus, nor is either document incorporated by reference in it.

PART XI
TAXATION

1. MATERIAL U.K. TAX CONSEQUENCES OF HOLDING LIVANOVA SHARES

1.1 General

The following paragraphs are intended as a general guide to current U.K. tax law and HMRC published practice applying as at the date of this document (both of which are subject to change at any time, possibly with retrospective effect) relating to the holding of LivaNova Shares. They do not constitute legal or tax advice and do not purport to be a complete analysis of all U.K. tax considerations relating to the holding of LivaNova Shares. They relate only to persons who are absolute legal and beneficial owners of LivaNova Shares (and the LivaNova Shares are not held through an Individual Savings Account or a Self Invested Personal Pension) and who are resident for tax purposes in (and only in) the U.K. (except to the extent that the position of non-U.K. resident persons is expressly referred to).

These paragraphs may not relate to certain classes of holders of LivaNova Shares, such as (but not limited to):

- persons who are connected with Cyberonics, Sorin or LivaNova;
- insurance companies;
- charities;
- collective investment schemes;
- pension schemes;
- brokers or dealers in securities or persons who hold LivaNova Shares otherwise than as an investment;
- persons who have (or are deemed to have) acquired their LivaNova Shares by virtue of an office or employment or who are or have been officers or employees of Cyberonics, Sorin or LivaNova or any of their affiliates; and
- individuals who are subject to U.K. taxation on a remittance basis.

These paragraphs do not describe all of the circumstances in which holders of LivaNova Shares may benefit from an exemption or relief from U.K. taxation. It is recommended that all holders of LivaNova Shares obtain their own tax advice. In particular, non-U.K. resident or domiciled persons are advised to consider the potential impact of any relevant double tax agreements.

1.2 Dividends

Withholding Tax

Dividends paid by LivaNova will not be subject to any withholding or deduction for or on account of U.K. tax, irrespective of the residence or particular circumstances of the shareholders.

Income Tax

An individual holder of LivaNova Shares who is resident for tax purposes in the U.K. may, depending on his or her particular circumstances, be subject to U.K. tax on dividends received from LivaNova. An individual holder of LivaNova Shares who is not resident for tax purposes in the U.K. should not be chargeable to U.K. income tax on dividends received from LivaNova unless he or she carries on (whether solely or in partnership) any trade, profession or vocation in the U.K. through a branch or agency to which the LivaNova Shares are attributable (subject to certain exceptions for trading through independent agents, such as some brokers and investment managers). Subject to certain conditions, an individual holder of LivaNova Shares who is resident for tax purposes in the U.K. will be entitled to a tax credit equal to one-ninth (2015/16) of the amount of the dividend received from LivaNova.

Dividends will be subject to U.K. income tax at the rate of 10 per cent. (2015/16) on the amount of the dividend and any associated one-ninth tax credit in the hands of an individual holder of LivaNova Shares who is liable to U.K. income tax at the basic rate. This means that the tax credit will generally satisfy in full the U.K. income tax liability of such a U.K. resident individual shareholder with respect to such a dividend.

An individual holder of LivaNova Shares who is liable to U.K. income tax at the higher rate will generally be subject to U.K. income tax at the rate of 32.5 per cent. (2015/16) on the amount of the dividend and any associated one-ninth tax credit. The tax credit will only partially satisfy that U.K. resident individual shareholder's U.K. income tax liability with respect to such a dividend and, accordingly, such shareholders will generally be liable for additional tax of 22.5 per cent. of the amount of the dividend and any associated one-ninth tax credit, or 25 per cent. of the cash dividend received.

An individual holder of LivaNova Shares who is liable to U.K. income tax at the additional rate will generally be subject to U.K. income tax at the rate of 37.5 per cent. (2015/16) on the amount of the dividend and any associated one-ninth tax credit. The tax credit will only partially satisfy that U.K. resident individual shareholder's U.K. income tax liability with respect to such a dividend and, accordingly, such shareholders will generally be liable for additional tax of 27.5 per cent. of the amount of the dividend and any associated one-ninth tax credit, or 30.56 per cent. of the cash dividend received.

Dividend income is treated as the top slice of the total income chargeable to U.K. income tax. Whether an individual holder of LivaNova Shares who is liable to U.K. income tax in respect of a dividend is liable to that tax at the higher or additional rate or not will depend on the particular circumstances of that shareholder.

The U.K. government has announced plans to abolish the dividend tax credit system described in the above paragraphs with effect from April 2016. All individual holders of LivaNova Shares would instead get a tax-free allowance of £5,000 per annum. Dividend income in excess of this tax-free allowance would be charged at 7.5 per cent. for basic rate tax payers 32.5 per cent. for higher rate taxpayers, and 38.1 per cent. for additional rate taxpayers. Draft legislation effecting this change is not yet available and is proposed to be included in the U.K. Finance Bill 2016.

Corporation Tax

Corporate holders of LivaNova Shares which are resident for tax purposes in the U.K. should not be subject to U.K. corporation tax on any dividend received from LivaNova so long as the dividends qualify for exemption (as is likely) and certain conditions are met (including anti-avoidance conditions).

1.3 Chargeable Gains

A disposal or deemed disposal of LivaNova Shares by a shareholder resident for tax purposes in the U.K. may, depending on the shareholder's circumstances and subject to any available exemptions or reliefs, give rise to a chargeable gain or an allowable loss for the purposes of tax on chargeable gains.

If an individual holder of LivaNova Shares who is subject to U.K. income tax at either the higher or the additional rate becomes liable to U.K. capital gains tax on the disposal of LivaNova Shares, the applicable rate will be 28 per cent. (2015/16). For an individual holder of LivaNova Shares who is subject to U.K. income tax at the basic rate and liable to U.K. capital gains tax on such disposal, the applicable rate would be 18 per cent. (2015/16), save to the extent that any capital gains exceed the unused basic rate tax band. In that case, the rate applicable to the excess would be 28 per cent. (2015/16).

If a corporate holder of LivaNova Shares becomes liable to U.K. corporation tax on the disposal of LivaNova Shares, the main rate of U.K. corporation tax (20 per cent. for the financial year 2015) would apply. An indexation allowance may be available to such a holder to give an additional deduction based on the indexation of its base cost in the shares by reference to U.K. retail price inflation over its holding period. An indexation allowance can only reduce a gain on a future disposal, and cannot create a loss.

A holder of LivaNova Shares which is not resident for tax purposes in the U.K. should not normally be liable to tax on chargeable gains on a disposal of LivaNova Shares. However, an individual holder of LivaNova Shares who has ceased to be resident for tax purposes in the U.K. for a period and who disposes of LivaNova Shares during that period may be liable on his or her return to the U.K. to U.K. tax on any capital gain realised (subject to any available exemption or relief).

1.4 Stamp Duty and SDRT

The discussion below relates to holders of LivaNova Shares wherever resident.

Transfers of LivaNova Shares within a clearance service should not give rise to a liability to U.K. stamp duty or SDRT, provided that no instrument of transfer is entered into and that no election that applies to the LivaNova

Shares is, or has been, made by the clearance service or depositary receipt system under Section 97A of the U.K. Finance Act 1986. LivaNova understands that HMRC regards the facilities of the Depositary Trust Company as a clearance service for these purposes.

Transfers of LivaNova Shares within a clearance service where an election has been made by the clearance service under Section 97A of the U.K. Finance Act 1986 will generally be subject to SDRT (rather than U.K. stamp duty) at the rate of 0.5 per cent. of the amount or value of the consideration.

Transfers of LivaNova Shares that are held in certificated form will generally be subject to U.K. stamp duty at the rate of 0.5 per cent. of the consideration given (rounded up to the nearest £5). An exemption from U.K. stamp duty is available for a written instrument transferring an interest in LivaNova Shares where the amount or value of the consideration is £1,000 or less, and it is certified on the instrument that the transaction effected by the instrument does not form part of a larger transaction or series of transactions for which the aggregate consideration exceeds £1,000. SDRT may be payable on an unconditional agreement to transfer such LivaNova Shares, generally at the rate of 0.5 per cent. of the consideration given in money or money's worth under the agreement to transfer the LivaNova Shares. This charge to SDRT would be discharged if an instrument of transfer is executed pursuant to the agreement which gave rise to the SDRT charge and U.K. stamp duty is duly accounted for on the instrument transferring the LivaNova Shares within six years of the date on which the agreement was made or, if the agreement was conditional, the date on which the agreement became unconditional. The stamp duty would be duly accounted for if it is paid, an appropriate relief is claimed or the instrument is otherwise certified as exempt.

If LivaNova Shares (or interests therein) are subsequently transferred into a clearance service or depositary receipt system, U.K. stamp duty or SDRT will generally be payable at the rate of 1.5 per cent. of the amount or value of the consideration given (rounded up in the case of U.K. stamp duty to the nearest £5) or, in certain circumstances, the value of the shares (save to the extent that an election has been made under Section 97A of the U.K. Finance Act 1986). This liability for U.K. stamp duty or SDRT will strictly be accountable by the clearance service or depositary receipt system, as the case may be, but will, in practice, generally be reimbursed by participants in the clearance service or depositary receipt system.

Transfers of DDIs representing underlying LivaNova Shares through CREST will generally be liable to SDRT, rather than U.K. stamp duty, at the 0.5 per cent. rate. CREST is obliged to collect SDRT on relevant transactions settled within the CREST system. The issue and deposit into CREST, and any subsequent cancellation, of DDIs representing LivaNova Shares should not give rise to any liability to U.K. stamp duty or SDRT, although this is the subject of a clearance being sought from HMRC to confirm this treatment and no guarantee can be given on the outcome of such an application.

2. MATERIAL ITALIAN TAX CONSEQUENCES OF HOLDING LIVANOVA SHARES

2.1 General

The following paragraphs describes the material Italian tax consequences of the ownership and transfer of LivaNova Shares. The following description does not purport to be a comprehensive description nor a tax opinion on all the tax considerations that may be relevant to a decision to own or dispose of the LivaNova Shares (such as Italian inheritance and gift tax considerations, and transfer tax considerations) and, in particular does not discuss the treatment of shares that are held in connection with a permanent establishment or a fixed base through which a non-Italian resident shareholder carries on business or performs personal services in Italy.

For the purposes of this discussion, an "**Italian Shareholder**" is a beneficial owner of Cyberonics Shares or LivaNova Shares that is:

- an Italian-resident individual, or
- an Italian-resident corporation.

This section does not apply to shareholders subject to special rules, including:

- non-profit organisations, foundations and associations that are not subject to tax;
- Italian commercial partnerships and assimilated entities (*società in nome collettivo, in accomandita semplice*);

- Italian noncommercial partnerships (*società semplice*);
- individuals holding the shares in connection with the exercise of a business activity; and
- Italian real estate investment funds (*fondi comuni di investimento immobiliare*) and Italian real estate SICAF (*società di investimento a capitale fisso*).

In addition, where specified, this section also applies to Italian pension funds, Italian investment funds (*fondi comuni di investimento mobiliare*), *Società di investimento a capitale variabile* (SICAVs) and *Società di investimento a capital fisso* (SICAFs) other than real estate SICAFs.

For the purposes of this discussion, a "**Non-Italian Shareholder**" means a beneficial owner of Sorin Shares, shares of Cyberonics Common Stock or LivaNova Shares that is neither an Italian Shareholder nor a permanent establishment or a fixed base through which a non-Italian resident shareholder carries on business or performs personal services in Italy nor a partnership.

This discussion is limited to Italian Shareholders and Non-Italian Shareholders that hold their shares directly and whose shares represent, and have represented in any 12-month period preceding each disposal: (i) a percentage of voting rights in the ordinary shareholders' meeting not greater than 2 per cent. for listed shares or (ii) a participation in the share capital not greater than 5 per cent. for listed shares.

This section is based upon tax laws and applicable tax treaties and what is understood to be the current practice in Italy in effect on the date of this document which may be subject to changes in the future, even on a retroactive basis. Italian Shareholders and Non-Italian Shareholders should consult their own advisors as to the Italian tax consequences of the purchase, ownership and disposal of LivaNova Shares in their particular circumstances.

2.2 Ownership of LivaNova Shares

Italian Shareholders

Taxation of Dividends

The tax treatment applicable to dividend distributions depends upon the nature of the dividend recipient, as summarised below.

Italian resident individual shareholders

Dividends paid by a non-Italian-resident company, such as LivaNova, to Italian resident individual shareholders are subject to a 26 per cent. tax. Such tax (i) may be applied by the taxpayer in its tax return or (ii) if an Italian withholding agent intervenes in the collection of the dividends, may be withheld by such withholding agent.

In the event that a taxpayer elects to be taxed under the "*Regime del Risparmio Gestito*" (discussed below in the paragraph entitled "*Taxation of Capital Gains - Italian resident individual shareholders*"), dividends are not subject to the 26 per cent. tax, but are subject to taxation under such "*Regime del Risparmio Gestito*."

Pursuant to Italian Law Decree no. 167 of June 28, 1990, as amended, Italian resident individual shareholders who hold (or are beneficial owners of) foreign financial activities not being deposited or otherwise held or traded through Italian resident financial intermediaries must, in certain circumstances, disclose the aforesaid to the Italian tax authorities in their income tax return.

Italian resident corporations

Subject to the paragraph below, Italian Shareholders subject to Italian corporate income tax ("**IRES**") should benefit from a 95 per cent. exemption on dividends if certain conditions are met. In order to benefit from the 95 per cent. exemption (art. 89(3) of the Italian Tax Code (Presidential Decree 917/1986)) the securities and financial instruments issued by a foreign entity pursuant to which dividends are distributed must be characterised as equity for Italian corporate income tax purposes, so that the dividend of the financial instrument: (i) shall consist entirely of a participation in the economic result/profit of the foreign company, and (ii) is non-deductible in the state of residence of the foreign company. The remaining 5 per cent. of dividends are included in the taxable business income of such Italian resident corporations, subject to tax in Italy under IRES, which is currently levied at 27.5 per cent.

Dividends, however, are fully subject to tax in the following circumstances: (i) dividends paid to taxpayers using IAS/IFRS in relation to shares accounted for as "held for trading" on the balance sheet of their statutory accounts; (ii) dividends which are considered as "deriving from" profits accumulated by companies or entities resident for tax purposes in states or territories with a preferential tax system (as defined by art. 168-*bis* of the Italian Tax Code); or (iii) dividends paid in relation to shares acquired through repurchase transactions, stock lending and similar transactions, unless the beneficial owner of such dividends would have benefited from the 95 per cent. exemption described in the above paragraph. In the case of (ii), 100 per cent. of the dividends is subject to taxation, unless a special ruling request is filed with the Italian tax authorities in order to prove that the shareholding has not been used to enable the shifting of taxable income to the said states or territories.

For certain companies operating in the financial field and subject to certain conditions, dividends are also included in the tax base for the Italian regional tax on productive activities (*Imposta regionale sulle attività produttive*, "**IRAP**").

Italian pension funds

Dividends paid to Italian pension funds (subject to the regime provided for by Article 17 of Italian Legislative Decree no. 252 of December 5, 2005) are not subject to any withholding tax, but must be included in the result of the relevant portfolio accrued at the end of the tax period, which is subject to substitute tax at the rate of 20 per cent. Under certain conditions provided for Article 1(92) of Italian Law no. 190 of December 23, 2014 and by a forthcoming decree to be issued by the Minister of Finance pension funds may be granted a tax credit equal to 9 per cent. of the result accrued at the end of the tax period and subject to the substitute tax.

Italian investment funds (fondi comuni di investimento mobiliare) SICAVs and SICAFs

Dividends paid to Italian investment funds SICAVs and SICAFs are neither subject to any tax withheld at source nor to any taxation at the level of the fund, SICAV or SICAFs. A withholding tax may apply in certain circumstances at the rate of up to 26 per cent. on distributions made by investment funds, SICAVs or SICAFs.

Taxation of Capital Gains

Italian resident individual shareholders

Capital gains realised upon disposal of shares or rights by an Italian resident individual shareholder are subject to Italian final substitute tax (*imposta sostitutiva*) at a 26 per cent. rate.

Capital gains and capital losses realised in the relevant tax year have to be declared in the annual income tax return (*Regime di Tassazione in Sede di Dichiarazione dei Redditi*). Losses in excess of gains may be carried forward against capital gains realised in the four subsequent tax years. While losses generated as of 1 July 2014 can be carried forward for their entire amount, losses realised until 31 December 2011 can be carried forward for 48.08 per cent. of their amount only and losses realised between 1 January 2012 and 30 June 2014 for 76.92 per cent. of their amount.

As an alternative to the *Regime di Tassazione in Sede di Dichiarazione dei Redditi* described in the above paragraph, Italian resident individual shareholders may elect to be taxed under one of the two following regimes:

Regime del Risparmio Amministrato: Under this regime, separate taxation of capital gains is allowed subject to (i) the shares and rights in respect of the shares being deposited with Italian banks, *società di intermediazione mobiliare* or certain authorised financial intermediaries resident in Italy for tax purposes and (ii) an express election for the *Regime del Risparmio Amministrato* being timely made in writing by the relevant shareholder. Under the *Regime del Risparmio Amministrato*, the financial intermediary is responsible for accounting for the substitute tax in respect of capital gains realised on each sale of the shares or rights on the shares, and is required to pay the relevant amount to the Italian tax authorities on behalf of the taxpayer, deducting a corresponding amount from the proceeds to be credited to the shareholder. Under the *Regime del Risparmio Amministrato*, where a sale of the shares or rights on the shares results in a capital loss, such loss may be deducted (up to 48.08 per cent. for capital losses realised until 31 December 2011, up to 76.92 per cent. for capital losses realised between 1 January 2012 and 30 June 2014, and up to 100 per cent. for capital losses realised from 1 July 2014) from capital gains of the same kind subsequently realised under the same relationship of deposit in the same tax year or in the four subsequent tax years. Under the *Regime del Risparmio Amministrato*, the shareholder is not required to declare the capital gains in its annual tax return;

Regime del Risparmio Gestito: Under this regime, any capital gains accrued to Italian resident individual shareholders, that have entrusted the management of their financial assets, including the shares and rights in respect of the shares, to an authorised Italian-based intermediary and have elected for the *Regime del Risparmio Gestito*, are included in the computation of the annual increase in value of the managed assets accrued, even if not realised, at year-end, subject to the 26 per cent. substitute tax to be applied on behalf of the taxpayer by the managing authorised Italian-based intermediary. Under the *Regime del Risparmio Gestito*, any decline in value of the managed assets accrued at year-end may be carried forward (up to 48.08 per cent. if accrued until 31 December 2011, up to 76.92 per cent. if accrued between 1 January 2012 and 30 June 2014, and up to 100 per cent. if accrued from 1 July 2014) and set against increases in value of the managed assets which accrue in any of the four subsequent tax years. Under the *Regime del Risparmio Gestito*, the shareholder is not required to report capital gains realised in its annual tax return.

Italian resident corporations shareholders

Capital gains realised through the disposal of LivaNova Shares by Italian Shareholders which are companies subject to IRES benefit from a 95 per cent. exemption (the "Participation Exemption Regime"), if the following conditions are met:

- the shares have been held continuously from the first day of the twelfth month preceding the disposal; and
- the shares were accounted for as a long term investment in the first balance sheet closed after the acquisition of the shares (for companies adopting IAS/IFRS, shares are considered to be a long term investment if they are different from those accounted for as "held for trading").

Based on the assumption that LivaNova should be a resident of the U.K. for tax purposes, that its ordinary shares will be listed on a regulated market, that its value will be predominantly composed of shareholdings in companies carrying on a business activity and not resident in a State with a preferential tax system (as defined by art. 168-*bis* of the Italian Tax Code), the two additional conditions set forth by Article 87 of the Income Tax Act in order to enjoy the Participation Exemption Regime (i.e., the company is not resident in a state with a preferential tax system (as defined by art. 168-*bis* of the Italian Tax Code) and carries on a business activity) are both met.

The remaining 5 per cent. of the amount of such capital gain is included in the aggregate taxable income of the Italian resident corporate shareholders and subject to taxation according to ordinary IRES rules and rates.

If the conditions for the Participation Exemption Regime are met, capital losses from the disposal of shareholdings realised by Italian resident corporate shareholders are not deductible from the taxable income of the company.

Capital gains and capital losses realised through the disposal of shareholdings which do not meet at least one of the aforementioned conditions for the Participation Exemption Regime are, respectively, fully included in the aggregate taxable income and fully deductible from the same aggregate taxable income, subject to taxation according to ordinary rules and rates. However, if such capital gains are realised upon disposal of shares which have been accounted for as a long-term investment on the last three balance sheets, then if the taxpayer so chooses the gains can be taxed in equal instalments in the year of realisation and the four following tax years.

The ability to use capital losses to offset income is subject to significant limitations, including provisions against "dividend washing". In addition, Italian resident corporations shareholders that recognise capital losses (or other negative differences deriving from transactions on the shares) exceeding €50,000 are subject to tax reporting requirements in their annual income tax return (also in case such capital losses are realised as a consequence of a set of transactions). Furthermore, for capital losses of more than €5,000,000, deriving from transactions on shares booked as fixed financial assets, the taxpayer must report the relevant information in its annual income tax return (also in case such capital losses are realised as a consequence of a set of transactions). Such an obligation does not apply to parties that prepare their financial statements in accordance with IAS/IFRS international accounting standards. Italian resident corporations that recognise capital losses should consult their tax advisors as to the tax consequences of such losses.

For certain types of companies operating in the financial field and subject to certain conditions, the capital gains are also included in the IRAP taxable base.

Italian pension funds

Capital gains realised by Italian pension funds are not subject to any withholding or substitute tax. Capital gains and capital losses must be included in the result of the relevant portfolio accrued at the end of the tax period, which is subject to a 20 per cent. substitute tax from fiscal year 2015. Under certain conditions provided for by Article 1(92) of Italian Law no. 190 of December 23, 2014 and by a forthcoming decree to be issued by the Minister of Finance pension funds may be granted a tax credit equal to 9 per cent. of the result accrued at the end of the tax period and subject to the substitute tax.

Italian investment funds (fondi comuni di investimento mobiliare) SICAVs and SICAFs

Capital gains realised by Italian investment funds, SICAVs and SICAFs are not subject to any withholding or substitute tax. Capital gains and capital losses must be included in the investment funds, SICAV's or SICAF's annual results, which is not subject to tax. A withholding tax may apply in certain circumstances at the rate of up to 26 per cent. on distributions made by the investment fund, the SICAV or the SICAF.

IVAFE-Imposta sul Valore delle Attività Finanziarie detenute all'Estero

Under Article 19 of Italian Law Decree no. 201 of December 6, 2011, converted with Italian Law no. 214 of December 22, 2011, Italian resident individuals holding financial products -including shares-outside the Italian territory are required to pay a special tax (IVAFE) at the rate of 0.20 per cent. The tax applies on the market value at the end of the relevant year or - in the lack thereof - on the nominal value or the redemption value of such financial product held outside the Italian territory.

Taxpayers may deduct from the tax a tax credit equal to any wealth taxes paid in the State where the financial assets are held (up to the amount of the Italian tax due).

Non-Italian Shareholders

Taxation of Dividends

According to Italian tax laws, the distribution of dividends by LivaNova will not trigger any taxable event for Italian income tax purposes for Non-Italian Shareholders.

Taxation of Capital Gains

According to Italian tax laws, capital gains on LivaNova Shares will not trigger any taxable event for Italian income tax purposes for Non-Italian Shareholders.

2.3 Stamp Duty (Imposta di bollo)

Under Article 13(2bis-2ter) of Italian Decree no. 642 of October 26, 1972 (the "**Stamp Duty Act**"), a 0.20 per cent. stamp duty generally applies on communications and reports that Italian financial intermediaries periodically send to their clients in relation to the financial products that are deposited with such intermediaries. Shares are included in the definition of financial products for these purposes. Communications and reports are deemed to be sent at least once a year even if the Italian financial intermediary is under no obligation to either draft or send such communications and reports.

The stamp duty cannot exceed EUR 14,000.00 for investors other than individuals.

Based on the wording of the law and the implementing decree issued by the Italian Ministry of Finance on 24 May 2012, the 0.20 per cent. stamp duty does not apply to communications and reports that the Italian financial intermediaries send to Italian Shareholders or Non-Italian Shareholders who do not qualify as "clients" according to the regulations issued by the Bank of Italy on 20 June 2012.

The taxable base of the stamp duty is the market value or - in the lack thereof - the nominal value or the redemption amount of any financial product or financial instruments.

3. MATERIAL U.S. TAX CONSEQUENCES TO U.S. HOLDERS OF HOLDING LIVANOVA SHARES

3.1 General

The following discussion is a summary of the material U.S. federal income tax consequences of the ownership and disposition of LivaNova Shares to U.S. holders (as defined below) who receive such LivaNova Shares pursuant to the Mergers. The following discussion assumes that LivaNova will be a resident exclusively in the U.K. for U.S. federal tax purposes, LivaNova Shares will be traded on both the NASDAQ and LSE in U.S. dollars and dividends paid by LivaNova will be in U.S. dollars. The discussion is based on and subject to the Internal Revenue Code, the U.S. Treasury Regulations promulgated thereunder, administrative guidance and court decisions as of the date hereof, all of which are subject to change, possibly with retroactive effect, and to differing interpretations. The discussion assumes that LivaNova Shareholders hold their LivaNova Shares, as "capital assets" within the meaning of Section 1221 of the Internal Revenue Code (generally, property held for investment). The discussion does not constitute tax advice and does not address all aspects of U.S. federal income taxation that may be relevant to particular holders of LivaNova Shares in light of their personal circumstances, including any tax consequences arising under the Medicare contribution tax on net investment income, or to such shareholders subject to special treatment under the Internal Revenue Code, such as:

- banks, thrifts, mutual funds and other financial institutions,
- real estate investment trusts and regulated investment companies,
- traders in securities who elect to apply a mark-to-market method of accounting,
- brokers or dealers in securities,
- tax-exempt organisations or governmental organisations,
- insurance companies,
- dealers or brokers in securities or foreign currency,
- individual retirement and other deferred accounts,
- U.S. holders whose functional currency is not the U.S. dollar,
- U.S. expatriates and former citizens or long-term residents of the United States,
- "passive foreign investment companies" or "controlled foreign corporations", and corporations that accumulate earnings to avoid U.S. federal income tax,
- persons subject to the alternative minimum tax,
- U.S. holders who own or are deemed to own 10 per cent. or more of LivaNova's voting shares,
- shareholders who hold their shares as part of a straddle, hedging, conversion, constructive sale or other risk reduction transaction,
- shareholders who purchase or sell their shares as part of a wash sale for tax purposes,
- "S corporations", partnerships or other entities or arrangements classified as partnerships for U.S. federal income tax purposes or other pass-through entities (and investors therein), and
- shareholders who received their shares through the exercise of employee stock options or otherwise as compensation or through a tax-qualified retirement plan.

The discussion does not address any non-income tax considerations or any foreign, state or local tax consequences. For purposes of this discussion, a "U.S. holder" means a beneficial owner of LivaNova Shares who is:

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organised in the United States or under the laws of the United States or any subdivision thereof;
- an estate the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source; or
- a trust if (1) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (2) the trust has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a U.S. person for U.S. federal income tax purposes.

A "non-U.S. holder" means a beneficial owner of LivaNova Shares other than a U.S. holder.

Based on the representations made by Cyberonics and Sorin in the Merger Agreement, this discussion assumes that the shares of LivaNova Shares are not "U.S. real property interests" within the meaning of Section 897 of the Internal Revenue Code.

If a partnership, including for this purpose any arrangement that is treated as a partnership for U.S. federal income tax purposes, holds LivaNova Shares, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. A holder that is a partnership and the partners in such partnership are urged to consult their tax advisors about the U.S. federal income tax consequences of the ownership and disposition of the LivaNova Shares.

3.2 Taxation of Dividends

Dividends will be taxed as ordinary income to U.S. holders to the extent that they are paid out of LivaNova's current or accumulated earnings and profits, as determined under U.S. federal income tax principles. The dividend income would be treated as foreign source, passive income for U.S. federal foreign tax credit limitation purposes. Subject to the following discussion of special rules applicable to PFICs (as defined below), the gross amount of the dividends paid by LivaNova to U.S. holders may be eligible to be taxed at lower rates applicable to certain qualified dividends. The maximum U.S. federal income tax rate imposed on dividends received by non-corporate U.S. holders from certain "qualified foreign corporations" is currently 20 per cent., provided that certain holding period requirements are satisfied and certain other requirements are met. Dividends paid with respect to stock of a foreign corporation which is readily tradable on an established securities market in the United States will be treated as having been received from a "qualified foreign corporation". The U.S. Department of the Treasury and the IRS have determined that common stock is considered readily tradable on an established securities market if it is listed on an established securities market in the United States, such as the NASDAQ. Accordingly, dividends received by non-corporate U.S. holders should be entitled to favourable treatment as dividends received with respect to stock of a "qualified foreign corporation". Dividends paid by LivaNova will not qualify for the dividends received deduction otherwise available to corporate shareholders.

To the extent that the amount of any dividend exceeds LivaNova's current and accumulated earnings and profits for a taxable year, the excess will first be treated as a tax-free return of capital, causing a reduction in the U.S. holder's adjusted basis in LivaNova Shares. The balance of the excess, if any, will be taxed as capital gain, which would be long-term capital gain if the holder has held the LivaNova Shares for more than one year at the time the dividend is received.

It is possible that LivaNova is, or at some future time will be, at least 50 per cent. owned by U.S. persons. Dividends paid by a foreign corporation that is at least 50 per cent. owned by U.S. persons may be treated as U.S. source income (rather than foreign source income) for foreign tax credit purposes to the extent the foreign corporation has more than an insignificant amount of U.S. source income. The effect of this rule may be to treat a portion of any dividends paid by LivaNova as U.S. source income. Treatment of the dividends as U.S. source income in whole or in part may limit a U.S. holder's ability to claim a foreign tax credit with respect to foreign taxes payable or deemed payable in respect of the dividends or other items of foreign source, passive income for U.S. federal foreign tax credit limitation purposes. The Internal Revenue Code permits a U.S. holder entitled to benefits under the U.K.-U.S. Income Tax Treaty to elect to treat any company dividends as foreign source income for foreign tax credit purposes if the dividend income is separated from other income items for purposes of calculating the U.S. holder's foreign tax credit. U.S. holders should consult their own tax advisors about the desirability and method of making such an election.

3.3 Sale, Exchange or Other Taxable Disposition

Subject to the following discussion of special rules applicable to PFICs, a U.S. holder will recognise capital gain or loss on the sale, exchange or other taxable disposition of LivaNova Shares in an amount equal to the difference between the amount realised on such taxable disposition and the holder's tax basis in the LivaNova Shares.

The source of any such gain or loss is determined by reference to the residence of the holder such that it will be treated as U.S. source income for foreign tax credit limitation purposes in the case of a sale, exchange or other taxable disposition by a U.S. holder. However, the Internal Revenue Code permits a U.S. holder entitled to benefits under the U.K.-U.S. Income Tax Treaty to elect to treat any gain or loss on the sale, exchange or other taxable disposition of LivaNova Shares as foreign source income for foreign tax credit purposes if the gain or loss is sourced outside of the United States under the U.K.-U.S. Income Tax Treaty and such gain or loss is separated from other income items for purposes of calculating the U.S. holder's foreign tax credit. U.S. holders should consult their own tax advisors about the desirability and method of making such an election.

Gain or loss realised on the sale, exchange or other taxable disposition of LivaNova Shares will be capital gain or loss and will generally be long-term capital gain or loss if the LivaNova Shares have been held for more than one year. Assuming, as expected, that the Cyberonics Merger is a taxable transaction for U.S. federal income tax purposes, U.S. holders that received shares in LivaNova by reason of their ownership of Cyberonics Common Stock will have a tax basis with respect to such LivaNova Shares equal to the fair market value of the LivaNova Shares at the Cyberonics Merger Effective Time, and the holding period with respect to such LivaNova Shares will begin on the date of the Cyberonics Merger. Assuming, as expected, that the Sorin Merger is treated as a reorganisation within the meaning of Section 368(a) of the Internal Revenue Code, then the period of time during which a U.S. holder who was formerly a Sorin Shareholder will be treated as having held the LivaNova Shares will include the time period during which such U.S. holder held its Sorin Shares, and such U.S. holder's tax basis in the LivaNova Shares will be its tax basis of the Sorin Shares exchanged in the Sorin Merger. Long-term capital gain of a non-corporate U.S. holder currently is subject to a maximum U.S. federal income tax rate of 20 per cent. The deduction of capital losses is subject to limitations.

3.4 Passive Foreign Investment Company Considerations

A foreign corporation is a PFIC if, after the application of certain "look-through" rules, (1) at least 75 per cent. of its gross income is "passive income" as that term is defined in the relevant provisions of the Internal Code and IRS rules, or (2) at least 50 per cent. Of the average value of its assets produce "passive income" or are held for the production of "passive income". The determination as to PFIC status is made annually. If a U.S. holder is treated as owning PFIC stock, the U.S. holder will be subject to special rules intended to reduce or eliminate the benefit of the deferral of U.S. federal income tax that results from investing in a foreign corporation that does not distribute all of its earnings on a current basis. Unless a U.S. holder elects to be taxed annually on a mark-to market basis with respect to its LivaNova Shares, gain realised on the sale or other disposition of the LivaNova Shares would not be treated as capital gain. Instead, a U.S. holder would be treated as if it had realised such gain and certain "excess distributions" ratably over its holding period for the shares and would be taxed at the highest tax rate in effect for each such year to which the gain was allocated, together with an interest charge in respect of the tax attributable to each such year. In addition, dividends would not be eligible for the special tax rates applicable to qualified dividend income if LivaNova is treated as a PFIC with respect to the U.S. holder, but instead would be taxable at rates applicable to ordinary income. With certain exceptions, a U.S. holder's LivaNova Shares will be treated as stock in a PFIC if LivaNova were to be a PFIC at any time during the U.S. holder's holding period in its shares. If a U.S. holder is treated as owning PFIC stock and the LivaNova Shares are treated as "marketable stock", the U.S. holder would not be subject to the PFIC rules if it makes a mark-to-market election. If the U.S. holder makes such election, the U.S. holder would include as ordinary income each year the excess, if any, of the fair market value of its LivaNova Shares at the end of the taxable year over the U.S. holder's adjusted basis in its LivaNova Shares. LivaNova expects its shares to be "marketable stock" for these purposes, but this conclusion is a factual determination as to which there can be no assurance.

It is not expected that LivaNova Shares will be treated as shares of a PFIC, and it is not expected that LivaNova will become a PFIC in the future. This conclusion is a factual determination that is made annually and thus may be subject to change. In addition, there can be no assurance that the IRS will not successfully challenge this position or that LivaNova will not become a PFIC at some future time as a result of changes in LivaNova's assets, income or business operations. U.S. holders should consult their own tax advisors about the determination of LivaNova's PFIC status and the U.S. federal income tax consequences of holding the LivaNova Shares if LivaNova is considered a PFIC in any taxable year.

3.5 Information Reporting and Backup Withholding

In general, information reporting requirements will apply to dividends received by U.S. holders of the LivaNova Shares and the proceeds received on the disposition of the LivaNova Shares effected within the United States (and, in certain cases, outside the United States), paid to U.S. holders other than certain exempt recipients (such as corporations). Backup withholding may apply to such amounts if the U.S. holder fails to provide an accurate taxpayer identification number (on an IRS Form W-9 provided to the paying agent or the U.S. holder's broker) or is otherwise subject to backup withholding. The amount of any backup withholding from a payment to a U.S. holder will be allowed as a refund or credit against the U.S. holder's U.S. federal income tax liability, provided that the required information is timely furnished to the IRS.

Non-U.S. holders may be required to comply with certification and identification procedures in order to establish an exemption from information reporting and backup withholding.

PART XII
CURRENT DIRECTORS, PROPOSED DIRECTORS, RESPONSIBLE PERSONS, CORPORATE GOVERNANCE AND EMPLOYEES

1. PERSONS RESPONSIBLE

LivaNova, the Current Directors and the Proposed Directors (whose names and functions appear on page 51 of this Prospectus) accept responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of LivaNova, the Current Directors and the Proposed Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and contains no omission likely to affect the import of such information.

2. CURRENT DIRECTORS AND PROPOSED DIRECTORS OF LIVANOVA

Current Directors

2.1 The following table sets out information relating to each of the Current Directors as at the date of this Prospectus:

Name	Position in LivaNova on the Closing Date	Designated by
Daniel J. Moore	Chairman (Non-executive)	Cyberonics
André-Michel Ballester	Chief Executive Officer	Sorin

2.2 The business address of the Current Directors will, following the Mergers completing, be 5 Merchant Square, London W2 1AY, United Kingdom.

2.3 Set out below are the business experience and principal business activities performed outside of LivaNova by the Current Directors, as well as the dates of their initial appointment as directors of LivaNova:

Daniel J. Moore (Chairman)

Daniel J. Moore was appointed as a director of LivaNova on 14 September 2015. Daniel J. Moore is the current president and chief executive of officer of Cyberonics and was appointed to these roles in 2007. Daniel joined Cyberonics from Boston Scientific where he held positions in sales, marketing and senior management in the United States and in Europe. In his last position at Boston Scientific, he served as President, International Distributor Management. Prior to this position, he was President, Inter-Continental. Daniel began his career with Procter and Gamble after graduating from Harvard College. He also earned an MBA from Boston University. In addition to Cyberonics, he serves on the boards of Trivascular, Inc, GI Dynamics, BrainScope Company, Inc., BioHouston Executive Committee, Weldon School of Biomedical Engineering Advisory Board at Purdue University, the Epilepsy Foundation of America® and the Medical Device Manufacturers Association (MDMA). Past board positions include Smiling Kids, Inc., the Epilepsy Foundation of Texas, the Epilepsy Foundation of Texas - Houston and Topera, Inc. (later acquired by Abbott).

André-Michel Ballester (Chief Executive Officer)

André-Michel Ballester was appointed as a director of LivaNova on 14 September 2015. André-Michel Ballester is the current chief executive officer of Sorin and was appointed to this role in September 2007. From 2004 to September 2007, he was president of Sorin's Cardiac Rhythm Management Business Unit. André-Michel was, from 2000 to 2004, Corporate Vice President EMEA, Asia and Latin America for Edwards Lifesciences. André-Michel spent his professional background in Edwards Lifesciences and Baxter, where he participated in the successful spinoff of Edwards Lifesciences from Baxter. For over 10 years prior to Edwards' spin-off, André-Michel held several executive positions in Baxter in Europe and in the USA and was appointed president of the CardioVascular Group, Europe in 1997. Currently André-Michel also serves as Independent Director of the Board of Carmat SA and of Mauna Kea Technologies, listed med-tech French companies. In 2012, André-Michel was appointed as a '*Chevalier dans l'ordre de la Légion d'Honneur*' ("Legion of Honour") in France. Born in Orleansville, Algeria, and raised in France, André-Michel received his M.S. degree in Engineering from Ecole Centrale, Lille, France, and his M.B.A. from INSEAD, Fontainebleau, France.

Proposed Directors

2.4 If the Mergers complete, the Proposed Directors will become directors of LivaNova with effect from the Closing Date.

2.5 The following table sets out information relating to each of the Proposed Directors as at the date of this Prospectus:

Name	Current position in Sorin/Cyberonics	Designated by
Rosario Bifulco	Chairman of Sorin	Sorin
Hugh Morrison	Chairman of Cyberonics	Cyberonics
Alfred J. Novak	Director of Cyberonics	Cyberonics
Arthur L. Rosenthal	Director of Cyberonics	Cyberonics
Francesco Bianchi	Director of Sorin	Sorin
Stefano Gianotti	—	Sorin
Sharon O'Kane	—	Sorin/ Cyberonics

2.6 The business address of the Proposed Directors, will, following the Mergers completing, be 5 Merchant Square, London W2 1AY, United Kingdom.

2.7 Set out below are the business experience and principal business activities performed outside of either Sorin or Cyberonics, as relevant, by the Proposed Directors, as well as the dates of their initial appointment as directors of Sorin or Cyberonics.

Rosario Bifulco

Rosario Bifulco is the current Chairman of Sorin and was appointed to this position on 30 December 2008. He is also Chairman of the Sorin's Executive Committee. In December 2006, Rosario was part of the Board of Directors of Italy-based Pierrel S.p.A., active in the pharmaceutical sector, giving a significant contribution to the international business development. Until 2006, he was Chairman and CEO of Lottomatica S.p.A. (a listed gaming company). Prior to that he spent his career in executive positions at Techosp (a company which controls and operates the Humanitas hospital in Milan), Techint (a leading engineering and construction company) and Gilardini (an industrial and automotive components division of FIAT Group). He currently serves as Board member of DEA Capital (an Italian listed company of the De Agostini group). He holds a degree in Mechanical Engineering from Politecnico in Naples and holds a Master in Business Administration from Harvard Business School, Boston.

Hugh Morrison

Hugh Morrison is the current Chairman of the Cyberonics board of directors, and was appointed to the Cyberonics board in November 2006. From July 2012 to present, Hugh has engaged in independent consulting and investments. From September 2008 through June 2012, he was a Managing Director at Callahan Advisors, LLC, an investment management company. From 1983 to December 2005, Hugh served as a director, and from January 1998 to December 2005 as chairman of the board of directors, of Advanced Neuromodulation Systems, Inc., a publicly-held designer, developer, manufacturer, and marketer of advanced implantable neurostimulation devices acquired by St. Jude Medical, Inc. in 2005. Hugh served as a director of Owen Healthcare, Inc., a publicly held hospital pharmacy management firm, from 1994 until it was acquired in 1996 by Cardinal Healthcare. In addition, Hugh served as a director of Dow Hickam Pharmaceuticals, Inc., a pharmaceutical manufacturer and marketer, from 1984 to 1991, when the company was sold to Mylan Laboratories, Inc. From March 1996 to May 2006, he served as President and CEO, and from January 1998 to May 2006 as Chairman of the board of directors, of Pilgrim Cleaners, Inc., a retail dry cleaning company operating over 100 stores, and its parent, Clean Acquisition, Inc. Hugh is licensed as a Certified Public Accountant.

Alfred J. Novak

Alfred J. Novak was appointed to the Cyberonics board of directors in January 2007. From April 2014 until March 2015, Alfred was engaged as President and CEO of Syntheon Cardiology, LLC, an early-stage company developing a percutaneous prosthetic aortic heart valve. From September 1999 until January 2015, he served on

the board of directors of OrbusNeich Medical Technology Company, Ltd., a privately-held interventional cardiology company, where he was Chairman and CEO from January 2010 until October 2013. He previously served as Chairman of the board of directors of ProRhythm, Inc., a privately-held company dedicated to the treatment of atrial fibrillation through the use of ultrasound technologies. In September 1998, he was a founder of Syntheon, LLC, a privately-held company that focused on minimally invasive medical devices for the gastroenterology and vascular markets. From October 2002 until March 2006, Alfred was the President, CEO and a director of Novoste Corporation, a publicly-held interventional cardiology company. From December 1998 until October 2002, he was a member of the board of directors of Sutura, Inc., a vascular closure company. Alfred was President, CEO, and a director of Biosense, Inc., an electrophysiology company, from July 1996 until January 1998 when it was acquired by Johnson & Johnson. He was employed by Cordis Corporation, then a publicly-held cardiology company, from April 1984 until July 1996 when it was acquired by Johnson & Johnson. At Cordis, he served as Vice President and CFO and had additional responsibility for Americas Sales and Marketing, Asia Pacific operations, electrophysiology and interventional neuroradiology, strategic planning and business development activities.

Arthur L. Rosenthal

Arthur L. Rosenthal was appointed to the Cyberonics board of directors in January 2007. Since June 2010, he has served as Professor of Practice in the Biomedical Engineering Department at Boston University. Since December 2011, he has also served as CEO of gEyeCue, Ltd., which he co-founded, a development stage medical device company working on a guided biopsy for lower and upper gastrointestinal cancer screening. From June 2011 until July 2012, Arthur served as executive vice chairman of Cappella Medical Devices Ltd. (now ArraVasc Ltd.), a development-stage company focused on novel device solutions for coronary artery disease. From June 2009 until June 2011, he served as President and CEO of Cappella, Inc. Arthur served as chairman, from January 2002, and CEO, commencing in January 2005, of Labcoat, Ltd. until its acquisition by Boston Scientific Corporation in December 2008. From January 1994 to May 2000, he was a Senior Vice President, Corporate Officer, and Chief Development Officer of Boston Scientific, and from May 2000 until his retirement in January 2005, he was a Senior Vice President, Chief Scientific Officer, and Executive Committee Member of Boston Scientific. From 2000 until 2010, Arthur served as a non-executive director, and from 2006 through 2009, as chairman of the Remuneration Committee, of Renovo, Ltd., a U.K.-based pharmaceutical company that became publicly traded in 2006. In July 2009, Arthur joined the board of Interface Biologics, Inc., a Toronto-based development stage company focused on drug delivery devices, as a non-executive director. In April 2011, he was elected Chairman at Interface Biologics, Inc. In June 2011, he joined the board of Arch Therapeutics, Inc., a life science company based in Natick, MA developing liquid polymers to stop or control bleeding.

Francesco Bianchi

Francesco Bianchi has acquired 30 years M&A and strategic advisory experience working for prime international institutions such as JPMorgan Chase (Paris), Morgan Grenfell (Milan), Citi (London) and Bankers Trust (Milan) where he served as General Manager and Head of the M&A and Corporate Finance division. Francesco has worked as advisor in the liquidation of Efim, a former Italian state-owned entity. He has headed the Strategic Planning division of Banca-Intesa M&A in Italy and abroad. Francesco graduated in Economic Sciences at University of Florence, and is Chartered Accountant. At present is member of Intesasanpaolo Supervisory Board and Provisional Administrator of Maggio Fiorentino Theatre Foundation. On 28 August 2015, Sorin's board of directors co-opted Mr. Bianchi as a member of the board of Sorin. Mr. Bianchi has previously served as a director of Sorin.

Stefano Gianotti

Stefano Gianotti founded and is a director of Padana Ricambi S.p.A, a company that specialises in the production of parts for motorcycles and scooters, in 1982. Stefano has been an Independent Director of Mittel S.p.A. since 2009. He serves as a Director of Banco di Brescia S.p.A., San Paolo Foundation Bank of Brescia, the Association of Former Shareholders of Banca Lombarda e Piemontese. Stefano is an accountant from the Insitute of Accounting, Abba, Genoa. Stefano served as a Member of Supervisory Board at UBI Assicurazioni S.p.A. From 2003 to 2007, Stefano served as a Director of Cattolica Investimenti SIM S.p.A.

Sharon O'Kane

Dr. Sharon O'Kane is currently a non-executive director of IOMet Pharma, an Edinburgh and London-based drug development company. Sharon is Entrepreneur in Residence at University College Dublin and is on the clinical/

scientific advisory board of ScarX, a Canadian biotech company. Sharon is also an expert advisor to the Stevenage Bioscience Catalyst Facility at GlaxoSmithKline, and is currently an adhoc adviser to Raglan Capital, a boutique corporate finance bank in Dublin. Prior to this, Sharon was the Entrepreneur in Residence at the University of Manchester Intellectual Property Company UMIP from 2009 to 2014, and the Chair of the Drug Discovery Advisory Board at the University of Manchester from 2011 to 2013. From 2011 to 2013, she was a member of the External Business Advisory Board of the Faculty of Life Sciences of the University of Manchester, and from 2010 to 2012, Sharon was a non-executive director of MIDAS (Manchester Inward Development Agency) and a member of the Operational Board of AGMA's Centre of Excellence. Sharon co-founded and from 1998-2010 was the Chief Scientific Officer and executive director of Renovo Group plc, a publicly listed UK biotech company. Sharon has been a member of the Institute of Directors in the UK and in Ireland since 2002, and has a Diploma in Company Direction from the Insitute of Directors.

3. INTERESTS OF THE CURRENT DIRECTORS AND PROPOSED DIRECTORS OF LIVANOVA AND THE SENIOR MANAGERS

3.1 LivaNova Shares

As at 9 October 2015, being the latest practicable date before the publication of this Prospectus, the interest (including beneficial interests) of the Current Directors, Proposed Directors and the Senior Managers (as well as their immediate families) in the share capital of Sorin or Cyberonics or (so far as is known or could with reasonable due diligence be ascertained by them) persons connected (within the meaning of section 252 of the Companies Act 2006) with the Current Directors, Proposed Directors and Senior Managers, together with such interests as are expected to be held immediately following completion of the Mergers, including LivaNova Shares to be issued to such persons in connection with outstanding Sorin and/or Cyberonics' equity awards, are set out below.

			On Completion of the Mergers
Directors/ Senior Managers	**Sorin Shares**	**Cyberonics Common Stock**	**LivaNova Shares**
Daniel J. Moore	—	93,403	93,403
André-Michel Ballester	1,031,596	—	48,691
Rosario Bifulco	2,065,795	—	97,505
Hugh Morrison	—	8,815	8,815
Alfred J. Novak	—	17,020	17,020
Arthur L. Rosenthal	—	15,265	15,265
Francesco Bianchi	—	—	—
Stefano Gianotti	—	—	—
Sharon O'Kane	—	—	—
Michel Darnaud	277,150	—	13,081
Stefano Di Lullo	142,223	—	6,712
Rohan Hoare	—	9,797	9,797
Jacques Gutedel	133,113	—	6,282
Edward Andrle	154,592	—	7,296
Brian Sheridan	117,648	—	5,552
Pritpal Shinmar	—	—	—
David Wise	—	37,262	37,262
Vivid Sehgal	—	—	—
Demetrio Mauro	140,000	—	6,608

3.2 Equity awards

In addition to the interests disclosed in paragraph 3.1 above, the Current Directors, Proposed Directors and Senior Managers will, following closing of the Mergers, hold the following options, rights and awards that will or may entitle them to have LivaNova Shares issued to them.

(a) *Cyberonics stock options*

As set out in paragraph 12 of Part I (*Information on the Mergers*), at the Cyberonics Merger Effective Time, each outstanding Cyberonics stock option (other than a Cashed-out Cyberonics Option) will be cancelled and converted into an option to purchase a number of LivaNova Shares under the new LivaNova 2015 Incentive Award Plan described in paragraph 12 below.

The table below shows the number of shares of Cyberonics Common Stock underlying such unvested options and the number of LivaNova Shares underlying the converted options in each case held by the applicable Current Director and Senior Managers.

Director / Senior Manager	Number of Cyberonics shares underlying unvested option	Number of LivaNova Shares underlying converted option	Weighted average exercise price of unvested options (US$)*
Daniel J. Moore	103,249	103,249	54.91
Rohan Hoare	28,940	28,940	55.37
David Wise	21,917	21,917	54.74

* Weighted average exercise prices are rounded up or down to the nearest whole cent.

(b) *Sorin Stock Appreciation Rights (SARs)*

As set out in paragraph 12 of Part I (*Information on the Mergers*), each SAR to acquire Sorin Shares based on the value thereof granted under any Sorin stock plan that is outstanding immediately prior to the Sorin Merger Effective Time will be fully vested and converted into a SAR based on a number of LivaNova Shares under the new LivaNova 2015 Incentive Award Plan described in paragraph 12 below.

The table below shows the number of such Sorin SARs held by the applicable Current Director, Proposed Director and Senior Managers, the weighted average exercise price of such SARs, the value of such SARs as at 9 October 2015 and the maximum number of LivaNova Shares to which such SARs could entitle them.

Director / Senior Manager	Number of Sorin SARs	Number of underlying Sorin Shares	Weighted average exercised price*	Value (€)	Maximum number of LivaNova Shares that may be issued
André-Michel Ballester	398,464	76,113	€2.15	202,460	18,808
Rosario Bifulco	223,305	42,655	€2.15	113,461	10,540
Michel Darnaud	199,137	38,038	€2.15	101,182	9,399
Stefano Di Lullo	149,136	28,487	€2.15	75,776	7,039
Jacques Gutedel	171,049	32,673	€2.15	86,910	8,074
Edward Andrle	157,126	30,013	€2.15	79,836	7,416
Brian Sheridan	132,702	25,348	€2.15	67,426	6,264
Pritpal Shinmar	108,515	20,728	€2.15	55,136	5,122
Demetrio Mauro	185,251	35,386	€2.15	94,126	8,744

* Weighted average exercise price numbers are rounded up or down to the nearest whole cent.

(c) *Modified Sorin LTI Awards*

As set out in paragraph 12 of Part I (*Information on the Mergers*), at the Sorin Merger Effective Time, each Sorin LTI Award will be converted into a number of LivaNova Shares. In respect of the Modified Sorin LTI Awards, a portion of such LivaNova Shares will be issued following closing, with 50 per cent. of the remaining LivaNova Shares to be issued on 26 February 2016 and 50 per cent. to be issued on 27 February 2017, in each case subject to continued employment.

The table below shows the number of Modified Sorin LTI Awards held by the applicable Current Director and Senior Managers that may be issued on 26 February 2016 and 27 February 2017.

Director / Senior Manager	LivaNova Shares to be issued on 26 February 2016	LivaNova Shares to be issued on 27 February 2017
André-Michel Ballester	6,432	6,432
Michel Darnaud	3,437	3,437
Stefano Di Lullo	2,574	2,574
Jacques Gutedel	2,993	2,993
Edward Andrle	2,318	2,318
Brian Sheridan	2,070	2,070
Pritpal Shinmar	1,475	1,475
Demetrio Mauro	2,902	2,902

(d) *LivaNova Stock Appreciation Rights (SARs)*

As set out in paragraph 12 of this Part XII, LivaNova will implement a retention plan pursuant to which, on the Closing Date, LivaNova will grant stock appreciation rights to certain employees of Cyberonics and Sorin under an equity compensation plan to be adopted by LivaNova and an award agreement to be entered into with each such recipient.

The table below shows value of the awards to be granted to the applicable Current Directors and Senior Managers.

Director / Senior Manager	Value of award (€ million)
André-Michel Ballester	1.767
Michel Darnaud	0.63
Stefano Di Lullo	0.63
Rohan Hoare	0.63
Jacques Gutedel	0.63
Edward Andrle	0.63
Brian Sheridan	0.63
Pritpal Shinmar	0.125
David Wise	0.63
Vivid Sehgal	0.63
Demetrio Mauro	0.25

The strike price of the SAR awards will be equal to the opening price of a LivaNova Share on NASDAQ on the Closing Date. The number of LivaNova Shares subject to the awards will be determined based on the Black-Scholes value.

(e) *LivaNova Restricted Stock Units (RSUs)*

As set out in paragraph 4.3 of this Part XII, LivaNova will implement a non-employee Director compensation policy pursuant to which, on the Closing Date, LivaNova will grant restricted stock units to each of the Proposed Directors and Daniel J. Moore, as Chairman, under an equity compensation plan to be adopted by LivaNova and an award agreement to be entered into with each such recipient.

The table below shows value of the restricted stock unit awards to be granted to the applicable Directors on a prorated basis on the Closing Date (to cover the period from the Closing Date (or in the case of Daniel J. Moore, 14 September 2014, being his start date) through to the first annual general meeting).

Director	Value of award (US$ million)
Daniel J. Moore	0.156
Rosario Bifulco	0.084
Hugh Morrison	0.084
Alfred J. Novak	0.084
Arthur L. Rosenthal	0.084
Francesco Bianchi	0.084
Stefano Gianotti	0.084
Sharon O'Kane	0.084

The number of LivaNova Shares subject to the awards will be determined based on the closing price of the LivaNova Shares on NASDAQ on the Closing Date.

4. DIRECTORS' TERMS OF EMPLOYMENT AND REMUNERATION

4.1 Each Current Director and Prospective Director has entered into a service agreement or letter of appointment with LivaNova, the key terms of which are set out below.

4.2 Executive Director

André-Michel Ballester

Service agreement

André-Michel Ballester is expected to enter into a service agreement with LivaNova on the Closing Date in connection with his role as the Chief Executive Officer of LivaNova. His annual basic salary will be £575,000. The agreement may be terminated by either André-Michel or LivaNova giving twelve months' prior written notice. LivaNova may terminate the agreement immediately by giving André-Michel notice in writing and providing a payment of salary and benefits in lieu of notice.

André-Michel is eligible to receive an annual discretionary bonus. The target amount of André-Michel's bonus is a sum equal to 100 per cent. of his basic salary, subject to the achievement of performance objectives to be determined by the Compensation Committee. The actual amount of the bonus awarded in respect of a particular year will be determined by the Compensation Committee, which may award a bonus in excess of the target amount. A bonus will only be paid to André-Michel if he remains in employment with LivaNova and has not received or served notice of termination on the date the bonus is due for payment, save for where his employment is terminated by LivaNova for a reason other than for "cause", or André-Michel resigns in circumstances which constitute dismissal. In these circumstances, André-Michel will be entitled to a pro-rated bonus in respect of the part of the applicable financial year during which he was in employment.

André-Michel is subject to twelve month non-competition and non-solicitation restrictions (which are set-off against any period which he spends on garden leave) in respect of LivaNova clients, prospective clients, suppliers, products, services and employees. These restrictions apply from the date of the termination of his employment to his activities throughout the United Kingdom and any other country where LivaNova conducts business at the date of termination of employment.

Side Letter

On the Closing Date, the Board of LivaNova will issue a side letter to André-Michel addressing certain intended future grants of equity awards to him. The side letter will confirm that the Compensation Committee will be asked to recommend the grant, later in 2015, of time-based restricted stock units with respect to LivaNova Shares with a grant-date value of US$5 million, which will vest with respect to 20 per cent. of the LivaNova Shares subject to such award in each of the three years following the grant and

with respect to 40 per cent. of the LivaNova Shares subject to such award in the fourth year following the date of grant. In addition, the side letter will confirm that the Compensation Committee will be asked to recommend the grant to André-Michel, in 2016 of (i) performance-based restricted stock units with a grant-date value of US$3 million, one third of which will be eligible to vest in equal annual installments in the first four years following the date of grant subject to the achievement of net sales revenue targets to be determined by the Compensation Committee, one-third of which will be eligible to vest in equal annual installments in the first four years following the date of grant subject to the achievement of adjusted net income targets to be determined by the Compensation Committee, and one-third of which will be eligible to vest during a specified period determined by the Compensation Committee subject to the achievement of a 50-day average closing price of the LivaNova Shares, the price and the averaging period to be determined by the Compensation Committee and (ii) stock options with a grant-date value of US$1 million, which will vest in equal annual installments in the first four years following the date of grant. The side letter will also confirm that the Board will recommend to the Compensation Committee that André-Michel be eligible for annual grants of equity awards in 2017, 2018 and 2019, as determined by the Compensation Committee.

4.3 Non-executive Directors

Each of the Proposed Directors and Daniel J. Moore, as Chairman, is expected to enter into a letter of appointment with the Company on the Closing Date setting out the terms of appointment. Each such Director's appointment may be terminated by the Company or the Director with one month's written notice. Continuation of the appointment is contingent on continued satisfactory performance and the appointment will terminate automatically on termination of the appointment by the LivaNova Shareholders or, where shareholder approval is required for the appointment to continue, the withdrawal of approval by the LivaNova Shareholders. The non-executive Directors will be compensated pursuant to the LivaNova non-employee director compensation policy to be adopted on the Closing Date, pursuant to which they will each receive a fee of US$60,000 per annum, in addition to LivaNova Restricted Stock Units (RSUs) (with a one year vesting period) to the value of US$160,000 per annum. Daniel J. Moore, as Chairman, will receive an additional fee of US$60,000 per annum for his role and additional LivaNova Restricted Stock Units (RSUs) (with a one year vesting period) to the value of US$90,000 per annum. Hugh Morrison, as chairman of the Audit Committee, will receive an additional fee of US$30,000 per annum for taking on that role. Arthur L. Rosenthal, as chairman of the Compensation Committee, will receive an additional fee of US$20,000 per annum for taking on that role. Rosario Bifulco, as chairman of the Nominating and Governance Committee, will receive an additional fee of US$15,000 per annum for taking on that role. Alfred J. Novak and Francesco Bianchi will each receive additional fees of US$15,000 per annum for being a member of the Audit Committee, and US$8,000 per annum for being a member of the Compensation Committee. Stefano Gianotti, Sharon O'Kane and Hugh Morrison will each receive an additional fee of US$6,000 per annum for being a member of the Nominating and Governance Committee. Cash payments will be made quarterly in advance to the Directors, with the first such payment taking place on the Closing Date (on a prorated basis) to cover the period to the end of that relevant quarter. The payment of the LivaNova Restricted Stock Units (RSUs) will also be paid in advance and on the date of each LivaNova annual general meetings, with the first such payment taking place on the Closing Date (on a prorated basis) to cover the period from the Closing Date (or in the case of Daniel J. Moore, 14 September 2015, being his start date) to LivaNova's first annual general meeting. The Directors will also be reimbursed for all proper and reasonable expenses incurred in performing their duties. In accordance with these letters, each such Director will be required to allocate sufficient time to discharge their responsibilities effectively. Each letter of appointment will contain confidentiality obligations, which will have effect during the appointment and after termination thereof.

4.4 Save as set out in this Part XII (*Current Directors, Responsible Persons, Corporate Governance and Employees*), there are no existing or proposed service agreements between any Current Director or Proposed Director and LivaNova providing benefits upon termination.

4.5 Remuneration of Sorin designees

During the year ended 31 December 2014, the remuneration paid by Sorin to the Current Directors and Proposed Directors who have been designated to the LivaNova Board by Sorin is as follows:

Name	Director Fees (€)	Compensation for Special Offices (€)	Wage from Employment (€)	Bonuses & Other Incentives (€)	Non-Monetary Benefits (€)	Other Compensation (€)	Fair Value of Equity Compensation (€)
André-Michel Ballester	24,000	515,600	148,194	169,219	51,716	27,000	146,160
Rosario Bifulco	24,000	480,000	—	125,000	4,202	—	82,086
Francesco Bianchi	2,000	—	—	—	—	—	—
Stefano Gianotti	—	—	—	—	—	—	—

4.6 Remuneration of Cyberonics designees

During the fiscal year ended 24 April 2015, the remuneration paid by Cyberonics to the Current Directors and Proposed Directors who have been designated to the LivaNova Board by Cyberonics is as follows:

Name and Position	Salary (US$)	Bonus (US$)	Stock Awards (US$)(1)	Option Awards (US$)(2)	Non-Equity Incentive Plan Compensation (US$)(3)	All Other Compensation (US$)(4)	TOTAL (US$)
Daniel J. Moore	635,500	—	2,400,135	1,002,747	374,761	10,120	4,423,263
Hugh Morrison	—	—	124,987	—	—	126,023	251,010
Alfred J. Novak	—	—	124,987	—	—	55,000	179,987
Arthur L. Rosenthal	—	—	124,987	—	—	65,000	189,987

Notes:
(1) Stock Awards reflects the aggregate grant date fair value for the Cyberonics stock awarded during the fiscal year ended 24 April 2015.
(2) Option Awards reflect the aggregate grant date fair value for Cyberonics stock options awarded during the fiscal year ended 24 April 2015.
(3) Reflects the cash amounts paid to the named Directors under the Cyberonics fiscal year 2015 executive bonus plan.
(4) Reflects the aggregate dollar amount for all other benefits and payments received by the named Directors, including for supplemental life insurance, 401(k) company match, and directors' fees.

5. SENIOR MANAGERS

5.1 Following the completion of the Mergers, LivaNova will be comprised of three business units: Cardiac Surgery, Cardiac Rhythm Management and Neuromodulation, along with an Intercontinental Group. LivaNova's senior management team (the Executive Leadership Team) will include:

Name	Position
Michel Darnaud	Head of Cardiac Surgery
Stefano Di Lullo	Head of Cardiac Rhythm Management
Rohan Hoare	Head of Neuromodulation
Jacques Gutedel	Head of Intercontinental

5.2 The other Senior Managers in the Executive Leadership Team will include:

Name	Team/function
Edward Andrle	Strategy, Business Development And New Ventures/Emerging Therapies
Brian Sheridan	General Counsel
Pritpal Shinmar	Global Market Access
David Wise	Human Resources and the Information Technology
Vivid Sehgal	Chief Financial Officer
Demetrio Mauro	Chief Integration Officer

5.3 Set out below are the business experience and principal business activities performed outside of LivaNova by the Senior Managers:

Michel Darnaud

Michel is the current President of Cardiac Surgery of Sorin. He has more than 30 years of experience in the medical technology industry where he has spent most of his career, primarily in positions with international responsibilities. Prior to joining Sorin in February 2008 as President of Cardiopulmonary and Intercontinental business, Michel served as Consultant, Executive Search at Spencer Stuart, from 2005. Before that, he was President Europe for Boston Scientific for seven years with responsibility for profit and loss across eight divisions, including interventional cardiology. Before Boston Scientific, Michel spent 18 years with Baxter International, where he worked his way up to the position of President European Cardiovascular Business. Michel is also a former Chairman of Eucomed, the European Medical Device Industry Association.

Stefano Di Lullo

Stefano is the current President of Cardiac Rhythm Management of Sorin. Stefano joined Sorin in 2005 as Senior Vice President Vascular Therapy BU and was then appointed President, Heart Valves BU in 2007. Stefano brought with him a thorough expertise in the cardiovascular area gained during his long and valuable experience in Canada, USA and Europe. Before joining Sorin, he was VP Europe Peripheral Vascular for Boston Scientific. Prior to that, he held similar general management positions with Baxter and Edwards Lifesciences, where he was also VP General Manager, HV Therapy at the Irvine Headquarters. Stefano holds a MBA from the University of Toronto and a BA from McGill University (Montreal).

Rohan Hoare

Rohan is the current Senior Vice President and Chief Operating Officer of Cyberonics, and was appointed to these roles in 2013. Previously, Rohan was the President of St. Jude Neuromodulation Division, which designs, manufactures and sells neuromodulation devices for the treatment of chronic pain, movement disorders and chronic migraine headache. In his nine years with St. Jude Neuromodulation (formerly Advanced Neuromodulation Systems, Inc.), he held leadership roles in strategy, therapy development and R&D, where he was responsible for developing and launching numerous products and therapies. He began his career with McKinsey & Co., a premiere strategy consulting firm, where he served clients in high tech, med tech and healthcare payer and providers for nearly a decade. Rohan received a Bachelor of Science in Physics and was awarded Faculty of Science Scholar honors at Monash University, Melbourne, Australia. He continued his studies at Harvard University as a Fulbright Scholar, where he received a Master of Arts and a Ph.D. in Physics.

Jacques Gutedel

Jacques is the current Vice President of the Intercontinental group of Sorin, and was appointed to this role in 2009. He holds an Engineering degree with specialisation in production from the Moenchengladbach University (Germany). He started his career in sales and marketing before joining Mallinckrodt in

1990 where he took on positions of increasing responsibility. In 2001, he joined Boston Scientific as VP Midsize Countries and Electrophysiology Europe and later on as VP EPT International (Europe, Intercontinental and Japan). His last position was as Vice President Europe, Middle East & Africa and member of the executive team with Nobel Biocare.

Edward Andrle

Ed is the current Vice President of Strategy and Business Development of Sorin, and joined the Sorin headquarters in Milan, Italy in September 2010. Ed, a US national, had a successful career in the medical device industry, initially with large US corporations like Baxter and Boston Scientific, before becoming an entrepreneur and a CEO of start-up companies like Teramed (endovascular stent-graft), Myocor (mitral valve surgery) and StarFire Medical (neurovascular technology). Ed has an MBA from the Stanford Graduate School of Business and a BS in Chemical Engineering from the University of Notre Dame.

Brian Sheridan

Brian is the current General Counsel of Sorin. Brian joined Sorin in 2003 as Director Corporate Legal Affairs in 2003, with a thorough experience in international business and corporate law. Prior to joining Sorin, Brian worked for many years in the Brussels office of a US law firm, specialising in commercial and regulatory matters for the life science sector and leaving as Partner, and Head of the Life Science Practice Group. Brian received his Law and Masters degree from the London University, and is a member of the Bar of England and Wales.

Pritpal Shinmar

Pritpal is the current Vice President of Market Access of Sorin. Pritpal has 29 years of international healthcare industry experience, including in sales, marketing, strategic planning, business development, market development, Government Affairs, and HE&R. Prior to joining Sorin, Pritpal was Vice President, International Strategy, for Boston Scientific. During this time, he led the expansion into the emerging markets with focus on China and India. He also designed and implemented the international HE&R and Government Affairs teams to ensure timely generation and execution of value propositions for multiple healthcare stakeholders. Pritpal graduated from Trent University and has studied General Business Management at the London Business School.

David Wise

David is a current Senior Vice President, Chief Administrative Officer and Secretary of Cyberonics. David joined Cyberonics in September 2003 as Vice President and General Counsel. He was appointed Secretary in November 2003 and assumed responsibility for Human Resources in June 2009. In April 2011, he was appointed Senior Vice President and Chief Administrative Officer, with responsibility for Legal, Human Resources, Information Technology and New Business Development. From 1994 to 2003, he was employed in positions of increasing responsibility at Centerpulse USA, Inc. (formerly Sulzer Medica), a global medical devices company, where he served as Group Vice President and General Counsel. Prior to Centerpulse, he spent 12 years in private practice focused on intellectual property and commercial litigation.

Vivid Sehgal

Vivid has more than 25 years of financial, operational and compliance leadership, most recently with Allergan, Inc., where he served as Senior Vice President, Treasury, Risk & Investor Relations, playing a lead role in the company's capital deployment and risk strategies, culminating in the sale of Allergan to Actavis plc. Previously, Vivid served as Vice President & Regional Controller of Allergan's Europe, Middle East and Africa (EMEA) business, where he was responsible for finance, accounting, information technology, market research, data quality and sales operations covering more than 60 countries. Vivid played a key role in the formulation and execution of the Allergan's strategy for international acquisitions and expansion into key emerging markets. Prior to Allergan, Vivid worked in various roles with GlaxoSmithKline and SmithKline Beecham for nine years, with his last position being Group Controller for the International Pharmaceutical Division. Vivid brings additional financial leadership experience from other companies, including the Gillette Company during its acquisition by Procter & Gamble,

Inc. and Grand Metropolitan plc. Vivid earned a Master's degree in Finance and Investment from the University of Exeter and a Bachelor's degree in Economics from the University of Leicester. He is a member of the Chartered Institute of Management Accountants.

Demetrio Mauro

Demetrio is the current chief financial officer of Sorin and was appointed to this role in 2005. He also served as vice president of corporate finance, responsible for managing the financial risks, financial planning and record-keeping, as well as financial reporting to higher management of the corporation. Before joining Sorin, Demetrio was CFO/managing director of Teksid Aluminium Italy from June 2004 to November 2005. During his time there, he focused on the industrial turnaround and financial restructuring of this company. Prior to this, Demetrio held various CFO and other senior roles in technological companies such as De Agostini and Olivetti Group Ivrea. Demetrio earned a master's degree from Columbia University in New York. He also holds an MBA from the University Luiss of Rome.

6. SENIOR MANAGEMENT REMUNERATION

6.1 Sorin

In the year ended 31 December 2014, the aggregate remuneration paid to the Senior Managers who, prior to the Closing Date, were employed by Sorin, being Michel Darnaud, Stefano Di Lullo, Jacques Gutedel, Edward Andrle, Brian Sheridan, Pritpal Shinmar and Demetrio Mauro, was approximately €3.2 million, including all salaries, bonuses and contributions during such period to provide retirement or other related benefits, of which approximately €200,000 was due to provision of life assurance and other contributions, approximately €700,000 was due to bonus related payments and approximately €2.3 million was due to salary payments. In addition, these individuals also received approximately 409,000 Sorin Shares in the year ended 31 December 2014 under the Sorin 2011-2013 Performance Shares Long Term Incentives cycle based on the achievement of pre-established performance metrics.

6.2 Cyberonics

In the fiscal year ended 24 April 2015, the aggregate remuneration paid to the Senior Managers who, prior to the Closing Date, were employed by Cyberonics, being Rohan Hoare and David Wise, was approximately US$2,421,373, including all salaries, bonuses and contributions during such period to provide retirement or other related benefits, of which US$288,293 was due to bonus related payments and US$651,212 was due to salary payments. No provisions were made for life assurance benefits.

7. RETIREMENT BENEFITS

7.1 Sorin retirement benefits

Sorin has not established any insurance policies or benefit plans for members of Sorin's executive leadership team other than those required by law, and a supplemental healthcare plan. The total amounts set aside or accrued in 2014 by Sorin to provide pension, retirement or similar benefits under the plans for the members of Sorin's executive leadership team who will serve as executive officers of LivaNova, including Mr Ballester, is approximately €260,000. This does not include state pension social security contributions.

7.2 Cyberonics retirement benefits

Cyberonics sponsors the Cyberonics, Inc. Employee Retirement Savings Plan, which qualifies under section 401(k) of the Internal Revenue Code. Cyberonics matches 50 per cent. of employees' contributions up to 6 per cent. of eligible compensation, subject to a five-year vesting period that starts on the date of employment. The total amounts set aside or accrued in the 2015 fiscal year by Cyberonics to provide pension, retirement or similar benefits under the plans for the members of Cyberonics' executive leadership team who will serve as executive officers of LivaNova is approximately US$15,854.

8. LIVANOVA BOARD STRUCTURE AND CORPORATE GOVERNANCE

8.1 LivaNova expects to comply with the corporate governance requirements outlined NASDAQ Rules. LivaNova will comply with the requirement of Disclosure and Transparency Rule 7.1 of the Disclosure and Transparency Rules to have an audit committee. All members of the Audit Committee (details of which are set out in paragraph 9 below) will be independent directors and at least one member, being Hugh Morrison, will have competence in accounting and/or auditing. LivaNova will also comply with the requirements of Disclosure and Transparency Rule 7.2 of the Disclosure and Transparency Rules to include a corporate governance statement in its directors' report in compliance with Disclosure and Transparency Rule 7.2. LivaNova will only comply with the Corporate Governance Code to the extent that the relevant sections overlap, and are consistent with, the NASDAQ Rules and the relevant provisions of the Disclosure and Transparency Rules. As a company with a standard listing of ordinary shares on the Official List, LivaNova is not required to be in full compliance with the Corporate Governance Code.

8.2 The corporate governance provisions of the NASDAQ Rules provide, *inter alia* that:

- The LivaNova Board is required to have a majority of independent directors.
- LivaNova is required to have an audit committee consisting solely of independent directors who can read and understand financial statements. The audit committee must have at least three members, including one with experience that results in the individual's financial sophistication.
- LivaNova is required to have a compensation committee consisting solely of independent directors and including at least two members. The compensation committee must determine, or recommend to the full board for determination, the compensation of the chief executive officer and all other executive officers.
- Independent directors must select or recommend nominees for directors.
- LivaNova must adopt a code of conduct applicable to all directors, officers and employees.

8.3 The LivaNova Board, upon the Closing Date, will comprise nine directors in total. The independence of each of the Current Directors and Proposed Directors has been evaluated by reference to the independence criteria set out in the NASDAQ Rules. LivaNova has surveyed each of the respective board designees of Sorin and Cyberonics, and the director who is jointly designated by both companies, being Sharon O'Kane, and has determined that each of Rosario Bifulco, Hugh Morrison, Alfred J. Novak, Arthur L. Rosenthal, Francesco Bianchi, Stefano Gianotti and Sharon O'Kane are independent, and each of Daniel J. Moore and André-Michel Ballester are not independent, in each case, within the meaning of the NASDAQ Rules. Under the NASDAQ Rules, "independent director" means a person other than an executive officer or employee of LivaNova or any other individual having a relationship which, in the opinion of the LivaNova Board, would interfere with the exercise of independent judgement in carrying out the responsibilities of a director.

The following persons will not be considered independent pursuant to the NASDAQ Rules:

- a director who is, or at any time in the past three years was, employed by LivaNova;
- a director who accepted or who has a family member (spouse, parents, children and siblings (whether by marriage or adoption), or anyone residing in such person's home) who accepted any compensation from LivaNova in excess of US$120,000 during any period of twelve consecutive months within the preceding three years, other than (i) compensation for board or board committee service, (ii) compensation paid to a family member who is an employee (other than an executive officer) of LivaNova, or (iii) benefits under a tax-qualified retirement plan, or non-discretionary compensation. Audit committee members are subject to additional requirements;
- a director who is a family member of an individual who is, or at any time during the past three years was, employed by LivaNova as an executive officer;
- a director who is, or has a family member who is, a partner in, or a controlling shareholder or an executive officer of, any organisation to which LivaNova made, or from which LivaNova received, payments for property or services in the current or any of the past three fiscal years, that exceeds 5 per cent. or more of the recipient's consolidated gross revenues for that year, or US$200,000, whichever is more, other than (i) payments arising solely from investments in LivaNova's securities, or (ii) payments under non-discretionary charitable contribution matching programmes;

- a director of LivaNova who is, or has a family member who is, employed as an executive officer of another entity where at any time during the past three years any of the executive officers of LivaNova serve on the compensation committee of that other entity; or
- a director who is, or has a family member who is, a current partner of LivaNova's outside auditor, or was a partner of LivaNova's outside auditor who worked on LivaNova's audit at any time during any of the past three years.

9. LIVANOVA BOARD COMMITTEES

9.1 The LivaNova Board is expected to form the following board committees: Audit, Compensation and Nominating and Governance. Pursuant to the Merger Agreement, Sorin and LivaNova will take all actions as may be necessary to cause one of the directors designated by Cyberonics to serve as Chairman of the Audit Committee and Compensation Committee during the LivaNova Initial Period. Each committee of the LivaNova Board will have at least three members, of which one will be a Sorin designee on the LivaNova Board for the LivaNova Initial Period.

9.2 Audit Committee

The Audit Committee will be comprised of at least three directors as determined by the Board or the Nominating and Governance Committee of the Board, none of whom will be an affiliate of LivaNova or an employee or a person who receives any compensation from LivaNova other than fees paid for service as a director, and at least one of whom shall qualify as a "financial expert" as defined by the SEC. The Audit Committee shall meet at least three times a year at appropriate intervals in the financial reporting and audit cycle and otherwise as required. The initial membership of the Audit Committee shall be Hugh Morrison, Alfred J. Novak, Francesco Bianchi, of whom Hugh Morrison shall be the Chairman.

The members of the Audit Committee shall serve until their successors will be duly elected for a period of up to three years extendable by no more than two additional three-year periods, so long as the members continue to be "independent" as defined from time to time by the NASDAQ Rules and by the applicable regulations of the SEC.

The responsibilities of the Audit Committee include: (i) reviewing LivaNova's consolidated financial statements and internal controls with management and the independent auditors; (ii) monitoring actions taken by LivaNova to comply with its internal accounting and control policies as well as external financial, legal and regulatory requirements; (iii) monitoring LivaNova's internal audit function; (iv) reviewing the qualifications and independence of the registered public accounting firm engaged for the purpose of auditing LivaNova's consolidated financial statements; (v) selecting LivaNova's independent auditors and evaluating their performance; and (vi) reviewing and approving LivaNova's investment policy (including, without limitation, any investment guidelines with regard to maturity, liquidity, risk and diversification) and any modifications thereto.

9.3 Compensation Committee

The Compensation Committee shall be comprised of at least three members of the Board. Each member of the Compensation Committee shall be "independent" as defined from time to time by the NASDAQ Rules and by the applicable regulations of the SEC. The Compensation Committee shall meet at least twice each year, and otherwise as required. Appointments made to the Compensation Committee shall be for a period of up to three years, extendable by no more than two additional three-year periods, so long as the members continue to be independent. The initial membership of the Compensation Committee shall be Arthur L. Rosenthal, Alfred J. Novak and Francesco Bianchi, of whom Arthur L. Rosenthal shall be the Chairman.

The responsibilities of the Compensation Committee include: (i) the review, evaluation, and approval of agreements, policies, plans and programmes for officer and director compensation for LivaNova; (ii) the review, evaluation, and approval of LivaNova equity awards and equity plans; (iii) the review of the compensation disclosure to be included in the proxy statement for LivaNova's annual general meeting; (iv) to prepare a report of the Compensation Committee for inclusion in LivaNova's proxy statement; and (v) to perform such other functions as the Board may assign to the Compensation Committee from time to time.

9.4 Nominating and Governance Committee

The Nominating and Governance Committee shall be comprised of at least three members of the Board. Each member of the Nominating and Governance Committee shall be "independent" as defined from time to time by the NASDAQ Rules applicable to U.S. listed companies. The Nominating and Governance Committee shall meet at least twice a year, and otherwise as required.

Appointments to the Nominating and Governance Committee shall be for a period of up to three years, which may be extended for further periods of up to three years, provided the director still meets the criteria for membership of the Nominating and Governance Committee. The initial membership of the Nominating and Governance Committee shall be Rosario Bifulco, Stefano Gianotti, Sharon O'Kane and Hugh Morrison, of whom Rosario Bifulco shall be the Chairman.

The responsibilities of the Nominating and Governance Committee include: (i) assisting the Board to identify individuals qualified to become Board members and to recommend nominees to the Board; (ii) to advise the Board about the appropriate composition of the Board and its committees; (iii) to advise the Board about and recommend to the Board appropriate corporate governance practices and to assist the Board in implementing those practices; (iv) to lead the Board in its annual review of the performance of the Board and its committees; and (v) to perform such other functions as the Board may assign from time to time to the Nominating and Governance Committee.

10. CONFLICTS OF INTEREST OF DIRECTORS AND SENIOR MANAGERS

10.1 There are no actual or potential conflicts of interest between any duties to LivaNova of the Current Directors, the Proposed Directors, and the Senior Managers and their private interests and/or other duties.

10.2 Save as disclosed in paragraph 4 of Part XIII (*Additional Information*) of this Prospectus, insofar as is known to the Current Directors, the Proposed Directors and the Senior Managers, there is no person who is or will be immediately following Admission, directly or indirectly, interested in 3 per cent. or more of the issued share capital of LivaNova, or of any other person who can, will or could, directly or indirectly, jointly or severally, exercise control over LivaNova.

10.3 Other than as disclosed in paragraph 11 of Part I (*Information on the Mergers*) in respect of Francesco Bianchi and Stefano Gianotti, no other Current Director or Prospective Director was selected to be a director of LivaNova pursuant to any arrangement or understanding with any major customer, supplier or other person having a business connection with LivaNova.

10.4 There are no family relationships between any of the Current Directors, the Proposed Directors and/or the Senior Managers.

11. EMPLOYEES

11.1 Sorin

The number of staff employed by Sorin for the three years ended 31 December 2012, 31 December 2013 and 31 December 2014 is set out below:

By role	**2014**	**2013**	**2012**
Operations	1,960	1,970	2,095
Sales And Marketing	923	907	918
R&D	578	578	620
General administrative staff	266	278	278
TOTAL	**3,727**	**3,733**	**3,911**

By geography	**2014**	**2013**	**2012**
Italy	1,894	1,855	1,913
Rest of Europe	956	951	955
North America	783	791	799
Rest of the World	94	136	204
TOTAL	**3,727**	**3,733**	**3,911**

11.2 Cyberonics

The number of staff employed by Cyberonics for the three fiscal years ended 24 April 2015, 25 April 2014 and 26 April 2013 is set out below:

By role	2015	2014	2013
Operations	128	121	99
Sales And Marketing	236	213	193
R&D	194	208	200
General administrative staff	102	97	89
TOTAL	**660**	**639**	**581**

By geography	2015	2014	2013
United States	567	555	517
International	93	84	64
TOTAL	**660**	**639**	**581**

12. SHARE SCHEMES OF LIVANOVA

12.1 LivaNova 2015 Incentive Award Plan

Prior to the consummation of the Mergers, LivaNova intends to adopt the LivaNova 2015 Incentive Award Plan in order to facilitate the grant of cash and equity incentives to non-employee directors, employees (including executive officers) and consultants of LivaNova and certain of its affiliates and to enable LivaNova and certain of its affiliates to obtain and retain services of these individuals, which is essential to LivaNova's long-term success. LivaNova expects that the LivaNova 2015 Incentive Award Plan will be effective on the date on which it is adopted by the Board (subject to approval of such plan by Sorin as LivaNova's sole shareholder at the time). The plan will have a ten-year term. An aggregate of 8,800,000 LivaNova Shares will be available for issue under awards granted pursuant to the plan, which may be unissued LivaNova Shares or issued LivaNova Shares purchased in the open market. Adjustments may be made in the aggregate number of LivaNova Shares that may be issued under the LivaNova 2015 Incentive Award Plan upon certain events affecting the LivaNova Shares, such as a dividend or a sub-division of shares. The maximum aggregate number of LivaNova Shares with respect to which awards may be granted to any person in any calendar year under the LivaNova 2015 Incentive Award Plan is one million and the maximum aggregate amount of cash that may be paid to any one person during any calendar year with respect to one or more awards payable in cash under the LivaNova 2015 Incentive Plan is US$10 million.

Incentive awards may be granted under the LivaNova 2015 Incentive Award Plan in the form of options, stock appreciation rights, restricted stock units, other share- and cash-based awards and dividend equivalents.

12.2 LivaNova Stock Appreciation Rights (SARs)

LivaNova will implement a retention plan pursuant to which, on the Closing Date, LivaNova will grant SARs to certain employees of Cyberonics and Sorin under the LivaNova Incentive Award Plan to be adopted by LivaNova and an award agreement to be entered into with each such recipient. The aggregate estimated Black-Scholes value of these SARs is expected to be approximately €7.2 million.

Each of these SARs will entitle the holder to receive the excess of (a) the fair market value of one LivaNova Share at the time of exercise of the SAR over (b) the opening price of one LivaNova Share on NASDAQ on the Closing Date (or the strike price). The SARs may be settled in LivaNova Shares and/or cash, as determined by LivaNova and as set forth in the individual award agreements. Fifty per cent. of each award will vest on the first anniversary of the Closing Date, and 50 per cent. will vest on the second anniversary of the Closing Date, in each case subject to the continued employment of the holder through the applicable vesting date, save for certain exceptions. Once vested, the SAR will have an exercise window of three years following the vesting date. Fifty per cent. of the LivaNova Shares that become vested under each SAR award will be locked-up and non-transferable for 18 months following the

applicable vesting date. To the extent that any SAR recipient's employment is terminated after the Closing Date and it is determined that any such termination qualifies for "good leaver" status under the terms of the applicable equity plan and award agreement, the recipient will be eligible for pro-rata vesting of the SAR (with the potential for full acceleration at the discretion of LivaNova); no lock-up period will apply. In such circumstances, the vested SAR may then be exercised for one year following such termination. The vesting of these SARs will also be accelerated upon a change in control, as will be defined in the applicable plan and/or award agreement.

13. OTHER DIRECTORSHIPS AND PARTNERSHIP

13.1 The details of those companies and partnerships outside LivaNova, Sorin and Cyberonics in which the Current Directors, Proposed Directors and Senior Managers are, or have been, members of the administrative, management or supervisory bodies or partners at any time during the five years prior to the date of this Prospectus are as follows:

Director / Senior Manager	Company	Position	Still held (Y/N)
Daniel J. Moore	TriVascular, Inc.	Director	Y
	GI Dynamics, Inc.	Director	Y
	BrainScope Company, Inc.	Director	Y
	BioHouston Executive Committee	Director	Y
	Weldon School of Biomedical Engineering Advisory Board at Purdue University	Director	Y
	The Epilepsy Foundation of America	Director	Y
	The Medical Device Manufacturers Association	Director	Y
	Smiling Kids, Inc.	Director	N
	The Epilepsy Foundation of Texas	Director	N
	The Epilepsy Foundation of Texas - Houston	Director	N
	Topera, Inc.	Director	N
André-Michel Ballester	Carmat SAS	Director	Y
	Mauna Kea S.A.	Director	Y
	Pixium S.A.	Director	Y
	IMI A.G.	Director	Y
	Advamed	Director	Y
Rosario Bifulco	Banca ITB S.P.A	Chairman	Y
	Victor-L Sas (APERLAI)	Chairman	Y
	BOOTES S.r.l.	Sole Administrator	Y
	DENTI e SALUTE S.r.l.	Sole Administrator	Y
	Assolombarda	Deputy Chairman	Y
	DeA Capital S.p.A.	Director	Y
	Fondazione Filarete per la Bioscienze e l'Innovazione	Director	Y
	Finarte S.p.A.	Director	Y
	Humanitas S.p.A.	Director	Y
	Italian Hospital Group S.p.A.	Director	Y
	Italian Hospital Group 2 S.p.A.	Director	Y
	Istituto Europeo di Oncologia S.r.l.	Director	Y
	Neaheliopolis S.p.A.	Director	Y
	Pierrel S.p.A.	Director	N
	A2A S.p.A.	Director	N
	Saipem S.p.A.	Director	N
	Sirti-Società per Azioni	Director	N
	Mens Mensae S.r.l.	Director	N
	8 Marzo 61 S.r.l.	Director	N
Hugh Morrison	Texas A&M University Kingsville Foundation	Trustee	Y
	The Rockport Center for the Arts	Director	Y
	Callahan Advisors LLC	Director	N

Director / Senior Manager	Company	Position	Still held (Y/N)
Alfred J. Novak	OrbusNeich Medical Technology Company, Ltd.	Director	N
Arthur L. Rosenthal	gEyeCue, Ltd.	Director	Y
	Interface Biologics, Inc.	Director	Y
	Arch Therapeutics, Inc.	Director	Y
	Cappella Medical Devices Ltd. (now Arra Vasc Ltd.)	Director	N
	Cappella, Inc.	Director	N
	Labcoat, Ltd	Director	N
	Renovo plc	Director	N
Francesco Bianchi	Intesasanpaolo Supervisory Board	Director	Y
	7 Capital Partners	Director	Y
	H7 Spa	Director	N
Stefano Gianotti	KYMCO-Padana Ricambi	Director	Y
	Banco di Brescia S.p.A.	Director	Y
	Foundation Bank of Brescia	Director	Y
	San Paolo Foundation Bank of Brescia	Director	Y
	Association of Former Shareholders of Banca Lombarda e Piemontese	Director	Y
	Mittel S.p.A	Director	Y
	Calisio	Director	Y
	Banca Populare di Bergamo	Director	Y
	UBI Assicurazioni	Director	N
Sharon O'Kane	Iomet Pharma Limited	Director	Y
	TPP Global Development	Director	Y
	MIDAS (Manchester Inward Development Agency)	Director	N
	Renovo Group PLC	Director	N
	Bank End Properties 1 Limited	Director	Y
	Bank End Properties 2 Limited	Director	Y
Michel Darnaud	Xeltis	Director	Y
	Stentys	Chairman	Y
Stefano Di Lullo	—	—	—
Rohan Hoare	Epilepsy Foundation of Texas	Director	Y
Jacques Gutedel	MedAdvance GmbH & Co. KG	Partner	Y
Edward Andrle	Enopace Biomedical Ltd	Director	Y
	HighLife SAS	Director	Y
	MD Start I K.G.	Director	Y
	MD Start S.A.	Director	Y
	Respicardia, Inc.	Director	Y
Brian Sheridan	Cardiosolutions Inc.	Director	Y
	Caisson Interventional LLC	Director	Y
	British School of Milan	Governor	Y
Pritpal Shinmar	—	—	—
David Wise	Epilepsy Foundation of Texas	Director	Y
	The Epilepsy Foundation of Texas - Houston	Director	Y
Vivid Sehgal	Allergan Holdings (UK) Ltd	Director	N
	Allergan S.p.A.	Director	N
	Allergan Development I	Director	N
	Allergan Development II	Director	N
	Allergan International Foundation	Director	N
	Allergan Holdings B Ltd	Director	N
	Allergan Holdings B1 Unltd	Director	N
	Allergan Holdings B2 Unltd	Director	N
	Allergan Holdings C Ltd	Director	N
	Allergan Botox	Director	N
	Seabreeze Silicone	Director	N
Demetrio Mauro	Mauro Demetrio S.p.A.	Director	Y

14. CURRENT DIRECTORS AND PROPOSED DIRECTORS' CONFIRMATION

14.1 As at the date of this Prospectus, none of the Current Directors, Proposed Directors or Senior Managers have, during the five years prior to the date of this Prospectus:

(a) been convicted in relation to a fraudulent offence;

(b) been associated with any bankruptcies, receiverships, or liquidations while acting in the capacity of a member of the administrative, management or supervisory bodies or as a partner, founder or senior manager of any partnership or company;

(c) been subject to any official public incrimination and/or sanctions by any statutory or regulatory authorities (including any designated professional bodies); or

(d) been disqualified by a court from acting as a director of a company or from acting as a member of the administrative, management or supervisory bodies of any company or from acting in the management or conduct of the affairs of any company.

PART XIII
ADDITIONAL INFORMATION

1. THE COMPANY

1.1 LivaNova was incorporated and registered in England and Wales on 20 February 2015 as a private limited company with its former name, Sand Holdco Limited. On 17 April 2015, the company was re-registered as a public limited company and its name was changed to Sand Holdco PLC. On 23 June 2015, the name of the company was changed to LivaNova PLC.

1.2 The principal legislation under which LivaNova operates, and pursuant to which the LivaNova Shares have been created, is the Companies Act 2006 and the regulations made thereunder.

1.3 LivaNova is domiciled in England and Wales and its registered office is at c/o Legalinx Limited, 1 Fetter Lane, London, United Kingdom EC4 1BR (telephone number +44 (0)800 975 8080).

2. SHARE CAPITAL

2.1 Issued share capital

The issued and fully paid share capital of LivaNova as at the close of business on 9 October 2015 (being the latest practicable date prior to the publication of the Prospectus) was made up as follows:

Class of shares	Number	Amount (£)
Ordinary shares	1	1
Redeemable non-voting shares	50,000	50,000

2.2 History of share capital

On the incorporation of the company, as a private limited company, LivaNova issued one fully paid ordinary share of £1.00 to Sorin. On 17 April 2015, Sorin, as LivaNova's sole shareholder, resolved to authorise the directors of LivaNova to allot and issue 50,000 non-voting redeemable shares of £1.00 each in the capital of LivaNova. On the same date, LivaNova issued 50,000 Redeemable Shares of £1.00 in the capital of LivaNova to Sorin, as its sole shareholder.

Conditional upon, and with effect from the Sorin Merger Effective Time, and concurrently with the issuance of new shares in LivaNova, (a) the Redeemable Shares are expected to be redeemed for nil consideration and cancelled and (b) the one fully paid ordinary share of £1.00 held by Sorin is expected to be purchased by LivaNova for nil consideration pursuant to the terms of an off-market purchase agreement to be entered into between LivaNova and Sorin.

2.3 Authorities in relation to share capital

Sorin, as the sole shareholder of LivaNova, will resolve, prior to the Closing Date, and in place of all existing authorities and/or powers that the LivaNova Board be authorised in accordance with section 551 of the Companies Act 2006, to exercise all the powers of the Company to allot shares (as defined in section 540 of the Company Act 2006) in LivaNova up to an aggregate nominal amount of £58,726,888 (the "**Allotment Amount**") in connection with the transactions contemplated by the Merger Agreement, for a period commencing on the date of the passing of the resolution and ending on 16 October 2020. Sorin will further resolve that the Directors be generally empowered in accordance with section 570 of the Companies Act 2006 to allot equity securities pursuant to the authority noted above, as if section 561(1) of the Companies Act 2006 did not apply to such allotment, limited to the allotment of equity securities up to a nominal amount equal to the Allotment Amount.

Under the LivaNova Articles, the LivaNova Board shall be generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 to exercise all of the powers of the company to allot LivaNova Shares and to grant rights to subscribe for or to convert or exchange any security into LivaNova Shares, up to an aggregate nominal amount representing 20 per cent. of the number of LivaNova Shares at the date of adoption of the LivaNova Articles and after consummation of the transactions contemplated by the Merger Agreement (in addition to any authority that has not yet expired granted to the LivaNova Board prior to the date of adoption of the LivaNova Articles) for a period expiring (unless previously renewed, varied or revoked by LivaNova in general meeting) on the date which is five years from the date of adoption of the LivaNova Articles, and the pre-

emption rights under section 561 of the Companies Act 2006 will not apply in respect of allotment of shares for cash made pursuant to such authority. Renewal of such authorisation is expected to be sought at least once every five years, and possibly more frequently.

2.4 Issued ordinary share capital immediately following the issue and allotment of the Sorin Merger Consideration and the Cyberonics Merger Consideration

The issued share capital of LivaNova as it is expected to be after the issue of the LivaNova Shares as Sorin Merger Consideration and Cyberonics Merger Consideration (on the assumption that the maximum number of 22,776,023 LivaNova Shares will be issued as Sorin Merger Consideration and the maximum number of 26,046,293 LivaNova Shares will be issued as Cyberonics Merger Consideration) and immediately following Admission will be made up as follows:

Class of shares	Number	Amount (£)
Ordinary shares	48,822,316	48,822,316

(a) The LivaNova Shares are in registered form and capable of being held in uncertificated form. The ISIN for the LivaNova Shares is GB00BYMT0J19.

(b) LivaNova does not have in issue any securities not representing share capital and there are no outstanding debentures, convertible securities, exchangeable securities or securities with warrants issued or proposed to be issued by LivaNova.

(c) As at 9 October 2015 (being the last practicable date prior to the publication of this Prospectus), LivaNova held no treasury shares.

As a result of the Sorin Merger and/or the Cyberonics Merger, it is anticipated that a merger reserve (the "**Merger Reserve**") will be created on the balance sheet of LivaNova. It is anticipated that the Merger Reserve will be capitalised following completion of the Mergers by the allotment by LivaNova of one bonus share of £1.00 (the "**Bonus Share**") to Elian Corporate Services (UK) Limited, a third party fiduciary trustee who would hold the Bonus Share for the benefit of all ordinary shareholders as a whole. The Bonus Share would be paid up by an amount equal to the Merger Reserve, such that the amount of the Merger Reserve less the nominal value of the Bonus Share of £1.00 would be applied as share premium and accrue to LivaNova's share premium account (the "**Capitalisation of the Merger Reserve**").

Following the Capitalisation of the Merger Reserve, it is anticipated that LivaNova will seek to effect a reduction of share capital by cancelling the Bonus Share (and thereby reducing its share capital account by £1.00) and cancelling and reducing its share premium account by the amount of the Merger Reserve (the "**Capital Reduction**"). As a result of the Capital Reduction, the nominal value of the Bonus Share and the amount of the share premium account so cancelled would be credited to a distributable reserve.

The Capitalisation of the Merger Reserve and Capital Reduction was approved by the LivaNova Board on 11 September 2015 and will be approved by Sorin, as the sole shareholder of LivaNova, ahead of the Closing Date, and is subject to the sanction of the Court.

3. SUMMARY OF LIVANOVA ARTICLES OF ASSOCIATION

The LivaNova Articles contain, among others, provisions to the following effect:

3.1 Objects and purpose

LivaNova's objects are not restricted by the LivaNova Articles. Accordingly, pursuant to English law, LivaNova's objects are unrestricted.

3.2 Description of the LivaNova Shares

LivaNova may issue ordinary shares, each of which shall be denominated in pounds sterling with a nominal value of £1.00. Each ordinary share shall be issued with one vote attaching to it for voting purposes in respect of all matters on which voting shares in the capital of LivaNova have voting rights and shall form a single class with the other voting shares in the capital of LivaNova for such purposes. The holders of ordinary shares shall, in respect of the ordinary shares held by them, be entitled to receive notice of, attend and speak at and vote at, general meetings of LivaNova.

The LivaNova Board will be authorised, pursuant to the LivaNova Articles, to allot and issue LivaNova Shares, and to grant rights to subscribe for or to convert or exchange any security into LivaNova Shares, up to an aggregate nominal amount representing 20 per cent. of the number of LivaNova Shares at the date of adoption of the LivaNova Articles and after consummation of the transactions contemplated by the Merger Agreement (in addition to any authority that has not yet expired granted to the LivaNova Board prior to the date of adoption of the LivaNova Articles) for a period expiring (unless previously renewed, varied or revoked by LivaNova in general meeting) on the date which is five years from the date of adoption of the LivaNova Articles and the pre-emption rights under section 561 of the Companies Act will not apply in respect of allotment of shares for cash made pursuant to such authority. Renewal of such authorisation is expected to be sought at least once every five years, and possibly more frequently.

Notwithstanding the above, subject to the provisions of the Companies Act 2006, and without prejudice to any rights attached to any existing shares or class of shares:

(a) any share may be issued in one or more classes with such rights or restrictions as LivaNova may by special resolution determine or, subject to and in default of such determination, as the LivaNova Board shall determine; and

(b) shares may be issued which are to be redeemed or are to be liable to be redeemed at the option of LivaNova or the holder and the LivaNova Board may determine the terms, conditions and manner of redemption of shares provided that it does so before the shares are allotted.

3.3 Voting rights

A resolution put to the vote of a general meeting must be taken on a poll. Subject to any relevant special rights or restrictions attached to any LivaNova Shares, on a poll taken at a meeting, every qualifying member present and entitled to vote on the resolution has one vote in respect of each LivaNova Share. In the case of joint holders, the vote of the senior holder who tends a vote shall be accepted to the exclusion of the votes of the other joint holders. The necessary quorum for a general meeting is the LivaNova Shareholders who together represent at least a majority of the voting rights of all the LivaNova Shareholders entitled to vote at the meeting, present in person or by proxy, save that if LivaNova has only one LivaNova Shareholder entitled to attend and vote at the general meeting, one qualifying LivaNova Shareholder present and entitled to vote at the meeting is a quorum. If a meeting is adjourned for lack of quorum, the quorum of the adjourned meeting will be one qualifying person present and entitled to vote.

No LivaNova Shareholder shall be entitled to vote at any LivaNova Shareholders' meeting or at a separate meeting of the holders of any class of shares, either in person or by representative or proxy, in respect of any share in LivaNova held by him unless all amounts presently payable by him in respect of that share have been paid.

If at any time the LivaNova Board is satisfied that any LivaNova Shareholder, or any other person appearing to be interested in LivaNova Shares held by such LivaNova Shareholder, has been duly served with a notice under section 793 of the Companies Act 2006 and is in default for the prescribed period in supplying to LivaNova the information thereby required, or, in purported compliance with such a notice, has made a statement which is false or inadequate in a material particular, then the LivaNova Board may, in its absolute discretion at any time thereafter by notice to such LivaNova Shareholder, direct that in respect of the LivaNova Shares in relation to which the default occurred the LivaNova Shareholder shall not be entitled to attend or vote either personally or by proxy at a general meeting or at a separate meeting of the holders of that class of shares or on a poll.

3.4 Dividends and other distributions

Subject to the provisions of the Companies Act 2006, LivaNova may by ordinary resolution declare dividends in accordance with the respective rights of the LivaNova Shareholders, but no dividend shall exceed the amount recommended by the LivaNova Board.

Each LivaNova Share shall be entitled to receive all of the distributable profits available and declared by the LivaNova Directors for distribution by way of a dividend amongst the holders of the ordinary shares. Each ordinary share shall rank equally with all other ordinary shares in the capital of LivaNova for any dividend and shall receive its pro rata portion of any dividend rounded to the nearest whole number (such rounding to be in the sole discretion of the LivaNova Board).

Subject to the provisions of the Companies Act 2006 and except as otherwise provided by the LivaNova Articles or rights attached to LivaNova Shares, all dividends shall be apportioned and paid proportionately to the amounts paid up on the LivaNova Shares during any portion or portions of the period in respect of which the dividend is paid, but, if any LivaNova Share is allotted or issued on terms providing that it shall rank for dividend as from a particular date, that LivaNova Share shall rank for dividend accordingly.

The LivaNova Board may, if it appears to the LivaNova Board that the profits available for distribution justify the payment, pay interim dividends on LivaNova Shares and if the share capital is divided into different classes, may pay interim dividends which confer deferred or non-preferred rights with regard to dividend as well as on LivaNova Shares which confer preferential rights with regard to dividend, but no interim dividend shall be paid on LivaNova Shares carrying deferred or non-preferred rights if at the time of payment, any preferential dividend is in arrears. If the LivaNova Board acts in good faith, it shall not incur any liability to the holders of LivaNova Shares conferring preferred rights for any loss they may suffer by the lawful payment of an interim dividend on any LivaNova Shares having deferred or non-preferred rights.

No dividend or other moneys payable in respect of a LivaNova Share shall bear interest against LivaNova unless otherwise provided by the rights attached to the LivaNova Share.

Dividends may be declared and paid in any currency as the LivaNova Board shall determine, who may also determine the exchange rate and the relevant date for determining the value of any dividend in any currency.

The LivaNova Board may withhold payment from a person of any dividend payable in respect of LivaNova Shares if those shares represent at least a 0.25 per cent. interest in any class of LivaNova Shares and if, in respect of those shares, such person has been served with a notice after failure (whether by such person or by any other person appearing to be interested in shares held by such person) to provide LivaNova with information concerning interests in those shares required to be provided under section 793 of the Companies Act.

The LivaNova Board may offer any holder of LivaNova Shares the right to elect to receive shares by way of scrip dividend, instead of cash, in respect of the whole (or some part, to be determined by the LivaNova Board) of any dividend subject to the terms and conditions set out in the Articles of Association.

Any dividend which has remained unclaimed for 12 years from the date when it became due for payment shall, if the LivaNova Board so resolves, be forfeited and cease to remain owing by LivaNova.

Subject to the provisions of the Companies Act 2006, if LivaNova commences liquidation, a liquidator may, with the sanction of a special resolution of LivaNova and any other sanction required by the Insolvency Act 1986: (i) divide among the LivaNova Shareholders in specie the whole or any part of the assets of LivaNova and may, for that purpose, value any assets and determine how the division shall be carried out as between the shareholders or different classes of shareholders, and (ii) vest the whole or any part of the assets in trustees for the benefit of the LivaNova Shareholders as he may with the like sanction determine.

3.5 Variation of class rights

Subject to the provisions of the Companies Act 2006, if at any time the capital of LivaNova is divided into different classes of shares, rights attached to any class of LivaNova Shares may be varied or abrogated as provided by the terms of allotment of the shares or the class of shares or with the written consent of the holders of 75 per cent. in nominal value of the issued shares of the class, or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of the class.

3.6 Forfeiture and lien

LivaNova shall have a first and paramount lien on every LivaNova Share (not being a fully paid share) for all moneys payable to LivaNova (whether presently or not) in respect of that share. LivaNova may sell, in such manner as the LivaNova Board determines, any LivaNova Share on which LivaNova has a lien if an amount in respect of which the lien exists is presently payable and is not paid within 14 clear days after notice has been sent to the holder of the share, or to the person entitled to it by transmission, demanding payment and stating that if the notice is not complied with the LivaNova Share may be sold.

3.7 Transfer of shares

A LivaNova Shareholder may transfer all or any of his or her certificated shares by an instrument of transfer in any usual form or in any other form which the LivaNova Board may approve. An instrument of transfer shall be executed by or on behalf of the transferor and, where the share is not fully paid, by or on behalf of the transferee. An instrument of transfer need not be under seal.

The LivaNova Board may, in its absolute discretion, refuse to register the transfer of a certificated LivaNova Share which is not fully paid, provided that the refusal does not prevent dealings in shares in LivaNova from taking place on an open and proper basis. The LivaNova Board may also refuse to register the transfer of a certificated LivaNova Share:

(a) unless the instrument of transfer:

  (i) is lodged, duly stamped, at the office or such other place appointed by the LivaNova Board accompanied by the certificate for the LivaNova Share to which it relates, or such other evidence as the LivaNova Board may reasonably require to show the right of the transferor to make the transfer, or evidence of the right of someone other than the transferor to make the transfer on the transferor's behalf;

  (ii) is in respect of one class of LivaNova Share only; and

  (iii) is in favour of not more than four persons; or

(b) with respect to a share on which LivaNova has a lien and a sum in respect of which the lien exists is presently payable and is not paid within 14 clear days after notice has been sent to the holder of the share.

The LivaNova Board may refuse to register a transfer of LivaNova Shares by a person if those shares represent at least a 0.25 per cent. interest in any class of LivaNova's share capital and if, in respect of those shares, such person has been served with a notice after failure (whether by such person or by any other person appearing to be interested in shares held by such person) to provide LivaNova with information concerning interests in those shares required to be provided under section 793 of the Companies Act 2006, unless: (i) the transfer is an approved transfer (as defined in the LivaNova Articles), or (ii) the shareholder is not himself in default as regards supplying the information required and it has been provided to the reasonable satisfaction of the LivaNova Board that no person in default of supplying the information required is interested in any of the shares which are the subject of the transfer.

If the LivaNova Board refuses to register a transfer of a LivaNova Share, it shall send the transferee notice of its refusal and the reasons for it within two months after the date on which the instrument of transfer was lodged with LivaNova. The LivaNova Board shall send to the transferee such further information about the reasons for the refusal as the transferee may reasonably request.

No fee shall be charged for the registration of any instrument of transfer or other document relating to or affecting the title to a LivaNova Share.

Subject to the Uncertificated Securities Rules, the LivaNova Board may permit the holding of LivaNova Shares in any class of shares in uncertificated form and the transfer of title to shares in that class by means of a relevant system and may make arrangements for a class of shares to become a participating class.

The LivaNova Board may decline to register the transfer of an uncertificated LivaNova Share in any circumstances that are allowed or required by the Regulations and the relevant system.

3.8 Alteration of share capital

The provisions of the LivaNova Articles governing the conditions under which LivaNova may alter its share capital are no more stringent that the conditions imposed by the Companies Act.

All LivaNova Shares shall be subject to the provisions of the LivaNova Articles.

The LivaNova Board is permitted to deal with any fractions that arise as a result of a consolidation or sub-division of Shares as it thinks fit. In particular, it may sell the LivaNova Shares representing fractions to any person and distribute the net proceeds in due proportion among those members who would otherwise have become entitled to those fractions. If the LivaNova Shares are held in certificated form, the LivaNova Board may

authorise some person to execute an instrument of transfer of LivaNova Shares to the purchaser. If the LivaNova Shares are held in uncertificated form, the LivaNova Board may do all acts and things it considers necessary or expedient to effect the transfer of shares to the purchaser.

3.9 General meetings

The LivaNova Board shall convene and LivaNova shall hold general meetings and annual general meetings in accordance with the requirements of the Companies Act 2006. The LivaNova Board may call general meetings whenever and at such times and places as it shall determine. For the purposes of determining who is entitled to attend and vote at a general meeting of LivaNova, and how many votes such persons may cast, LivaNova or the LivaNova Board may specify in the notice of meeting a time by which a person must be entered on the register in order to have the right to attend and vote; such time shall not be more than 60 days nor fewer than 10 days before the date of such meeting, and changes after such time shall be disregarded for these purposes.

3.10 Directors

(a) Appointment and Removal of LivaNova Directors

Unless otherwise decided by the LivaNova Board (where, for the period beginning on the date of the unconditional adoption of these LivaNova Articles and ending at the first annual meeting of members of LivaNova following the completion of LivaNova's second full fiscal year, such decision must be taken unanimously), the number of LivaNova Directors shall be nine. LivaNova Directors may be appointed by an ordinary resolution of LivaNova, at a general meeting or by the LivaNova Board in accordance with the LivaNova Articles or by a decision of the LivaNova Board. The composition of the LivaNova Board will satisfy the requirements of applicable law and any securities exchange on which LivaNova's securities are listed. Each LivaNova Director shall be able to understand and speak English sufficiently to be able to participate fully in all meetings of the LivaNova Board.

The LivaNova Directors in office immediately following the unconditional adoption of the LivaNova Articles shall be appointed for a term that will expire at the first annual meeting of members of LivaNova following the completion of LivaNova's second full fiscal year.

Subject to the LivaNova Articles, a LivaNova Director may be appointed by an ordinary resolution at a general meeting or by a decision of the LivaNova Directors.

(b) No share qualification

A LivaNova Director shall not be required to hold any shares in the capital of LivaNova by way of qualification.

(c) Remuneration of LivaNova Directors

The emoluments of any LivaNova Director holding executive office for his services as such shall be determined by the LivaNova Board, and may be of any description, including without limitation admission to, or continuance of, membership of any scheme (including any share acquisition scheme) or fund instituted or established or financed or contributed to by LivaNova for the provision of pensions, life assurance or other benefits for employees or their dependants, or the payment of a pension or other benefits to him or his dependants on or after retirement or death, apart from membership of any such scheme or fund.

LivaNova Directors who do not hold executive office shall be entitled to receive such fees for their services as the LivaNova Board may from time to time determine or as LivaNova may decide by ordinary resolution. The total fees will be divided among the LivaNova Directors in the proportions that the LivaNova Directors decide. If no decision is made, the total fees will be divided equally. In addition, any LivaNova Director who holds any executive office or who serves on any committee of the LivaNova Board or who performs services which the LivaNova Board considers go beyond the ordinary duties of a LivaNova Director may be paid such special remuneration (whether by way of bonus, commission, participation in profits or otherwise) as the LivaNova Board may determine.

In addition to any remuneration to which the LivaNova Directors are entitled under the LivaNova Articles, they may be paid all reasonable travelling, hotel and other expenses properly incurred by them in

connection with their attendance at meetings of the LivaNova Board or committees of the LivaNova Board, general meetings or separate meetings of the holders of any class of shares or of debentures of LivaNova or otherwise in connection with the discharge of their duties.

(d) Permitted interests of LivaNova Directors

A LivaNova Director shall be authorised for the purposes of section 175 of the Companies Act 2006 to act or continue to act as a director of LivaNova, notwithstanding that at the time of his appointment or subsequently he holds office as a director of, or holds any other office, employment or engagement with, any other member of the LivaNova group.

For the purposes of section 175 of the Companies Act 2006, the LivaNova Board may (subject to the terms and conditions as the LivaNova Board may think fit to impose) authorise, to the fullest extent permitted by law: (a) any matter proposed to it in accordance with the LivaNova Articles which would, if not so authorised, involve a breach of duty by a director under that section; and (b) a LivaNova Director to accept or continue in any office, employment or position in addition to his office as a director and may authorise the manner in which a conflict of interest arising out of such office, employment or position may be dealt with, either before or at the time that such a conflict of interest arises, provided that any such authorisation will be effective only if any requirement as to quorum at the meeting at which the matter is considered is met without counting the LivaNova Director in question or any other interested LivaNova Director voting or would have been agreed to if such LivaNova Director's vote had not been counted.

Subject to the provisions of the Companies Act 2006, and provided that he has disclosed to the LivaNova Board the nature and extent of any material interests of his, a LivaNova Director, notwithstanding his office:

(i) may be a party to, or otherwise interested in, any transaction or arrangement with LivaNova or in which LivaNova is otherwise interested;

(ii) may act by himself or his firm in a professional capacity for LivaNova (otherwise than as auditor) or any other body in which LivaNova is otherwise interested, and he or his firm shall be entitled to remuneration for professional services as if he were not a LivaNova Director; and

(iii) may be a director or other officer of, or employed by, or a party to any transaction or arrangement with, or otherwise interested in, any undertaking in which LivaNova is interested as shareholder, partner or otherwise or with which he has such a relationship at the request or direction of LivaNova.

A LivaNova Director shall not, by reason of his office, be accountable to LivaNova for any remuneration or other benefit which he derives from any such office or employment or from any such transaction or arrangement or from any such interest in any such undertaking: (i) the acceptance, entry into or existence of which has been authorised by the LivaNova Directors pursuant to the LivaNova Articles; or (ii) which he is permitted to hold or enter into by virtue of the LivaNova Articles. And nor shall the receipt of any such remuneration or other benefit constitute a breach of the relevant director's duties under Section 176 of the Companies Act.

(e) Restrictions on voting

Subject to the other provisions of the LivaNova Articles, a LivaNova Director shall not vote on any resolution of the LivaNova Board or a committee of the LivaNova Board concerning a matter in which he has an interest which can reasonably be regarded as likely to give rise to a conflict with the interests of LivaNova, but these prohibitions shall not apply to:

(i) the giving of a guarantee, security or indemnity in respect of money lent or obligations incurred by him or any other person at the request of, or for the benefit of, LivaNova or any of its subsidiary undertakings;

(ii) the giving of a guarantee, security or indemnity in respect of a debt or obligation of LivaNova or any of its subsidiary undertakings for which the LivaNova Director has assumed responsibility (in whole or in part and whether alone or jointly with others) under a guarantee or indemnity or by the giving of security;

(iii) the giving of any other indemnity which is on substantially the same terms as indemnities given or to be given to all of the other LivaNova Directors and/or to the funding by LivaNova of his expenditure on defending proceedings or the doing by LivaNova of anything to enable him to avoid incurring such expenditure where all the other LivaNova Directors have been given or are to be given substantially the same arrangements;

(iv) a contract, arrangement, transaction or proposal concerning an offer of shares, debentures or other securities of LivaNova or any of its subsidiary undertakings for subscription, purchase or exchange, in which offer he is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which he is to participate;

(v) a contract, arrangement, transaction or proposal concerning any other undertaking in which he or any person connected with him is interested, directly or indirectly, and whether as an officer, shareholder, member, partner, creditor or otherwise, and if he and any persons connected with him do not to his knowledge hold an interest representing one per cent. or more of either any class of the equity share capital of such undertaking (or any other undertaking through which his interest is derived) or of the voting rights available to members of the relevant undertaking (or any interest being deemed to be likely to give rise to a conflict with the interests of LivaNova in all circumstances);

(vi) a contract, arrangement, transaction or proposal for the benefit of employees and directors and/or former employees and directors of LivaNova or of any of its subsidiary undertakings and/or members of their families or any person who is or was dependent on such persons, which does not accord to any LivaNova Director any privilege or advantage not generally accorded to the employees and/or former employees to whom the arrangement relates; and

(vii) a contract, arrangement, transaction or proposal concerning any insurance which LivaNova is empowered to purchase or maintain for, or for the benefit of, any LivaNova Directors or for persons who include LivaNova Directors.

3.11 Borrowing powers

The LivaNova Board may exercise all the powers of LivaNova to borrow money, to mortgage or charge its undertaking, property, assets (present and future) and uncalled capital, and, subject to the Companies Act 2006, to issue debentures and other securities whether outright or as collateral security for any debt, liability or obligation of LivaNova or of any third party.

3.12 Indemnity of officers

Subject to the provisions of the Companies Act 2006, LivaNova may: (i) indemnify to any extent any person who is or was a LivaNova Director, or a director of any associated company, directly or indirectly (including by funding any expenditure incurred or to be incurred by him) against any loss or liability, whether in connection with any proven or alleged negligence, default, breach of duty or breach of trust by him or otherwise, in relation to LivaNova or any associated company; or (ii) indemnify to any extent any person who is or was a LivaNova Director of an associated company that is a trustee of an occupational pension scheme, directly or indirectly (including by funding any expenditure incurred or to be incurred by him) against any liability incurred by him in connection with the company's activities as trustee of an occupational pension scheme.

3.13 Compliance with NASDAQ Rules

For as long as the ordinary shares are listed on the NASDAQ, LivaNova shall comply with all NASDAQ corporate governance standards set forth in section 3 of the NASDAQ Rules applicable to non-controlled domestic U.S. issuers, regardless of whether LivaNova is a foreign private issuer.

4. MAJOR SHAREHOLDERS OF LIVANOVA

As at 9 October 2015 (being the latest practicable date prior to publication of this Prospectus), insofar as is known to LivaNova, the following persons are interested directly and indirectly in Sorin Shares or shares in Cyberonics Common Stock in such proportion that they would be interested directly or indirectly in 3 per cent. or more of the voting rights in respect of the issued ordinary share capital of LivaNova immediately following completion of the Mergers:

Name+	Number of LivaNova Shares*	Percentage of issued LivaNova Shares*
Bios S.p.A.**	4,262,286	8.7%
Paulson & Co., Inc	2,880,807	5.9%
BlackRock Fund Advisor	2,221,538	4.6%
Renaissance Technologies LLC	2,203,094	4.5%
The Vanguard Group, Inc.	2,100,457	4.3%
Tower 6 S.A.R.L.**	1,486,084	3.0%

* Immediately following completion of the Mergers.

** Mittel, S.P.A and Equinox Two S.C.A are the 50:50 beneficial shareholders of the shares in special purpose vehicles, Bios S.p.A and Tower 6 S.A.R.L.. Mittel S.p.A. and Equinox Two S.C.A are, at the date of this Prospectus, party to a shareholders' agreement, which will terminate 15 days after the Closing Date, upon which Bios S.p.A and Tower 6 S.A.R.L. will be dissolved, and the LivaNova Shares held by both companies will be transferred directly to Mittel S.p.A and Equinox Two S.C.A, respectively, in the same proportions as their respective interests in Bios S.p.A and Tower 6 S.A.R.L..

\+ The above disclosure is as at 30 June 2015, the latest practicable date in respect of Cyberonics and as at 9 October 2015, the latest practicable date in respect of Sorin.

None of LivaNova's Shareholders will have different voting rights attached to the shares they hold in LivaNova.

As at 9 October 2015 (being the latest practicable date prior to publication of this Prospectus), LivaNova was not aware of any person or persons who directly or indirectly, jointly or severally, exercise or could exercise control over Sorin or Cyberonics or would exercise control over LivaNova following completion of the Mergers.

5. DOMESTIC DEPOSITARY INTERESTS

LivaNova has entered into depositary arrangements to enable LivaNova Shareholders to settle interests in LivaNova Shares through the CREST system, without the need for the underlying LivaNova Shares to be withdrawn from the DTC system, or having to designate a U.S. custodian or DTC participant. Pursuant to the arrangements put in place by LivaNova, Computershare Trust Company, N.A. will hold LivaNova Shares in its participant account in DTC, on trust for the relevant beneficial holders of such LivaNova Shares, and the Depositary will issue dematerialised DDIs to the CREST accounts of such holders representing the underlying LivaNova Shares on a one-for-one basis.

The Depositary will issue the DDIs. The DDIs will be independent securities constituted under English law which may be held and transferred through the CREST system.

The DDIs will be created pursuant to and issued on the terms of the Deed Poll. Holders of DDIs should note that they will have no rights against Euroclear or its subsidiaries in respect of the underlying LivaNova Shares or the DDIs representing them.

Each DDI will represent one LivaNova Share for the purposes of determining, for example, eligibility for dividends. The DDIs will have the same ISIN number as the underlying LivaNova Shares and will not require a separate listing on the Official List. LivaNova Shares will be traded on the LSE, with settlement being effected electronically through the DDIs within the CREST system in the same way as any other CREST securities.

Application has been made for the DDIs to be admitted to CREST with effect from Admission.

Deed Poll

On 9 October 2015, the Depositary executed the Deed Poll in relation to the DDIs in favour of the holders of the DDIs from time to time. The Deed Poll contains provisions to the following effect, which are binding on holders of the DDIs:

Holders of the DDIs warrant, *inter alia*, that the LivaNova Shares held by the Depositary or the custodian (the "**Custodian**") (on behalf of the Depositary) are free and clear of all liens, charges, encumbrances or third party interests and that such transfers or issues are not in contravention of the LivaNova Articles or any contractual obligation, law or regulation. Each holder of DDIs indemnifies the Depositary for any losses the Depositary incurs as a result of a breach of this warranty.

The Depositary and any Custodian must pass on to holders of the DDIs and, so far as they are reasonably able, exercise on behalf of holders of the DDIs all rights and entitlements received or to which they are entitled in respect of the underlying LivaNova Shares which are capable of being passed on or exercised. Rights and entitlements to cash distributions, to information, to make choices and elections and to call for, attend and vote at meetings shall, subject to the Deed Poll, be passed on in the form in which they are received together with amendments and additional documentation necessary to effect such passing on, or, as the case may be, exercised in accordance with the Deed Poll.

The Depositary will be entitled to cancel the DDIs and withdraw the underlying LivaNova Shares in certain circumstances, including where a holder has infringed the LivaNova Articles, or of the law applicable to LivaNova.

The Deed Poll contains provisions excluding and limiting the Depositary's liability. For example, the Depositary shall not be liable to any holder of the DDIs or any other person for liabilities in connection with the performance or non-performance of obligations under the Deed Poll or otherwise except as may result from its negligence or wilful default or fraud. Furthermore, except in the case of personal injury or death, the Depositary's liability to a holder of the DDIs will be limited to the lesser of:

(a) the value of the LivaNova Shares and other deposited property properly attributable to the DDIs to which the liability relates; and

(b) that proportion of £5 million which corresponds to the proportion which the amount the Depositary would otherwise be liable to pay to the holder of the DDIs bears to the aggregate of the amounts the Depositary would otherwise be liable to pay to all such holders in respect of the same act, omission or event which gave rise to such liability or, if there are no such amounts, £5 million.

The Depositary is not liable for any losses attributable to or resulting from the LivaNova's negligence or wilful default or fraud or that of the CREST operator.

The Depositary is entitled to charge holders of the DDIs fees and expenses for the provision of its services under the Deed Poll.

Each holder of the DDIs is liable to indemnify the Depositary and any Custodian (and their agents, officers and employees) against all liabilities arising from or incurred in connection with, or arising from any act related to, the Deed Poll so far as they relate to the property held for the account of the DDIs held by that holder, other than those resulting from the wilful default, negligence or fraud of the Depositary, or the Custodian or any agent, if such Custodian or agent is a member of the Depositary's group, or, if not being a member of the same group, the Depositary shall have failed to exercise reasonable care in the appointment and continued use and supervision of such Custodian or agent.

The Depositary may terminate the Deed Poll by giving not less than 30 days' prior notice. During such notice period, holders may cancel their DDIs and withdraw their deposited property and, if any the DDIs remain outstanding after termination, the Depositary must as soon as reasonably practicable, among other things, deliver the deposited property in respect of the DDIs to the relevant holder of the DDIs or, at its discretion sell all or part of such deposited property. It shall, as soon as reasonably practicable deliver the net proceeds of any such sale, after deducting any sums due to the Depositary, together with any other cash held by it under the Deed Poll pro rata to holders of the DDIs in respect of their DDIs.

The Depositary or the Custodian may require from any holder, or former or prospective holder, information as to the capacity in which the DDIs are owned or held and the identity of any other person with any interest of any

kind in such DDIs or the underlying the LivaNova (as the case may be) and holders are bound to provide such information requested. Furthermore, to the extent that the LivaNova Articles or applicable law requires disclosure to LivaNova of, or limitations in relation to, beneficial or other ownership of, or interests of any kind whatsoever, in the LivaNova Shares, the holders of the DDIs are to comply with such provisions and with LivaNova's instructions with respect thereto.

A copy of the Deed Poll can be obtained on request in writing to the Depositary.

Depositary Agreement

Prior to the Closing Date, LivaNova will enter into the Depositary Agreement for the provision of depositary and custody services in relation to the DDIs with the Depositary. Under the terms of the Depositary Agreement, the Depositary has agreed to constitute and issue the DDIs with a view to facilitate the indirect holding of, and settlement of transaction of, LivaNova Shares by LivaNova Shareholders in CREST. The Depositary has also agreed to appoint a subsidiary to act as the custodian of the relevant LivaNova Shares underlying the DDIs. The Depositary Agreement will be for a fixed term of three years, and thereafter can be terminated by either party giving not less than 6 months' notice. LivaNova has agreed to pay the Depositary an annual fee of £15,000 for the depositary and custodian services.

6. RELATED PARTY TRANSACTIONS

Save as disclosed, in relation to Sorin, (i) in note 38 to the consolidated unaudited financial information incorporated by reference into this Prospectus from the 2015 Sorin half-yearly report, (ii) in note 32 to the consolidated financial information incorporated by reference into this Prospectus from the 2014 Sorin Annual Report, (iii) in note 40 to the consolidated financial information incorporated by reference into this Prospectus from the Sorin 2013 Annual Report and (iv) in note 40 to the consolidated financial information incorporated by reference into this Prospectus from the Sorin 2012 Annual Report, none of LivaNova, Sorin nor Cyberonics has entered into any related party transactions of the kind set out in the Standards adopted according to Regulation (EC) No 1606/2002 during the periods covered by the historic financial information for Sorin and Cyberonics incorporated by reference in, or included in, this Prospectus or during the period between 30 June 2015 in relation to Sorin, and 24 July 2015 in relation to Cyberonics, respectively, and 9 October 2015 (being the latest practicable date prior to the publication of this Prospectus).

7. MATERIAL CONTRACTS

7.1 LivaNova

The following are all of the contracts (not being contracts entered into in the ordinary course of business) that have been entered into by LivaNova since LivaNova's incorporation which (i) are, or may be, material to LivaNova; or (ii) contain obligations or entitlements which are, or may be, material to LivaNova as at the date of this Prospectus:

Merger Agreement

For further information on the Merger Agreement, see paragraph 9 of Part I (*Information on the Mergers*).

Letter of Intent

On 26 February 2015, Cyberonics, Sorin, LivaNova and Merger Sub entered into the Letter of Intent, which provided that those parties would enter into the definitive Merger Agreement, subject to the completion of the employee consultation procedures required under French law. The purpose of the Letter of Intent was to ensure, pending the resolution of the French works council consultations, that there was a binding agreement to oblige the parties to enter into the Merger Agreement, and to make the representations and warranties then outlined in the then unsigned Merger Agreement, and to adhere to certain of the pre-closing covenants in the draft Merger Agreement, including in relation the termination and termination fee.

Depositary Agreement

Further details of the Depositary Agreement are set out in paragraph 5 of this Part XIII of this Prospectus.

Deed Poll

Further details of the Deed Poll are set out in paragraph 5 of this Part XIII of this Prospectus.

7.2 Sorin

No contracts have been entered into (other than contracts in the ordinary course of business) by Sorin: (i) within the period two years immediately preceding the date of this Prospectus, which are, or may be, material to Sorin or LivaNova, or (ii) which contain any provisions under which Sorin has any obligation or entitlement which is, or may be, material to Sorin as at the date of this Prospectus, save for (i) the Merger Agreement, (ii) the Letter of Intent, and (iii) as disclosed below:

The Sorin support agreements

In connection with the entry into the Letter of Intent by Cyberonics and Sorin, Sorin entered into support agreements with certain Cyberonics Stockholders, who, as at 30 June 2015, held, in aggregate, 0.42 per cent. of the shares of the Cyberonics Common Stock (the "**Sorin Support Agreements**"). Under the terms of the Sorin Support Agreement, the relevant Cyberonics Stockholders agreed to vote their shares in favour of the transactions contemplated by the Merger Agreement, and against any other competing transaction, and agreed, prior to the Cyberonics Merger Effective Time, not to transfer any of their shares or other equity interests in Cyberonics owned by them. The Cyberonics Stockholders that are party to the Sorin Support Agreements are Hugh Morrison (the Chairman of the Cyberonics board of directors), and Daniel J. Moore (the President and Chief Executive of Cyberonics, a Current Director, and the Chairman of LivaNova from the Closing Date for the duration of the LivaNova Initial Period). The Sorin Support Agreements will terminate on the earlier of: (i) the Cyberonics Merger Effective Time, (ii) termination of the Merger Agreement in accordance with its terms; and (iii) 26 February 2016.

MicroPort joint venture agreement

On 9 January 2014, Sorin entered into a joint venture agreement with MicroPort Medical (Group) Co., Ltd (HQ) ("**MicroPort Partner**"), a medical technology company based in Shanghai, China, in connection with its investment in in MicroPort's subsidiary, MicroPort WeiBo Medical Devices (Shanghai) Co. Ltd ("**MicroPort JV**") (the "**Joint Venture Agreement**"). MicroPort Partner is a leading medical technology company that develops, manufactures and sells high-end medical devices, including devices used for the treatment of cardiovascular, endovascular, neurovascular disorders and diseases, as well as devices for electrophysiology, orthopaedic care, diabetic care, endocrinal management and surgical management. MicroPort is intended to result in the stable long-term relationship between Sorin and MicroPort Partner in order for both parties to assume a significant role in the Chinese CRM market, which would leverage MicroPort Partner's access to production facilities in China, established tendering capabilities, and a distribution and after-sales network.

Under the terms and conditions of the Joint Venture Agreement, MicroPort Partner has subscribed for 51 per cent. of the equity of MicroPort, with Sorin subscribing for the remaining 49 per cent. Sorin will contribute, in aggregate, RMB 59,780,000 to the MicroPort JV, and can designate two of the four board members to the board of MicroPort. The term of the Joint Venture Agreement shall be ten years, and can be extended for additional five year periods.

UniCredit Loan

For further information on the UniCredit Loan, see paragraph 5.2 of Part IV *(Operating and Financial Review of Sorin)*.

EIB Loan

For further information on the EIB Loan, see paragraph 5.2 Part IV *(Operating and Financial Review of Sorin)*.

BpiFrance Loan

For further information on the BpiFrance Loan, see paragraph 5.2 Part IV (*Operating and Financial Review of Sorin*).

Loans from Cassa Depositi e Prestiti

For more information on the loans from Cassa Depositi e Prestiti, see paragraph 5.2 Part IV (*Operating and Financial Review of Sorin*).

HighLife investment agreement

On 9 November 2012, Sorin entered into an investment agreement with Baccata SARL, Ela-Med GmbH, Mr. Nicolo Piazza and HighLife SAS ("**HighLife**", and together with the other signatories, the "**HighLife Parties**") in connection with Sorin's investment in HighLife, a company incorporated in France that is principally engaged in the development of health care and biotechnology medical devices and products ("**HighLife Investment Agreement**"). The proceeds of Sorin's investment is to assist with the funding of HighLife SAS, an early-stage company focused on the development of a unique transcatheter mitral valve replacement system to treat patients with mitral regurgitation.

Under the terms of the HighLife Investment Agreement, Sorin has agreed to invest up to €22 million in the share capital of HighLife by way of a multi-round investment, which includes Round A - the investment of €6,999,999 by way of Series A Preferred Shares with a nominal value of €0.01, and a share premium of €2.56 per share, and Round B - the investment of €14,999,998 by way of Series B Preferred Shares with a nominal value of €2.56 per share. The HighLife Life Investment Agreement will remain in force for ten years from the date of execution.

In connection with the HighLife Investment Agreement, Sorin and the HighLife Parties, along with Mr. Johann Börtlein, entered into an investors' right agreement (the "**HighLife Investors' Rights Agreement**") on 9 November 2012 to govern the relationship between the shareholders of HighLife. Among other things, Sorin has the right to designate two directors of the 5-member board, and a right of first offer over the entire issued share capital of HighLife.

Respicardia investment agreement

On 20 October 2014, Sorin entered into a stock purchase agreement with, *inter alia*, Respicardia Inc., a Delaware incorporated company, in order to purchase, in aggregate, up to US$20 million of Series D shares (the "**Respicardia Agreement**"). Under the Respicardia Agreement, Respicardia agreed to use the cash proceeds realised from its sale of the Series D shares to, among other things, fund the clinical trials for Respicardia's remedē® system, which is a pacemaker-like device that delivers electrical pulses to the phrenic nerve via an implantable transvenous lead, which restores a more natural, less disrupted breathing pattern to treat CSA.

Caisson investment agreement

On 14 September 2012, Sorin entered into a preferred unit purchase agreement with Caisson International, LLC, a Delaware incorporated company, in order to purchase, in aggregate, up to US$22,988,676 of Series A shares (the "**Caisson Agreement**"). Under the Caisson Agreement, Caisson International, LLC has agreed to use the cash proceeds realised from its sale of the Series A Shares to invest in certain development milestones of its innovative mitral replacement system for the treatment of mitral regurgitation.

Enopace investment agreement

On 21 February 2013, Sorin entered a share purchase agreement with Enopace Biomedical Ltd., an Israeli medical devices company, in order to purchase, in aggregate, up to US$18 million of Series A preferred shares (the "**Enopace Agreement**"). Under the terms of the Enopace Agreement, Enopace has agreed to use the proceeds of Sorin's investment in the R&D of its neuromodulation capabilities. Sorin has the right of first offer over Enopace under the Enopace Agreement.

7.3 Cyberonics

No contracts have been entered into (other than contracts in the ordinary course of business) by Cyberonics: (i) within the period two years immediately preceding the date of this Prospectus, which are, or may be, material to Cyberonics or LivaNova, or (ii) which contain any provisions under which Cyberonics has any obligation or entitlement which is, or may be, material to Cyberonics as at the date of this Prospectus, save for (i) the Merger Agreement, (ii) the Letter of Intent, and (iii) as disclosed below

The Cyberonics support agreement

In connection with the entry into the Letter of Intent by Cyberonics and Sorin, Cyberonics entered into a support agreement with certain large Sorin Shareholders, who, as at 30 June 2015, held, in aggregate, 26.2 per cent. of the issued Sorin Shares (the "**Cyberonics Support Agreement**"). Under the terms of the Cyberonics Support Agreement, the relevant Sorin Shareholders agreed to vote their shares in favour of the transactions contemplated by the Merger Agreement, and against any other competing transaction, and agreed, prior to the Sorin Merger Effective Time, not to transfer any of their shares or other equity interests in Sorin owned by them. The Sorin

Shareholders that are party to the Cyberonics Support Agreement are Mittel, S.P.A, Equinox Two S.C.A., Bios S.P.A., Tower 6 BIS S.A.R.L, Tower 6 S.A.R.L. and GHEA S.R.L. The Cyberonics Support Agreement will terminate on the earlier of: (i) the Sorin Merger Effective Time, (ii) termination of the Merger Agreement in accordance with its terms; and (iii) 26 February 2016. In addition, the Sorin Shareholders who are party to the Cyberonics Support Agreement are entitled to terminate the Cyberonics Support Agreement in order to tender their shares if there is a competing public tender offer to the Mergers.

Flint Hills licence agreement

In October 2009, Cyberonics entered into a licence arrangement with Flint Hills Scientific, L.L.C., which was amended in January 2011 and January 2015, that includes a royalty fee with a minimum annual fee of US$$350,000 that increases to US$700,000 in fiscal year 2017, related primarily to cardiac-based seizure detection patents and patent applications. The license enables the AspireSR generator to, among other things, provide additional stimulation automatically by responding to a patient's relative heart-rate changes that exceed variable thresholds. Starting in fiscal year 2016, Cyberonics expects that royalty fees due to Flint Hills Scientific, L.L.C. will be in excess of the minimums due, based upon expected domestic and international AspireSR product sales.

8. SIGNIFICANT SUBSIDIARIES

LivaNova will be the parent company of the Cyberonics, and will be the surviving entity of Sorin following the Sorin Merger. The following table contains a list of the principal (but not necessarily direct) subsidiaries and associated undertakings of Sorin and Cyberonics (each of which is likely to have a significant effect on the assessment of the assets, liabilities and financial position and/or profits and losses of the Combined Group).

Sorin

Name of subsidiary	Country of incorporation	Percentage ownership interest (%)
Sorin CRM SAS	France	100
Sorin Group France SAS	France	100
Sorin CRM Holding SAS	France	100
SorinCardio Comercialização e Distribuição de Equipamentos Medicos, Lda	Portugal	100
Sorin Group Dr, SRL	Dominican Republic	100
Sorin Group Nederland NV	The Netherlands	100
Sorin Group España S.L.	Spain	100
Sorin Group Polska Sp. Z.o.o.	Poland	100
Sorin Group Australia PTY Limited	Australia	100
Sorin Group Belgium SA	Belgium	100
Sorin Group Austria GmbH	Austria	100
Sorin Group Japan K.K.	Japan	100
Sorin Group UK Limited	England and Wales	100
Sorin Site Management S.r.l.	Italy	100
Sorin Group Italia S.r.l.	Italy	100
Reced Indústria Mecânica Ltda	Brazil	100
Sorin Group USA Inc.	United States	100
Sorin Group Canada Inc.	Canada	100
Sorin CRM USA Inc.	United States	100
California Medical Laboratories (CalMed) Inc.	United States	100
Sorin Group Czech Republic S.r.O.	Czech Republic	100
Alcard Indústria Mecânica Ltda	Brazil	100
Sorin Group Asia PTE LTD	Singapore	100
Sorin CP Holding S.r.l.	Italy	100
Sorin Medical Devices (Suzhou) Co. Ltd	China	100
Sorin Medical (Shanghai) Co. Ltd	China	100
Sorin Group Finland OY	Finland	100
Sorin Group Scandinavia AB	Sweden	100
Sorin Group Norway AS	Norway	100
Sorin Group Deutschland GmbH	Germany	100
Sorin Group International SA	Switzerland	100
Sobedia Energia	Italy	75

The following is a list of entities in which Sorin has an equity investment:

Name of subsidiary	Country of incorporation	Percentage ownership interest (%)
HighLife SAS	France	37.96
MicroPort Sorin CRM (Shanghai) Co., Ltd.	China	49
Respicardia Inc.	United States	19.7
Enopace Biomedical Ltd	Israel	31.75
Cardiosolutions Inc.	United States	35.33
Caisson Interventional LLC	United States	43.33
MD Start SA	Switzerland	20.93
MD Start I KG	Germany	23.38
LMTB - Laser - UND Medizin Technologie GmbH	Germany	22.55
La Bouscarre S.C.I.	France	50

Cyberonics

Name of subsidiary	Country of incorporation	Percentage ownership interest (%)
Cyberonics Holdings LLC	United States	100
CYBX Netherlands C.V.	The Netherlands	100
Cyberonics Spain S.L.	Spain	100
Cyberonics Europe B.V./B.A.	Belgium	100
Cyberonics France SARL	France	100
Cyberonics Latam S.R.L.	Costa Rica	100

9. WORKING CAPITAL

In the opinion of LivaNova, taking into account the committed facilities available to the Combined Group, the working capital available to the Combined Group is sufficient for the Combined Group's present requirements, that is for at least the next 12 months following the date of this Prospectus.

10. LITIGATION

10.1 Sorin

Save as disclosed below, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Sorin is aware) which may have, or have had during the twelve months preceding the date of this Prospectus, a significant effect on Sorin's financial position and profitability.

(a) SNIA litigation

In 1986, Sorin's predecessor, Sorin Biomedica, a company specialising in medical technology and listed on the ISE, was acquired by SNIA, a company in the chemical industry. Sorin Biomedica operated independently as the medical technology division of SNIA until it merged with SNIA and delisted from the ISE in 2000. In 2004, the medical technology division, with Sorin as a holding company, was spun-off from SNIA, and Sorin was again listed on the ISE.

Pursuant to the Italian Civil Code, in a spin-off transaction, the parent and the spun-off company can be held jointly liable for certain indebtedness or liabilities of the pre-spin-off company in two scenarios:

- The parent and the spun-off company can be held jointly liable, up to the actual value of the shareholders' equity conveyed or received, 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. Sorin estimates that at the time of the spin-off, the value of the residual shareholders' equity received was approximately €573 million.
- The parent and the spun-off company can be held jointly liable, up to the actual value of the shareholders' equity conveyed or received, for "liabilities" (*elementi del passivo*) whose allocation between the parties to the spin-off cannot be determined based on the spin-off plan.

For purposes of the Italian Civil Code, Sorin believes the term "debt" (*debiti*) is generally understood to refer to indebtedness as reflected on a debtor's balance sheet for accounting purposes in accordance with the European Union directive pursuant to which these provisions of the Italian Civil Code were enacted, which translates "*debiti*" as "obligations." The European Union directive uses "obligations" to refer to indebtedness owed to creditors and the term "liabilities" to refer to general liabilities. In connection with the Sorin spin-off, the assets and liabilities of SNIA's medical technology division were allocated to Sorin, and the remaining assets and liabilities of SNIA, including those related to the Caffaro Chemical Operations (as described below), were allocated to SNIA.

Between 1906 and 2010, the SNIA Subsidiaries conducted certain chemical operations at sites in Torviscosa, Brescia and Colleferro, Italy, referred to in this Prospectus as 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 sought compensation from SNIA in an aggregate amount of €3.4 billion for remediation costs relating to the environmental damage at the Caffaro Chemical Sites allegedly caused by the Caffaro Chemical Operations. The amount, which was based on certain provisions and precautionary measures set forth in the remediation plan, was invalidated in part by courts in Friuli Venezia Giulia and Brescia due to its large and speculative size and inadequate fact-finding, respectively, remains in dispute, and no final remediation plan has been approved.

In September 2011, the Bankruptcy Court of Udine, and in July 2014, the Bankruptcy Court of Milan each held that the Italian Ministry of the Environment and other Italian government agencies were not creditors of SNIA and the SNIA Subsidiaries in connection with the agencies' claims against them in the context of their Italian insolvency proceedings. Sorin believes these findings are enforceable in other Italian courts, including civil courts. The Italian Ministry of the Environment and the other Italian government agencies have appealed both decisions, and relevant proceedings are currently pending as part of SNIA's and the SNIA Subsidiaries' Italian insolvency proceedings.

In January 2012, SNIA filed a civil action against Sorin in the Civil Court of Milan on the basis of the Italian Civil Code's provisions for potential joint liability of a parent and a spun-off company in the context of a spin-off, as described above, seeking to determine Sorin's joint liability with SNIA for damages allegedly related to the Caffaro Chemical Operations. SNIA's civil action against Sorin also named the Italian Ministry of the Environment and other Italian government agencies, as defendants, in order to have them bound to a potential ruling. The Italian Ministry of the Environment, together with the Italian Ministry of Economy and Finance and certain additional Italian government agencies that also sought compensation from SNIA for the alleged environmental damages, subsequently counterclaimed against Sorin, seeking to have Sorin found jointly liable to them with SNIA, on the same basis. SNIA and these government agencies also asked the court to find inapplicable to the Sorin spin-off the Italian Civil Code's caps on potential joint liability of parties to a spin-off, which limit such joint liability to the actual value of the shareholders' equity received, on the basis that the Sorin spin-off was planned prior to the date such caps were enacted under the Italian Civil Code, and despite the fact that the Sorin spin-off became effective after such date. Sorin sought to contest SNIA's claims against Sorin, in their entirety, due to:

- the Italian bankruptcy courts' previous findings that the Italian Ministry of the Environment and other Italian government agencies were not creditors of SNIA and the SNIA subsidiaries in connection with the agencies' claims against them;
- Sorin's belief that the alleged liabilities related to the Caffaro Chemical Operations did not constitute indebtedness of SNIA at the time of the Sorin spin-off, and thus that Sorin should not be held liable under the Italian Civil Code's provisions relating to joint liability for indebtedness in the context of spin-offs, as described above; and
- the allocation to SNIA of the assets and liabilities related to the Caffaro Chemical Operations in connection with the Sorin spin-off, and Sorin's belief that Sorin should therefore not be liable under the Italian Civil Code's provisions relating to joint liability in the context of spin-offs for liabilities of indeterminate allocation, as described above.

At the hearing on 8 September 2015, the parties submitted their final claims in connection with SNIA's civil action and have been granted the terms for filing their final defence briefs.

Sorin believes that the risk of material loss relating to the SNIA litigation is not probable as a result of the reasons described above. Sorin also believes that the amount of potential losses relating to the SNIA

litigation is not estimable given that the underlying damages and related remediation costs remain in dispute and that no final decision on a remediation plan has been approved. As a result, Sorin has not made any accrual in connection with the SNIA litigation.

Although Sorin believes the claims against it in connection with the SNIA litigation are without merit and is contesting them vigorously, there can be no assurance as to the outcome. A finding that Sorin is liable for the environmental damage at the Caffaro Chemical Sites could have a material adverse effect on the financial position, results of operations and/or cash flows of Sorin and, following completion of the Mergers, the Combined Group. Pursuant to European Union, United Kingdom and Italian cross-border merger regulations applicable to the Sorin Merger, Sorin's liabilities, including any potential liabilities arising from the claims against Sorin relating to the SNIA litigation, will be assumed by LivaNova as successor to Sorin in the Sorin Merger.

(b) Litigation related to the Sorin Merger

On 24 July 2015, Sorin received a claim from the Italian State's Attorney seeking to enjoin the Sorin Merger. The claim was filed with the Civil Court of Milan on behalf of the Italian Ministry of the Environment and other Italian government agencies pursuant to provisions of the Italian Civil Code permitting creditors to challenge a merger if the merger will result in harm to the position of creditors with respect to the merged entity. In its claim, the Italian State's Attorney alleges that the Sorin Merger is intended to insulate Sorin from potential liability related to the SNIA litigation and thus harms the position of the relevant Italian government agencies named as plaintiffs in the claim, which the claim alleges are creditors of Sorin. Sorin believes that the claim is without merit and is contesting it vigorously. Sorin believes that the Italian State's Attorney's allegation that the Sorin Merger is intended to insulate Sorin from liability contradicts European Union, United Kingdom and Italian cross-border merger regulations applicable to the Sorin Merger, which provide that all liabilities of Sorin, including any potential liabilities arising from the SNIA litigation, will be assumed by LivaNova as the successor to Sorin in the Sorin Merger. Moreover, Sorin believes that it should not have any liability for the claimed amounts and that the Italian government agencies are not creditors of Sorin, for the reasons Sorin has stated in a civil action pending in the Civil Court of Milan.

Sorin sought an expedited resolution of the Italian State's Attorney's claim in the Civil Court of Milan, which held a hearing on the matter on 17 August 2015. On 20 August 2015, the Civil Court of Milan issued a ruling rejecting the objection of the Italian State's Attorney, thus allowing the Mergers to move forward.

(c) Environmental remediation order

On 28 July 2015, Sorin and other direct and indirect shareholders of SNIA received an administrative order from the Italian Ministry of the Environment, directing them to promptly commence environmental remediation efforts at the Caffaro Chemical Sites. Sorin believes that this environmental remediation order is without merit. 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 the statute does not apply to activities occurring prior to 2006, the date on which the statute was enacted, and Sorin was spun-off from SNIA in 2004. Additionally, Sorin believes that it 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 been identified in any legal proceeding as an operator at any of the Caffaro Chemical Sites, has not conducted activities of any kind at any of the Caffaro Chemical Sites and has not caused any environmental damage at any of the Caffaro Chemical Sites. Accordingly, Sorin is contesting the environmental remediation order vigorously and seeking a stay of the order pending resolution of the underlying claims in the SNIA litigation. However, there can be no assurance as to the outcome of the SNIA litigation or that Sorin will be successful in challenging the environmental remediation order. If the environmental remediation order is ultimately upheld against Sorin, the effects of such order could have a material adverse effect on the financial position, results of operations and/or cash flows of Sorin and, following completion of the Mergers, the Combined Group.

(d) Tax litigation

In a tax audit report notified on 30 October 2009, the Regional Internal Revenue Office of Lombardy informed Sorin Group Italia S.r.l. that, among several issues, it was disallowing in part (for a total of

€102.6 million) a tax-deductible writedown of the investment in the U.S. company, Cobe Cardiovascular Inc., which Sorin Group Italia S.r.l. recognised in 2002 and deducted in five equal instalments, 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.

Sorin and Sorin Group Italia S.r.l. 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 heard and all were denied. An appeal has been filed against the decisions at the first jurisdictional level for 2004, 2005 and 2006 in the belief that all the decisions are incorrect in their reasoning and radically flawed. The appeal submitted against the first-level decision for 2005 was rejected. The second-level decision (relating to the 2005 notice of assessment) was appealed to the Italian Supreme Court (*Corte di Cassazione*), where Sorin will argue that the assessment should be deemed null and void and illegitimate because of a false application of regulations. This litigation is still pending before the Italian Supreme Court.

The Internal Revenue Office served a notice of assessment for 2007 (in November 2012) and a notice of assessment for 2008 (in July 2013), wherein it claimed 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 utilised in 2007 and 2008. Both notices of assessment were challenged within the statutory deadline. The opinion for the appeal submitted for tax year 2007 was deferred until pending disputes for tax years 2004, 2005 and 2006 are settled.

The total amount of the tax loss carryforward is €62.6 million. Sorin believes in the legal and factual soundness of its defence and deems it unlikely that it will ultimately lose the case. Consequently, no provisions for contingent risk were booked. Current contingent tax liability amounts to approximately €20.8 million, including €3.6 million for currently due corporate income tax, €3.6 million in penalties, €0.8 million in interest accrued as of June 30, 2015 and a €12.9 million write-off of deferred-tax assets recognised on tax loss carryforwards that have been temporarily used to offset the income assessed by Italian tax authorities and may be reattributed, all or in part, in case of successful outcome of the tax disputes currently in place.

10.2 Cyberonics

Save as disclosed below, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Cyberonics is aware) which may have, or have had during the twelve months preceding the date of this Prospectus, a significant effect on Cyberonics' financial position and profitability.

On 5 December 2013, the United States District Court for the District of Massachusetts unsealed a qui tam action filed by a former Cyberonics employee, Andrew Hagerty, against Cyberonics under the False Claims Act and the false claims statutes of 28 different states in the U.S. and the District of Columbia. 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 programme. A "qui tam" action is a lawsuit brought by a private individual, known as a relator, purporting to act on behalf of the U.S. government. The action is filed under seal, and the U.S. 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 the VNS Therapy System and seeks an unspecified amount consisting of treble damages, civil penalties, and legal 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

6 April 2015, the district court dismissed all claims filed by Mr. Hagerty relating to allegations that Cyberonics submitted or caused the submission of false claims under the False Claims Act, but did not dismiss the claims for wrongful and retaliatory discharge under the False Claims Act.

Cyberonics filed an answer to the surviving claims in May 2015, which denied the allegations, and filed a motion for arbitration to request the court to compel arbitration on the surviving employment-related claims consistent with the mandatory arbitration terms of Mr. Hagerty's employment documents. Mr. Hagerty filed a brief in opposition to this motion for arbitration in June 2015, and Cyberonics filed a reply brief in support of its motion to compel arbitration in the same month. In August 2015, Mr. Hagerty filed a motion seeking leave to file a second amended complaint and a proposed second amended complaint to respond to certain deficiencies noted by the Court in its dismissal of certain claims in Mr. Hagerty's first amended complaint alleging that Cyberonics submitted or caused the submission of false claims under the False Claims Act. Cyberonics filed its response to Mr. Hagerty's notice in September 2015. On 16 September 2015, the Court heard oral arguments on the pending motion. As of 9 October 2015, being the latest practicable date prior to the publication of this Prospectus, the Court has not ruled on the pending motion.

Cyberonics believes its commercialisation practices were, and are, in compliance with applicable legal standards, and will continue to defend this case vigorously. No assurances can be given as to the resources that will be needed to respond to these matters or the final outcome, and no estimate can be given of the potential loss or damages. To date, Mr. Hagerty has not specified a damage amount, nor has he modified any damage claim in light of the dismissal of his claims relating to the false claims pursuant to the False Claims Act. Furthermore, there have been no settlement discussions between Cyberonics and Mr. Hagerty in relation to the matter.

11. MANDATORY TAKEOVER BIDS, SQUEEZE-OUT RULES AND TAKEOVER BIDS

11.1 Mandatory takeover bids

The UK Takeover Code applies to LivaNova. Under the UK Takeover Code, if an acquisition of interests in LivaNova Shares were to increase the aggregate holding of an acquirer and persons acting in concert with it to an interest in LivaNova Shares carrying 30 per cent. or more of the voting rights in LivaNova, the acquirer and, depending upon the circumstances, persons acting in concert with it, would be required (except with the consent of the UK Panel on Takeovers and Mergers) to make a cash offer for the outstanding shares at a price not less than the highest price paid for any interest in the LivaNova Shares by the acquirer or his concert parties during the previous 12 months. A similar obligation to make such a mandatory offer would also arise on the acquisition of an interest in the LivaNova Shares by a person holding (together with any persons acting in concert) an interest in the LivaNova Shares carrying between 30 per cent. and 50 per cent. of the voting rights in the company if the effect of such acquisition were to increase that person's percentage of the voting rights.

11.2 Squeeze-out rules

Under the Companies Act 2006, if a "takeover offer'" (as defined in section 974 of the Companies Act 2006) is made for the LivaNova Shares and the offeror were to acquire, or unconditionally contract to acquire, not less than 90 per cent. in value of the LivaNova Shares to which the offer relates (the "**offer shares**") and not less than 90 per cent. of the voting rights attached to the offer shares, within three months of the last day on which its offer can be accepted, it could acquire compulsorily the outstanding shares not assented to the offer. It would do so by sending a notice to outstanding shareholders telling them that it will acquire compulsorily their LivaNova Shares and then, six weeks later, it would execute a transfer of the outstanding shares in its favour and pay the consideration to LivaNova, which would hold the consideration on trust for outstanding shareholders. The consideration offered to the shareholders whose shares are acquired compulsorily under the Companies Act 2006 must, in general, be the same as the consideration that was available under the takeover offer.

11.3 Sell-out rules

The Companies Act 2006 also gives minority shareholders a right to be bought out in certain circumstances by an offeror who has made a takeover offer. If a takeover offer related to all the LivaNova Shares and at any time before the end of the period within which the offer could be accepted the offeror held or had agreed to acquire not less than 90 per cent. of the LivaNova Shares to which the offer relates,

any holder of LivaNova Shares to which the offer related who had not accepted the offer could by a written communication to the offeror require it to acquire those LivaNova Shares. The offeror is required to give any shareholder notice of his right to be bought out within one month of that right arising. The offeror may impose a time limit on the rights of the minority shareholders to be bought out, but that period cannot end less than three months after the end of the acceptance period. If a shareholder exercises his or her rights, the offeror is bound to acquire those LivaNova Shares on the terms of the offer or on such other terms as may be agreed.

12. SIGNIFICANT CHANGE

There has been no significant change in the financial or trading position of Cyberonics since 24 July 2015, the date to which the latest financial information on Cyberonics, included in this Prospectus, was prepared.

Save as set out below, there has been no significant change in the financial or trading position of Sorin since 30 June 2015, the date to which the latest financial information on Sorin, incorporated into this document by reference, was prepared.

Sorin's loss before tax (based on unaudited management accounts) for the two months ended 31 August 2015 was a loss of €14.4 million, compared to a loss of €4.6 million in the two months ended 31 August 2014. This increase in loss before tax was principally due to the incurrence of expenses of €5.1 million relating to the Mergers, a negative €1.0 million effect of foreign exchange rates and weaker than expected operating performance in Sorin's CRM segment (further details of which are disclosed in paragraph 9 of Part IV (*Operating and Financial Review of Sorin*)).

13. CONSENTS

PricewaterhouseCoopers LLP has given and has not withdrawn its written consent to the inclusion of its accountant's report on the unaudited pro forma financial information set out in Section B of Part IX (*Pro Forma Financial Information*) in the form and context in which it appears and has authorised the contents of its report for the purposes of Rule 5.5.3R(2)(f) of the Prospectus Rules.

14. PROPERTY, PLANT AND EQUIPMENT

14.1 Cyberonics

Cyberonics owns its headquarters building, which is located in Houston, Texas and consists of approximately 144,000 square feet of manufacturing and office space. It constructed, and owns, a second manufacturing facility located in Costa Rica, which consists of approximately 50,000 square feet. Late in fiscal year 2015, the Costa Rica facility began to manufacture and ship product.

Cyberonics also leases an approximately 20,000 square-foot facility in Austin, Texas, which is used for warehousing and distribution. It also leases a total of approximately 19,000 square feet of administrative and sales office space in the following locations: Brussels, Belgium and elsewhere in Europe, China, Hong Kong and the U.S. All of property lease terms expire between 30 June 2015 and February 2022. All leased properties include the appropriate space to accommodate expected growth in the respective domestic and international businesses.

14.2 Sorin

Sorin's corporate headquarters are leased by Sorin and located in Milan, Italy. Manufacturing or research facilities are located in Italy, France, Germany, the United States, Canada, Brazil and the Dominican Republic. Sorin also maintains sales and administrative offices in the U.S. at one location in the State of Colorado and at numerous locations outside the U.S. Most of these locations are leased. Sorin is using substantially all of its currently available productive space to develop, manufacture, and market its products. Sorin's facilities are in good operating condition, suitable for their respective uses, and adequate for current needs.

15. GENERAL

Reconta Ernst & Young S.p.A. was the former statutory auditor for Sorin, who audited and reported on Sorin's consolidated financial statements for the year ended 31 December 2012. Reconta Ernst & Young S.p.A. was not reappointed at Sorin's annual general meeting held on 30 April 2013, where it was resolved that PricewaterhouseCoopers S.p.A. would become the independent auditors for Sorin.

16. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) up to and including Admission at the offices of Latham & Watkins (London) LLP at 99 Bishopsgate, London EC2M 3XF, United Kingdom:

16.1 the LivaNova Articles;

16.2 the audited consolidated financial information of Sorin for the years ended 31 December 2014, 2013 and 2012 and the unaudited consolidated financial information of Sorin for the six months ended 30 June 2015 and 30 June 2014;

16.3 the audited consolidated financial information of Cyberonics for the 52 weeks ended 24 April 2015, 25 April 2014 and 26 April 2013 and the unaudited consolidated financial information of Cyberonics for Cyberonics Q1 2016 and Cyberonics Q1 2015;

16.4 the report from PricewaterhouseCoopers LLP to the Company on the unaudited pro forma financial information referred to in Part IX of this Prospectus; and

16.5 this Prospectus.

Dated: 12 October 2015

PART XIV
DEFINITIONS

The following definitions apply throughout this Prospectus unless the context requires otherwise:

"Admission"	the admission of all of the issued and to be issued LivaNova Shares to the standard listing segment of the Official List and to trading on the LSE's Main Market for listed securities becoming effective in accordance with, respectively, the Listing Rules and the LSE's standards for admission and disclosure for securities (as amended from time to time)
"Affordable Care Act"	the U.S. Patient Protection and Affordable Care Act, as amended by the U.S. Health Care and Education Reconciliation Act
"American Taxpayer Relief Act"	the U.S. American Taxpayer Relief Act of 2012
"Anti-Kickback Statute"	the provisions contained in Chapter 7 of Title 42 (The Public Health and Welfare) of the United States Code, relating to the protection of patient and federal health care programme in the United States from fraud and abuse
"BEL"	Bioengineering Laboratories, an Italian company specialising in disposable medical devices for urology, urodynamics, heart surgery and haemodialysis
"BpiFrance Loan"	the loan agreement between Sorin and BpiFrance (ex-Oséo) for €3 million (*Contrat de development participatif*) dated 8 October 2012
"Bribery Act"	the Bribery Act 2010 of England and Wales (as amended)
"Caffaro Chemical Operations"	the chemical operations conducted by the SNIA Subsidiaries at the Caffaro Chemical Sites
"Caffaro Chemical Sites"	the sites in Torviscosa, Brescia and Colleferro at which the Caffaro Chemical Operations were conducted
"CalMed"	California Medical Laboratories, Inc.
"Cashed-out Cyberonics Option"	an outstanding Cyberonics stock option granted prior to 1 January 2013, that is held by any director or executive officer of Cyberonics
"Cerbomed"	Cerbomed GmbH, a privately-held, European development-stage company working on a transcutaneous VNS device for several indications
"CIA"	Corporate Integrity Agreement
"City Code"	the U.K. City Code on Takeovers and Mergers
"Closing Date"	the closing date of the Mergers, which is the date on which the Effective Times occur
"CMS"	U.S. Centers for Medicare and Medicaid Services
"Combined Group"	the combined group following the Mergers, comprising Sorin and Cyberonics
"Companies Act 2006"	the Companies Act 2006 of England and Wales (as amended)
"CONSOB"	the Commissione Nazionale per le Societá e la Borsa

"Corporate Governance Code"	the U.K. Corporate Governance Code published in September 2014 by the Financial Reporting Council (as amended from time to time)
"Court"	the Companies Court, Chancery Division of the High Court of Justice in England
"CREST" or **"CREST System"**	the paperless settlement system operated by Euroclear enabling securities to be evidenced other than by certificates and transferred other than by written instrument
"Current Directors"	the directors of LivaNova as at the date of this Prospectus
"Cyberonics"	Cyberonics Inc., a corporation organised under the laws of the State of Delaware, together (where the context so requires) with its subsidiaries and subsidiary undertakings
"Cyberonics Common Stock"	the common stock of Cyberonics with par value of $0.01 per share
"Cyberonics Competing Acquisition Proposal"	any inquiry, proposal or offer (other than a proposal or offer by Sorin or any of the Sorin subsidiaries) made by any person or group of persons relating to (A) any direct or indirect acquisition or purchase in any manner, in each case whether in a single transaction or a series of transactions, of (1) 15 per cent. or more (based on the fair market value thereof) of the consolidated total assets (including capital stock of the Cyberonics subsidiaries), taken as a whole, or (2) 15 per cent. or more of the issued shares of the Cyberonics Common Stock or any other class of capital stock or equity securities of Cyberonics, (B) any tender offer or exchange offer, in each case whether in a single transaction or a series of transactions, that, if consummated, would result in any person or group of persons owning, directly or indirectly, 15 per cent. or more of issued shares of Cyberonics Common Stock or any other class of capital stock or equity securities of Cyberonics, or (C) any merger, consolidation, share exchange, business combination, recapitalisation, liquidation, dissolution, equity investment, joint venture or similar transaction involving Cyberonics or any of the Cyberonics subsidiaries pursuant to which any person or group of persons (or the stockholders of any person) would own, directly or indirectly, (x) 15 per cent. or more of any class of equity securities of Cyberonics or the surviving entity in a merger or the resulting direct or indirect parent of Cyberonics or such surviving entity, or (y) businesses or assets (including capital stock of the Cyberonics subsidiaries) that constitute 15 per cent. or more of the consolidated revenues, net income or total assets of Cyberonics and the Cyberonics subsidiaries
"Cyberonics Merger"	pursuant to the Merger Agreement, and immediately following the Sorin Merger, the merger by Merger Sub with and into Cyberonics, with Cyberonics continuing as the surviving entity and as a wholly-owned subsidiary of LivaNova
"Cyberonics Merger Consideration"	the LivaNova Shares to be received by the Cyberonics Shareholders in accordance with the Cyberonics Merger Exchange Ratio as consideration in relation to the Cyberonics Merger
"Cyberonics Merger Effective Time"	the effective time of the Cyberonics Merger when each issued Cyberonics Common Stock, other than the Excluded Cyberonics Shares, will be converted into the right to receive one LivaNova Share in accordance with the Cyberonics Merger Exchange Ratio

"Cyberonics Merger Exchange Ratio"	the exchange ratio of one LivaNova Share for each Cyberonics common stock in connection with the Cyberonics Merger
"Cyberonics Restricted Stock"	as at the Cyberonics Merger Effective Time, each issued share of Cyberonics Common Stock subject to vesting or other lapse restrictions pursuant to the stock plans operated by Cyberonics
"Cyberonics Q1 2015"	the period beginning on 26 April 2014 and ending on 25 July 2014
"Cyberonics Q1 2016"	the period beginning on 25 April 2015 and ending on 24 July 2015
"Cyberonics Special Meeting"	the special meeting of Cyberonics Stockholders to, *inter alia*, adopt the Merger Agreement, and the transactions contemplated therein, including the Mergers, which was held on 22 September 2015
"Cyberonics Stockholders"	the holders of the Cyberonics Common Stock
"Cyberonics Stockholder Approval"	the approval of the proposal to adopt the Merger Agreement by the holders of the majority of the issued Cyberonics Common Stock entitled to vote at the Cyberonics Special Meeting, which was given on 22 September 2015
"DDIs"	dematerialised domestic depositary interests
"Deed Poll"	the deed poll dated 9 October 2015 and executed by the Depositary in favour of the holders of the DDIs from time to time
"Depositary"	Computershare Investor Services PLC
"Depositary Agreement"	the agreement to be entered into, prior to the Closing Date, between the Depositary and the Company under which the Company appoints LivaNova to constitute and issue the DDIs
"Disclosure and Transparency Rules"	the disclosure and transparency rules made by the FCA under Part VI of the FSMA
"DTC"	Depositary Trust & Clearing Corporation, the paperless settlement system, enabling shares to be traded on the NASDAQ
"EAG"	expanded affiliated group, which for the purposes of Section 7874, means a foreign corporation and all subsidiaries in which the foreign corporation, directly or indirectly, owns more than 50 per cent. of the shares by vote and value
"EEA"	the European free trade association member countries (except Switzerland) and the member state of the EU
"Effective Times"	the Cyberonics Merger Effective Time and the Sorin Merger Effective Time
"EIB"	European Investment Bank
"EIB Loan"	the finance contract between Sorin and the EIB for €100 million dated 6 May 2014
"EU"	the European Union
"Euribor"	the Euro inter-bank offered rate
"Euroclear"	Euroclear UK & Ireland Limited

"Excluded Cyberonics Stock"	the shares in the Cyberonics Common Stock that, as of immediately prior to the Cyberonics Merger Effective Time, are (i) held in treasury by Cyberonics, or (ii) owned of record by LivaNova, Merger Sub, Sorin, or any of their respective subsidiaries
"Excluded Sorin Shares"	the Sorin Shares that, as of immediately prior to the Sorin Merger Effective Time, are (i) held in treasury by Sorin or (ii) owned of record by LivaNova, Merger Sub, Cyberonics or any of their respective subsidiaries
"False Claims Act"	the provisions contained in Title 31 (Claims) of the United States Code, relating to the liabilities of persons or companies who defraud government programmes
"FCA"	the Financial Conduct Authority of the United Kingdom in its capacity as the competent authority for the purposes of Part VI of the FSMA and the Financial Services Act 2012 and in the exercise of its functions in respect of the admission to the Official List otherwise than in accordance with Part VI of the FSMA
"FCPA"	the U.S. Foreign Corrupt Practices Act
"FDCA"	the U.S. Federal Food, Drug and Cosmetic Act
"FSMA"	the Financial Services and Markets Act 2000 (as amended)
"HIPAA"	the U.S. Health Insurance Portability and Accountability Act of 1996
"HITECH"	the U.S. Health Information Technology and Clinical Health Act
"HMRC"	Her Majesty's Revenue and Customs
"HSR Act"	United States Hart-Scott-Rodino Antitrust Improvements Act of 1976
"IFRS"	International Financial Reporting Standards, as adopted for use in the EU
"Information Document"	the information document sent by Sorin to CONSOB on 11 May 2015 in connection with the Mergers
"Internal Revenue Code"	U.S. Internal Revenue Code of 1986, as amended
"IRS"	Internal Revenue Service of the United States
"ISE"	Italian Stock Exchange (i.e., Mercato Telematico Azionario, organised and managed by The Borsa Italia S.p.A.)
"ISIN"	International Securities Identification Number
"Italian Income Tax Act"	Articles 178(i)(a) and 179 of Presidential Decree No. 917 of 22 December 1986
"Italian Ministry of the Environment"	the Italian Ministry of the Environment and the Protection of the Land and Sea
"Italian P.E."	permanent establishment in Italy under Italian tax law
"Italian State's Attorney"	the Italian State's Attorney of Milan
"Letter of Intent"	the binding letter of intent entered into by Sorin, Cyberonics, LivaNova and Merger Sub on 26 February 2015, prior to the agreement and execution of the Merger Agreement

"Libor"	the London inter-bank offered rate
"Listing Rules"	the rules relating to admission to the Official List made in accordance with section 73A(2) of the FSMA
"LivaNova" or **"Company"**	LivaNova PLC, incorporated in England and Wales with company number 09451374
"LivaNova Articles"	the memorandum and articles of association of LivaNova in force conditional upon and with effect from Admission
"LivaNova Board"	the board of directors of LivaNova from time to time
"LivaNova Initial Period"	the period of time from the Cyberonics Merger Effective Time until the first annual general meeting of LivaNova following its second full reporting year-end
"LivaNova Shareholder"	a holder of the LivaNova Shares from time to time
"LivaNova Shares"	ordinary shares of £1.00 each in the share capital of LivaNova
"LSE"	the London Stock Exchange plc
"LTIP"	long-term incentive plan
"Medicare" or **"Medicaid"**	the U.S. federal government funded health care programme
"Merger Agreement"	the agreement entered into by and between Cyberonics, Sorin, LivaNova, and Merger Sub dated 23 March 2015
"Merger Plan"	the plan prepared in connection with the Sorin Merger submitted to the Companies Register of Milan in Italy in order for the Sorin Merger to be approved
"Mergers"	the Sorin Merger and the Cyberonics Merger
"Merger Sub"	Cypher Merger Sub, Inc., a Delaware corporation, and a wholly-owned subsidiary of LivaNova
"Modified Sorin 2012-2014 Award"	a performance share under the Sorin 2012-2014 LTIP the terms of which provide that the Sorin Shares issuable with respect to such performance share would be subject to a lock-up period following settlement and, except as otherwise determined by Sorin, each other performance share under the Sorin 2012-2014 LTIP
"Modified Sorin LTI Award"	each Sorin LTI Award the terms of which currently provide for a lock-up period and, except as otherwise determined by Sorin, each other Sorin LTI Award
"NASDAQ"	National Association of Securities Dealers Automated Quotations
"NASDAQ Rules"	the NASDAQ Stock Market Rules
"NOL"	net operating loss
"OFAC"	the Office of Foreign Assets Control of the U.S. Department of the Treasury
"Official List"	the official list maintained by the FCA for the purposes of Part VI of the FSMA
"Oscor"	Oscor Inc.

"Proposed Directors"	Rosario Bifulco, Hugh Morrison, Alfred J. Novak, Arthur L. Rosenthal, Francesco Bianchi, Stefano Gianotti and Sharon O'Kane
"Prospectus"	this document relating to the Company and the LivaNova Shares, prepared by the Company in accordance with the Prospectus Rules
"Prospectus Directive" or **"PD Regulation"**	European Union Directive 2003/71/EC (and any amendment thereto, including Directive 2010/73/EU 2010, to the extent implemented in each relevant EU Member State) and includes any relevant implementing measure in each relevant EU Member State
"Prospectus Rules"	the rules made for the purposes of Part VI of the FSMA in relation to offers of securities to the public and admission of securities to trading on a regulated market
"R&D"	research and development
"Redeemable Shares"	non-voting shares in the share capital on LivaNova issued on 17 April 2015 that are expected to be redeemed by LivaNova, conditional upon the Sorin Merger Effective Time
"Registration Statement"	the filing on Form S-4 with the SEC made by LivaNova in connection with the Mergers, as declared effective by the SEC on 19 August 2015
"Regulatory Information Service"	the primary information provider to which companies must send their regulatory announcements under the Listing Rules, Prospectus Rules and Disclosure and Transparency Rules in the U.K.
"Rescission Rights"	if properly exercised, the right of Sorin Shareholders who did not vote in favour of the Merger Plan at the Sorin Extraordinary General Meeting to be entitled to receive from Sorin an amount in cash equal to the closing price per Sorin share for the six month period prior to the publication of the notice of call of the Sorin Extraordinary General Meeting being €2.2043 per share
"SEC"	U.S. Securities and Exchange Commission
"Section 7874"	section 7874 of the Internal Revenue Code relating to the designation of U.S. tax residency
"Section 7874 Percentage"	the percentage of the LivaNova Shares deemed held by former holders of Cyberonics common stock by reason of being former holders of Cyberonics common stock solely for purposes of the calculation under Section 7874 and taking into account the special rules of that section
"Senior Managers"	the senior managers of LivaNova upon completion of the Mergers as outlined in paragraph 5 of Part XII (*Current Directors, Proposed Directors, Responsible Persons, Corporate Governance and Employees*) of this Prospectus
"SG&A"	selling, general and administrative expenses
"SNIA"	SNIA S.p.A.
"SNIA Subsidiaries"	Caffaro Chimica S.r.l. and Caffaro S.r.l. and their predecessors
"Sorin"	Sorin S.p.A., a joint stock company organised under the laws of Italy, together (where the context so requires) with its subsidiaries and subsidiary undertakings

"Sorin 2012-2014 LTIP"	the long-term incentive share plan operated by Sorin
"Sorin 2012-2014 Participant"	an individual who holds any performance shares under the Sorin 2012-2014 LTIP
"Sorin Board"	the board of directors of Sorin, from time to time
"Sorin Competing Acquisition Proposal"	any inquiry, proposal or offer (other than a proposal or offer by Cyberonics or any of the Cyberonics subsidiaries) made by any person or group of persons relating to (A) any direct or indirect acquisition or purchase in any manner, in each case whether in a single transaction or a series of transactions, of (1) 15 per cent. or more (based on the fair market value thereof) of the consolidated total assets (including capital stock of the Sorin subsidiaries), taken as a whole, or (2) 15 per cent. or more of the issued Sorin Shares or any other class of capital stock or equity securities of Sorin, (B) any tender offer or exchange offer, in each case whether in a single transaction or a series of transactions, that, if consummated, would result in any person or group of persons owning, directly or indirectly, 15 per cent. or more of the issued Sorin Shares or any other class of capital stock or equity securities of Sorin or (C) any merger, consolidation, share exchange, business combination, recapitalisation, liquidation, dissolution, equity investment, joint venture or similar transaction involving Sorin or any of the Sorin subsidiaries pursuant to which any person or group of persons (or the stockholders of any person) would own, directly or indirectly, (x) 15 per cent. or more of any class of equity securities of Sorin or the surviving entity in a merger or the resulting direct or indirect parent of Sorin or such surviving entity or (y) businesses or assets (including capital stock of the Sorin subsidiaries) that constitute 15 per cent. or more of the consolidated revenues, net income or total assets of Sorin and the Sorin subsidiaries
"Sorin Deferred Bonus Shares"	the outstanding deferred bonus shares pursuant to the Sorin stock plans immediately prior to the Sorin Merger Effective Time
"Sorin Extraordinary General Meeting"	the meeting of the Sorin Shareholders to approve, inter alia, the Merger Plan held on 26 May 2015
"Sorin LTI Award"	a performance share award pursuant to the Sorin stock plans (other than the Sorin 2012-2014 LTIP)
"Sorin Merger"	pursuant to the terms of the Merger Agreement, the merger by Sorin with and into LivaNova, with LivaNova as the surviving entity
"Sorin Merger Consideration"	the LivaNova Shares to be received by Sorin Shareholders in accordance with the Sorin Merger Exchange Ratio as consideration in relation to the Sorin Merger
"Sorin Merger Effective Time"	the effective time of the Sorin Merger when each issued Sorin Share, other than the Excluded Sorin Shares, will be converted into the right to receive LivaNova Shares in accordance with the Cyberonics Merger Exchange Ratio
"Sorin Merger Exchange Ratio"	the exchange ratio of 0.0472 of a LivaNova Share for each Sorin Share in connection with the Sorin Merger
"Sorin Merger Order"	the order to be made by the Court to approve the Sorin Merger pursuant to Regulation 16 of the U.K. Companies (Cross-Border Mergers) Regulation 2007

"Sorin Rescission Shares"	those Sorin Shares held by a Sorin Shareholder who has properly exercised on or before 12 June 2015 and perfected his or her Rescission Rights in accordance with Italian law, which have not been purchased by other Sorin Shareholders or by third parties pursuant to Article 2437-quarter of the Italian Civil Code on or before 22 July 2015
"Sorin Shareholder Approval"	the approval of the Sorin Merger by the holders of two-thirds of the Sorin Shares in attendance and able to vote on the sole call at the Sorin Extraordinary General Meeting of the Sorin Shareholders called for such purpose, which was obtained on 26 May 2015
"Sorin Shareholders"	the holders of the Sorin Shares
"Sorin Shares"	the ordinary shares of Sorin, each with a nominal value of €1.00
"Third Party Payer"	any company or institution that provides reimbursement to health care providers for services rendered to a third party (i.e. the patient, such as Medicare)
"U.K." or **"United Kingdom"**	the United Kingdom of Great Britain and Northern Ireland
"uncertificated" or in **"uncertificated form"**	in respect of a share or any other security, where that share or other security is recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST and title to which may be transferred by means of CREST
"Uncertificated Securities Rules"	every statute (including any orders, regulations or other subordinate legislation made under it) relating to the holding, evidencing of title to, or transfer of uncertificated shares and legislation, rules or other arrangements made under or by virtue of such provisions
"UniCredit Loan"	the loan agreement between Sorin and UniCredit Bank New York branch for US$20 million, dated 12 April 2013 and amended on 12 December 2014
"U.S." or **"United States"**	United States of America
"U.S. Exchange Act"	the U.S. Securities Exchange Act of 1934
"U.S. FDA"	the U.S. Food and Drug Administration
"U.S. GAAP"	the generally accepted accounting principles in the U.S.

GLOSSARY OF TECHNICAL TERMS

The following technical terms are used throughout this Prospectus:

"510(K)"	a premarket notification submission made under section 510(k) of the FDCA relating to the approval of medical devices granted by the U.S. FDA
"CE Mark"	mandatory conformity marking for certain products sold in the EEA
"CHF"	chronic heart failure
"CRM"	cardiac rhythm management
"CRT-D"	cardiac resynchronisation therapy devices
"CSA"	central sleep apnoea
"ECT"	electro convulsive therapy
"EU Vigilance System"	EU Guidelines on a Medical Devices Vigilance System
"FSCA"	the Field Safety Corrective Actions
"GUDID"	the Global Unique Device Identification Database of the U.S. FDA
"HLM"	heart-lung machine
"ICD"	implantable cardiovertex defibrillator
"IDE"	Investigational Device Exemption
"MRI"	magnetic resonance imaging
"PMA"	pre-market approval for medical devices granted by the U.S. FDA
"PRT"	phospholid reduction treatment
"QSR"	Quality System Regulation of the U.S. FDA
"TRD"	treatment resistant depression
"VNS"	vagus nerve stimulation
"VNS Therapy System"	the implantable medical device that delivers VNS therapy to treat retractory epilepsy and TRD, designed, developed, sold and marketed by Cyberonics

APPENDIX
CYBERONICS' FINANCIAL STATEMENTS

PART A

24 APRIL 2015, 25 APRIL 2014 AND 26 APRIL 2013
TOGETHER WITH REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Cyberonics, Inc.:

We have audited the accompanying consolidated balance sheets of Cyberonics, Inc. and subsidiaries as of April 24, 2015 and April 25, 2014, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the 52 weeks ended April 24, 2015, April 25, 2014 and April 26, 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cyberonics, Inc. and subsidiaries as of April 24, 2015 and April 25, 2014, and the results of their operations and their cash flows for the 52 weeks ended April 24, 2015, April 25, 2014 and April 26, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Cyberonics, Inc.'s internal control over financial reporting as of April 24, 2015, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated June 15, 2015 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Houston, Texas

June 15, 2015

CYBERONICS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	52 Weeks Ended April 24, 2015	52 Weeks Ended April 25, 2014	52 Weeks Ended April 26, 2013
Net sales	$291,557,998	$282,014,160	$254,320,417
Cost of sales	27,310,869	27,354,891	21,907,264
Gross profit	264,247,129	254,659,269	232,413,153
Operating expenses:			
Selling, general and administrative	123,618,907	120,641,897	112,515,262
Research and development	43,284,432	46,562,775	41,551,444
Merger related expenses	8,692,072	—	—
Litigation settlement	—	7,442,847	—
Total operating expenses	175,595,411	174,647,519	154,066,706
Income from operations	88,651,718	80,011,750	78,346,447
Interest income, net	162,888	162,218	(35,016)
Impairment of investment	—	—	(4,058,768)
Gain on warrants' liability	—	—	1,325,574
Other income (expense), net	479,471	(295,272)	(303,612)
Income before income taxes	89,294,077	79,878,696	75,274,625
Income tax expense	31,446,543	24,988,439	28,917,123
Net income	$ 57,847,534	$ 54,890,257	$ 46,357,502
Basic income per share	$ 2.19	$ 2.02	$ 1.68
Diluted income per share	$ 2.17	$ 2.00	$ 1.66
Shares used in computing basic			
Shares used in computing basic income per share	26,391,064	27,142,597	27,604,006
Shares used in computing diluted income per share	26,625,721	27,466,474	28,008,960

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	52 Weeks Ended April 24, 2015	52 Weeks Ended April 25, 2014	52 Weeks Ended April 26, 2013
Net income	$57,847,534	$54,890,257	$46,357,502
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustment	(3,855,620)	286,873	(253,824)
Total other comprehensive income (loss)	(3,855,620)	286,873	(253,824)
Total comprehensive income	$53,991,914	$55,177,130	$46,103,678

CYBERONICS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	April 24, 2015	April 25, 2014
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 124,187,094	$ 103,299,116
Short-term Investments	27,019,597	25,028,957
Accounts receivable, net	50,569,375	50,674,041
Inventories	23,963,303	17,630,111
Deferred tax assets current, net	7,198,726	17,208,365
Other current assets	7,782,875	6,590,612
Total Current Assets	240,720,970	220,431,202
Property, plant and equipment, net	40,286,676	39,534,873
Intangible assets, net	10,168,239	11,654,690
Investments in equity securities	17,126,927	15,944,427
Deferred tax assets non-current, net	6,077,854	5,770,644
Other assets	1,563,529	855,558
Total Assets	$ 315,944,195	$ 294,191,394
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 7,251,213	$ 7,569,784
Accrued liabilities	24,197,963	22,327,913
Total Current Liabilities	31,449,176	29,897,697
Long-term liabilities	7,921,288	5,193,853
Total Liabilities	39,370,464	35,091,550
Commitments and Contingencies		
Stockholders' Equity:		
Preferred Stock, $.01 par value per share; 2,500,000 shares authorized; no shares issued and outstanding	—	—
Common Stock, $.01 par value per share; 50,000,000 shares authorized; 32,054,236 shares issued and 25,996,102 shares outstanding at April 24, 2015 and 31,819,678 shares issued and 26,745,713 shares outstanding at April 25, 2014	320,542	318,197
Additional paid-in capital	445,362,045	426,866,998
Treasury stock, 6,058,134 and 5,073,965 common shares at April 24, 2015 and April 25, 2014, respectively, at cost	(243,534,888)	(188,519,469)
Accumulated other comprehensive income (loss)	(3,400,770)	454,850
Retained earnings	77,826,802	19,979,268
Total Stockholders' Equity	276,573,731	259,099,844
Total Liabilities and Stockholders' Equity	$ 315,944,195	$ 294,191,394

CYBERONICS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

	Common							
	Shares	Amount	Additional Paid-In Capital	Common Stock Warrants	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Accumulated	Total Stockholders' Equity
Balance at April 27, 2012	30,638,605	$306,386	$321,960,886	$ 25,200,000	$ (83,151,212)	$ 421,801	$(81,268,491)	$183,469,370
Stock-based compensation plans	649,839	6,498	24,282,446	—	—	—	—	24,288,944
Tax benefits from stock-based compensation plans			12,361,561					12,361,561
Purchase of Treasury Stock	—	—	—	—	(33,009,673)	—	—	(33,009,673)
Common stock issued upon conversion of convertible notes	96	1	3,984					3,985
Warrants' settlements			21,550,084	(25,200,000)	279	—	—	(3,649,637)
Net income	—	—	—	—	—	—	46,357,502	46,357,502
Foreign currency translation gain (loss)	—	—	—	—	—	(253,824)	—	(253,824)
Balance at April 26, 2013	31,288,540	$312,885	$380,158,961	$ —	$(116,160,606)	$ 167,977	$(34,910,989)	$229,568,228
Stock-based compensation plans	531,138	5,312	19,634,552	—	—	—	—	19,639,864
Tax benefits from stock-based compensation plans	—	—	27,073,485	—	—	—	—	27,073,485
Purchase of Treasury Stock	—	—	—	—	(72,358,863)	—	—	(72,358,863)
Net income	—	—	—	—	—	—	54,890,257	54,890,257
Foreign currency translation gain (loss)	—	—	—	—	—	286,873	—	286,873
Balance at April 25, 2014	31,819,678	$318,197	$426,866,998	$ —	$(188,519,469)	$ 454,850	$ 19,979,268	$259,099,844
Stock-based compensation plans	234,558	2,345	13,964,293	—	—	—	—	13,966,638
Tax benefits from stock-based compensation plans	—	—	4,530,754	—	—	—	—	4,530,754
Purchase of Treasury Stock	—	—	—	—	(55,015,419)	—	—	(55,015,419)
Net income	—	—	—	—	—	—	57,847,534	57,847,534
Foreign currency translation gain (loss)	—	—	—	—	—	(3,855,620)	—	(3,855,620)
Balance at April 24,2015	32,054,236	$320,542	$445,362,045	$ —	$(243,534,888)	$(3,400,770)	$ 77,826,802	$276,573,731

CYBERONICS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	52 Weeks Ended April 24, 2015	52 Weeks Ended April 25, 2014	52 Weeks Ended April 26, 2013
Cash Flows From Operating Activities:			
Net income	$ 57,847,534	$ 54,890,257	$ 46,357,502
Non-cash items included in net income:			
Depreciation	5,768,119	4,288,184	3,770,756
Amortization of intangible assets	1,486,450	1,314,309	867,613
Stock-based compensation	11,939,894	11,239,987	11,683,249
Deferred income tax expense (benefit)	9,399,511	(5,200,888)	22,421,044
Deferred license revenue amortization	—	(1,467,869)	(1,493,968)
Loss from impairment of investment	—	—	4,058,768
Gain on warrants' liability	—	—	(1,325,574)
Unrealized (gain) loss in foreign currency transactions and other	(433,894)	72,287	136,344
Changes in operating assets and liabilities:			
Accounts receivable, net	(2,654,488)	(10,656,327)	(10,184,633)
Inventories	(7,113,182)	254,190	(3,395,899)
Other current and non-current assets	(2,111,958)	(2,626,110)	(405,072)
Current and non-current liabilities	5,547,130	2,087,796	6,563,629
Net cash provided by operating activities	79,675,116	54,195,816	79,053,759
Cash Flow From Investing Activities:			
Restricted cash	—	—	(99,573)
Purchase of short-term investments	(31,984,889)	(39,984,639)	(15,000,000)
Maturities of short-term investments	30,088,978	29,990,389	—
Purchase of property, plant and equipment	(6,686,589)	(15,222,440)	(9,705,446)
Intangible asset purchases	—	(3,839,000)	(4,600,000)
Investment in equity securities	(1,182,500)	(5,356,225)	(6,588,201)
Net cash used in investing activities	(9,765,000)	(34,411,915)	(35,993,220)
Cash Flows From Financing Activities:			
Purchase of treasury stock	(55,015,419)	(72,358,863)	(33,009,394)
Proceeds from exercise of options for common stock	3,184,093	9,737,212	9,742,948
Cash settlement of compensation-based stock units	(1,170,612)	(1,323,369)	—
Realized excess tax benefits - stock-based compensation	4,746,377	26,678,199	4,416,583
Net cash used in financing activities	(48,255,561)	(37,266,821)	(18,849,863)
Effect of exchange rate changes on cash and cash equivalents	(766,577)	73,464	(156,379)
Net increase (decrease) in cash and cash equivalents	20,887,978	(17,409,456)	24,054,297
Cash and cash equivalents at beginning of period	103,299,116	120,708,572	96,654,275
Cash and cash equivalents at end of period	$124,187,094	$103,299,116	$120,708,572
Supplementary Disclosures of Cash Flow Information:			
Cash paid for interest	$ 1,272	$ 4,034	$ 95,729
Cash paid for income taxes	$ 15,576,973	$ 4,295,774	$ 3,517,787
Supplementary disclosure of non-cash activity in operating liabilities:			
Reclassification from common stock warrants to warrants' liability	$ —	$ —	$ (3,649,637)
Reclassification from common stock warrants to additional paid-in-capital	$ —	$ —	$ (21,550,363)
PP&E and intangible assets obtained in NeuroVista foreclosure	$ —	$ —	$ 1,450,000
Settlement of the NeuroVista note	$ —	$ —	$ (1,450,000)

CYBERONICS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Period Ended April 24, 2015

Note 1. Basis of Presentation, Use of Accounting Estimates and Significant Accounting Policies

Nature of Operations

We are a medical device company, incorporated in 1987, engaged in the design, development, sale and marketing of medical devices for epilepsy, depression and heart failure. Our seminal product, the VNS Therapy® System, is an implantable device that provides neuromodulation therapy for the treatment of drug-resistant epilepsy and treatment-resistant depression ("TRD"). Our latest product, the VITARIA™ System, approved in Europe but not the U.S., is an implantable device that provides a form of neuromodulation therapy for the treatment of chronic heart failure ("CHF"). We are also developing non-implantable device solutions for the management of epilepsy.

Expenses related to the Merger with Sorin

On March 23, 2015, Cyberonics, Sorin, Holdco and Merger Sub entered into the definitive merger agreement contemplated by the LOI (the "Transaction Agreement"). Under the terms of the Transaction Agreement, Cyberonics and Sorin will combine under a newly formed company, Holdco. Closing of the transaction is expected to occur in the third calendar quarter of 2015. We reported the cost associated with the proposed transaction as a separate operating expense item in the consolidated statement of income. Refer to "Note 20. Proposed Merger with Sorin S.p.A." for further information.

Basis of Presentation

The accompanying consolidated financial statements of Cyberonics, Inc. and its consolidated subsidiaries (collectively "Cyberonics") at April 24, 2015 have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP").

Fiscal Year-End

We utilize a 52/53-week fiscal year that ends on the last Friday in April. Our fiscal years 2015, 2014 and 2013 ended April 24, 2015, April 25, 2014 and April 26, 2013, respectively, and are 52-week years.

Use of Estimates

The preparation of our consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in such financial statements and accompanying notes. These estimates are based on management's best knowledge of current events and actions we may undertake in the future. Estimates are used in accounting for, among other items, valuation of intangible asset investments, amortization of intangible assets, measurement of deferred tax assets and liabilities and uncertain income tax positions and stock-based compensation. Actual results could differ materially from those estimates.

Consolidation

The accompanying consolidated financial statements include Cyberonics, Inc. and our wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Cash and Cash Equivalents

We consider all highly liquid investments with an original maturity of three months or less, consisting of demand deposit accounts and money market mutual funds, to be cash equivalents and are carried in the balance sheet at cost, which approximated their fair value. We carried $28.3 million and $30.2 million in money market mutual funds at April 24, 2015 and April 25, 2014, respectively.

Accounts Receivable

Our accounts receivable consisted of trade receivables resulting from the granting of credit to our direct customers and distributors in the normal course of business. We maintain an allowance for doubtful accounts for

potential credit losses based on our estimates of the ability of customers to make required payments, historical credit experience, existing economic conditions and expected future trends. We write-off uncollectible accounts against the allowance when all reasonable collection efforts have been exhausted.

Inventories

We state our inventories at the lower of cost, using the first-in first-out ("**FIFO**") method, or market. Our calculation of cost includes the acquisition cost of raw materials and components, direct labor and overhead.

*Property, Plant and Equipment ("**PP&E**")*

PP&E is carried at cost, less accumulated depreciation. Maintenance, repairs and minor replacements are charged to expense as incurred, while significant renewals and improvements are capitalized. We compute depreciation using the straight-line method over estimated useful lives. Leasehold improvements are depreciated over the life of the lease contract plus expected extensions. Capital improvements to the building are added as building components and depreciated over the useful life of the improvement or the building, whichever is less. PP&E is reviewed for impairment annually.

Intangible Assets

Intangible assets shown on the consolidated balance sheet are finite-lived assets. Developed Technology Rights consist primarily of purchased patents, related know-how and licensed patent rights. Other Intangible Assets consist of purchased clinical data. We amortize our intangible assets over their useful lives, generally the life of the patents, using the straight-line method. Amortization expense is recorded in research and development until an associated product is marketed, thereafter we amortize the remaining carrying value of the intangible asset to cost of goods sold using a unit-of-sale method. The unit-of-sale method of amortization is based on current period unit sales and total expected unit sales over the useful life of the intangible asset. The useful life of an intangible asset not associated with a commercialized product is generally based on the life of the patent. We evaluate our intangible assets each reporting period to determine whether events and circumstances indicate either a different useful life or impairment. If we change our estimate of the useful life of an asset, we amortize the carrying amount over the revised remaining useful life. If we identify an impairment indicator, such as an asset that no longer factors into our product commercialization plans, we test the intellectual property for recoverability, and if the carrying amount is not recoverable and exceeds its fair value, impairment is recognized and charged to research and development.

Investments.

Short-Term Investments. Our short-term investments consisted of certificates of deposit and commercial paper that are considered held-to-maturity debt securities and carried at amortized cost, which approximated fair value.

Long-term investments

Our long-term investments consisted of cost-method equity investments. We have invested in the convertible preferred shares of privately-held, development-stage medical device companies. We own less than 20% of the voting stock in these entities and do not have the ability to exercise significant influence over them. The carrying value of these entities is reviewed each reporting period for events or changes in circumstances that indicate an impairment of our investment. Impairment indicators include failed clinical studies, adverse regulatory actions, and changes in the investees' competitive positions or difficulty in raising funds. If impairment is indicated, we determine the fair value of the investment and, if below cost, we determine if the loss is temporary or other-than-temporary. Temporary loss is not recognized in the consolidated statement of income and other-than-temporary loss is recognized in 'Other Expense, Net' in the consolidated statement of income. Impairment adjustments are subject to a high degree of management judgment, as these investments do not have quoted market prices.

We also invest in corporate owned-life insurance policies. We carry the cash surrender value of the company-owned life insurance policies in "Other long-term assets" in the consolidated balance sheet. The cash surrender value of the plan assets are based on an underlying investment in a mutual fund portfolio, refer to "Note 6. Investments". Premiums paid are based on salary deferred under the Deferred Compensation Plan, refer to "Note 12. Employee Retirement Savings Plan and Deferred Compensation Plan."

Revenue Recognition

Product Revenue

We sell our products through a direct sales force in the U.S. and we sell our products in the international markets primarily through a direct sales force, however, we also use independent distributors in some international markets. We recognize revenue when persuasive evidence of a sales arrangement exists, title to the goods and risk of loss transfers to customers or to independent distributors, the selling price is fixed or determinable and collectability is reasonably assured. We estimate expected sales returns based on historical data and record a reduction of sales with a return reserve. We record state and local sales taxes net, that is, we exclude sales tax from revenues. Our products consist of multiple components. These components typically include a pulse generator; a lead that connects the pulse generator to the vagus nerve; surgical instruments; the tunneling tool; instruction manuals; an accessory pack used to test the function of the device prior to implantation; and for some products, patient kits consisting of magnets to suspend or induce stimulation manually. We also provide equipment, consisting of a hand-held computer and programming wand, to enable the treating physician to set the pulse generator stimulation parameters for the patient. The instruction manuals, patient kits and the programming equipment are generally provided free of charge. All components not provided free of charge have separate pricing and are ordered and sold separately to our customers.

In some international markets we establish distribution agreements with independent distributors to better suit the needs of our customers, such as in Italy, the Balkans, countries in eastern Europe Canada, Mexico, Australia, parts of Central and South America, the Middle East, China, Japan, and other parts of Asia. The distribution agreements generally grant the distributor exclusive sales rights with requirements for regulatory compliance for the particular territory. The time periods covered by our contracts with distributors are predominantly annual, although there are some contracts for longer periods. Terms and conditions may be different for sales to our distributors, as compared to sales through our direct sales force, but such differences do not result in different revenue recognition practices.

License Revenue

We record upfront payments received under license agreements as deferred revenue on the consolidated balance sheet and recognize license revenue over the period we are obligated to prosecute the licensed patent applications.

*Medical Device Excise Tax ("**MDET**")*

Section 4191 of the Internal Revenue Code enacted by the Health Care and Education Reconciliation Act of 2010, in conjunction with the Patient Protection and Affordable Care Act, established a 2.3% excise tax on medical devices sold domestically beginning on January 1, 2013. We include the cost of MDET in cost of sales on the consolidated statement of income.

*Research and Development ("**R&D**")*

All R&D costs are expensed as incurred. R&D includes costs of basic research activities as well as engineering and technical effort required to develop a new product or make significant improvement to an existing product or manufacturing process. R&D costs also include regulatory and clinical study expenses, including post-market clinical studies. Amortization of intangible assets not associated with a marketable product is recorded in R&D.

Leases

We account for leases that transfer substantially all benefits and risks incident to the ownership of property as an acquisition of an asset and the incurrence of an obligation, and we account for all other leases as operating leases. We are a party to contracts for leased facilities and equipment, all of which we consider operating leases. Certain of our leases provide for tenant improvement allowances that have been recorded as deferred rent and amortized, using the straight-line method, over the life of the lease as a reduction to rent expense. In addition, scheduled rent increases and rent holidays are recognized on a straight-line basis over the term of the lease.

Stock-Based Compensation

Stock-Based Incentive Awards

We grant stock-based incentive awards to directors, officers, key employees and consultants on four pre-determined days during each fiscal year. We measure the cost of employee services received in exchange for

an award of equity instruments based on the grant date fair market value of the award. We recognize equity-based compensation expense ratably over the period that an employee is required to provide service in exchange for the entire award (all vesting periods). We issue new shares upon stock option exercise and the award of restricted stock and at our election, on vesting of a restricted stock unit.

Stock Options

Options granted under the Stock Plans are service-based and typically vest annually over four years, or cliff-vest in one year, following their date of grant, as required under the applicable agreement establishing the award, and have maximum terms of 10 years. Stock option grant prices are set equal to the closing price of our common stock on the day of the grant. There are no post-vesting restrictions on the shares issued. We use the Black-Scholes option pricing methodology to calculate the grant date fair market value of stock option awards. This methodology takes into account variables such as the future expected volatility of our stock price, the amount of time expected to elapse between the date of grant and the date of exercise and a risk-free interest rate. We determine expected volatility based on the historic volatility of our stock price over a period equal to the expected term of the option. Prior to fiscal year 2014, we included an additional factor, implied volatility, in our estimates of expected volatility, based on option market trading data for our stock; however, starting with fiscal year 2014, we discontinued this factor due to a low volume of activity in the option trading market.

Restricted Stock and Restricted Stock Units

We grant restricted stock and restricted stock units at no purchase cost to the grantee, which typically vest annually over four years or cliff-vest in one or three years. Unvested restricted stock entitles the grantees to dividends, if any, and voting rights for their respective shares. Sale or transfer of the stock and stock units are restricted until they are vested. We issue new shares for our restricted stock and restricted stock unit awards. We have the right to elect to pay the cash value of vested restricted stock units in lieu of the issuance of new shares. Under our stock-based compensation plans we repurchase a portion of these shares from our employees to permit our employees to meet their minimum statutory tax withholding requirements on vesting of their restricted stock. Under this plan we expect to repurchase, and place in treasury, approximately 220,909 shares during fiscal year 2016.

Service-Based Restricted Stock and Restricted Stock Units

The fair market value of serviced-based restricted stock and restricted stock units are determined using the market closing price on the grant date, and compensation is expensed ratably over the vesting period. Calculation of compensation for restricted stock awards requires estimation of employee turn-over and forfeiture rates.

Market and Performance-Based Restricted Stock and Performance-Based Restricted Stock Units

We may grant restricted stock and restricted stock units subject to market or performance conditions that vest based on the satisfaction of the conditions of the award. The fair market values of market condition-based awards are determined using the Monte Carlo simulation method. The Monte Carlo simulation method is subject to variability as several factors utilized must be estimated, including the derived service period, which is estimated based on our judgment of likely future performance and our stock price volatility. The fair value of performance-based awards is determined using the market closing price on the grant date. Derived service periods and the periods charged with compensation expense for performance-based awards are estimated based on our judgment of likely future performance and may be adjusted in future periods depending on actual performance.

Income Taxes

We are subject to federal, state and foreign income taxes, and we use significant judgment and estimates in accounting for our income taxes. We recognize deferred tax assets and liabilities for the anticipated future tax effects of temporary differences between the financial statements basis and the tax basis of our assets and liabilities, which are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Income tax expense compared to pre-tax income yields an effective tax rate. We classify our deferred tax assets as current or noncurrent based on the classification of the related asset or liability for financial reporting giving rise to the temporary difference. A deferred tax asset that is not related to an asset or liability for financial reporting, including deferred tax assets related to net operating losses, is classified according to the expected reversal date

We are subject to income tax examinations for our U.S. federal income taxes, non-U.S. income taxes and state and local income taxes for fiscal year 1992 and subsequent years, with certain exceptions. While we believe that our tax return positions are fully supported, tax authorities may disagree with certain positions we have taken and assess additional taxes. Therefore, we regularly assess the likely outcomes of our tax positions in previously filed tax returns and positions we expect to take in future tax returns that are reflected in measuring our current or deferred income tax assets and liabilities, and we establish reserves when we believe that a tax position is likely to be challenged and that we may or may not prevail. We presume that all tax positions will be examined by a taxing authority with full knowledge of all relevant information. We regularly monitor our tax positions and tax liabilities, and we reevaluate the technical merits of our tax positions. Some of the reasons a reserve for an uncertain tax benefit may be reversed are: (i) completion of a tax audit, (ii) a change in applicable tax law including a tax case or legislative guidance, or (iii) an expiration of the statute of limitations. We recognized interest and penalties associated with unrecognized tax benefits and record interest with interest expense, and penalties in administrative expense, in the consolidated statement of income.

We periodically assess the recoverability of our deferred tax assets by considering whether it is more likely than not that some or all of the actual benefit of those assets will be realized. To the extent that realization does not meet the "more-likely-than-not" criterion, we establish a valuation allowance. We periodically review the adequacy and necessity of the valuation allowance by considering significant positive and negative evidence relative to our ability to recover deferred tax assets and to determine the timing and amount of valuation allowance that should be released. This evidence includes: (i) profitability in the most recent fiscal quarters, (ii) internal forecasts for the current and next two future fiscal years, (iii) size of deferred tax asset relative to estimated profitability, (iv) the potential effects on future profitability from increasing competition, healthcare reforms and overall economic conditions, (v) limitations and potential limitations on the use of our net operating losses due to ownership changes, pursuant to IRC Section 382, and (vi) the implementation of prudent and feasible tax planning strategies, if any.

Vesting or exercise of restricted stock, restricted stock units and stock options result in a difference between the federal income tax deduction and the financial statement stock-based compensation, which creates an excess tax benefit (windfall) or tax deficiency (shortfall). If a windfall benefit can be utilized to reduce income taxes payable as determined using a "with and without" method, the windfall benefit will offset the shortfall deficiency; if not, then the shortfall is recognized as tax expense. Prior to fiscal year 2013, we were unable to offset shortfalls with windfalls and were required to recognize shortfalls as tax expense. For fiscal years after fiscal year 2012, the utilization of windfall benefits offset income taxes payable, and shortfalls had no impact on the effective tax rate. The realized excess tax benefits were credited to additional paid-in capital and are not recorded as a tax benefit in the consolidated statement of income.

Comprehensive Income and Foreign Currency Translations

Comprehensive income refers to net income plus revenues, expenses, gains, and losses that are included in comprehensive income but excluded from net income. Our comprehensive income differs from our net income because of the change in the cumulative foreign currency translation adjustment associated with the translation of our foreign subsidiary financial statements to U.S. dollars from their euro functional currency.

Income Per Share

Accounting standards require dual presentation of earnings per share ("EPS"): basic EPS and diluted EPS. Basic EPS is computed by dividing net earnings applicable to participating securities by the weighted average number of participating securities outstanding for the period. Diluted EPS includes the effect of potentially dilutive instruments. Refer to "Note 15. Income per Share" for additional information.

Segments

We have one operating and reportable segment that develops, manufactures and markets our proprietary implantable medical devices that deliver VNS therapy. Our chief operating decision-maker reviews financial information presented on a consolidated basis for purposes of making operating decisions and assessing financial performance.

Note 2. Accounts Receivable and Allowance for Bad Debt

Accounts receivable, net consisted of the following:

	April 24, 2015	April 25, 2014
Accounts receivable	$51,233,576	$51,358,991
Allowance for bad debt	(664,201)	(684,950)
	$50,569,375	$50,674,041

Note 3. Inventories

Inventories consisted of the following:

	April 24, 2015	April 25, 2014
Raw materials	$11,118,311	$ 7,289,543
Work-in-process	5,653,250	4,438,280
Finished goods	7,191,742	5,902,288
	$23,963,303	$17,630,111

Note 4. Property, Plant and Equipment

Property, plant and equipment consisted of the following:

	April 24, 2015	April 25, 2014	Lives in years
Land	$ 1,643,812	$ 1,643,813	—
Building and building improvements	26,709,267	25,394,565	36 to 39
Equipment, software, furniture and fixtures	39,324,945	37,079,945	3 to 7
Leasehold improvements	1,339,033	1,444,622	5 to 8
Capital investment in process	6,694,674	6,925,698	—
Total	75,711,731	72,488,643	
Accumulated depreciation	(35,425,055)	(32,953,770)	
	$ 40,286,676	$ 39,534,873	

Aggregate depreciation was $5,768,119, $4,288,184 and $3,770,756 for the 52 weeks ended April 24, 2015, April 25, 2014 and April 26, 2013, respectively. During fiscal year 2015, we recognized an impairment loss of $781,000 for certain obsolete manufacturing equipment and software primarily related to the Centro project redesign. These impairment losses were charged to R&D expense in the consolidated statement of income and are recorded as non-cash operating expense, depreciation, in the consolidated statement of cash flows.

Note 5. Intangible Assets

Schedules of finite-lived intangible assets:

	April 24, 2015	April 25, 2014
Developed Technology Rights[1]	$13,204,000	$13,964,000
Other Intangible Assets[2]	1,023,000	1,148,000
Total	14,227,000	15,112,000
Accumulated amortization	(4,058,761)	(3,457,310)
Net	$10,168,239	$11,654,690

(1) Developed Technology Rights consist primarily of purchased patents, related know-how and licensed patent rights. These assets relate primarily to seizure detection and response, wireless communication technology, rechargeable battery technology, the treatment of obstructive sleep apnea and conditionally safe magnetic resonance ("MR") technology for implantable leads.

(2) Other Intangible Assets primarily consist of purchased clinical neurological and sleep apnea databases.

During the 52 weeks ended April 24, 2015, we purchased no intangible assets.

The weighted average amortization period in years for our intangible assets at April 24, 2015:

Developed Technology Rights	15
Other Intangible Assets	10

Aggregate intangible asset amortization was $1,486,450, $1,314,309 and $867,613 for the 52 weeks ended April 24, 2015, April 25, 2014 and April 26, 2013, respectively. In the fourth quarter of fiscal year 2015, we recognized an impairment loss of $448,000. We fully impaired certain intangible assets primarily related to neurological signal feedback and processing technology that no longer factored into our product plans. These impairment losses were charged to R&D expense in the consolidated statement of income and are recorded as non-cash operating expense, amortization, in the consolidated statement of cash flows.

The estimated future amortization expense based on our finite-lived intangible assets at April 24, 2015:

Fiscal year 2016 (53 week year)	840,517
Fiscal year 2017	966,341
Fiscal year 2018	1,053,126
Fiscal year 2019	1,146,040
Fiscal year 2020	615,337
Thereafter	5,546,878

Note 6. Investments

Short-Term Investments detail

Our short-term investments consist of securities with maturities ranging from six to twelve months and carried at amortized cost. Refer to "Note 17. Fair Value Measurements."

	April 24, 2015	April 25, 2014
Certificates of deposits	$20,023,145	$20,031,289
Commercial paper	6,996,452	4,997,668
	$27,019,597	$25,028,957

Investment in convertible preferred shares

Our "Investments in equity securities" in the consolidated balance sheets consisted of positions in two privately-held companies carried at original cost under the cost-method. Refer to "Note 17. Fair Value Measurements."

	April 24, 2015	April 25, 2014
ImThera Medical, Inc. - convertible preferred shares and warrants[1]	$12,000,002	$12,000,002
Cerbomed GmbH - convertible preferred shares[2]	5,126,925	3,944,425
Carrying amount - long-term investments	$17,126,927	$15,944,427

(1) ImThera Medical, Inc. is a U.S. company developing a neurostimulation device system for the treatment of obstructive sleep apnea.

(2) Cerbomed GmbH is a European company developing a transcutaneous vagus nerve stimulation device for the treatment of epilepsy. During the fiscal year 2015, we purchased an additional tranche of convertible preferred stock for €1.0 million, or approximately $1.2 million.

Other Long-Term Assets

"Other long-term assets" in the consolidated balance sheet includes the cash surrender value of company-owned life insurance policies, which are based on the fair values in a mutual fund portfolio, amounting to $1.2 million and $0.5 million for the years ended April 24, 2015 and April 25, 2014, respectively.

Note 7. Accrued Liabilities

Accrued liabilities consisted of the following:

	April 24, 2015	April 25, 2014
Employee related liabilities	$13,780,631	$16,957,216
Merger related expense accruals	4,101,125	—
Taxes payable	2,083,392	601,704
Clinical study costs	973,988	1,226,865
Other accrued liabilities	3,258,827	3,542,128
	$24,197,963	$22,327,913

Note 8. Long-Term Liabilities

Other long-term liabilities consisted of the following:

	April 24, 2015	April 25, 2014
Liability for uncertain tax benefits	$5,782,267	$4,257,437
Deferred compensation plan liability	1,311,194	482,405
Other	827,827	454,011
	$7,921,288	$5,193,853

Note 9. Warrants

In September 2005, in conjunction with, but separate from, the issuance of convertible notes, we sold warrants for $25.2 million to Merrill Lynch International. The warrants were recorded in stockholders' equity on our consolidated balance sheets. The warrants entitled the holder to receive the net value for the purchase of 3,012,050 shares of our common stock for the amount in excess of $50.00 per share. The warrant agreement was amended and the warrants were settled during fiscal year 2013. On September 11, 2012, the warrant agreement was amended, which changed the settlement measurement period to a period of 60 trading days, each day as a separate tranche, commencing on September 12, 2012 and ending on December 7, 2012. The settlement was equal to the amount in excess, if any, of $50.00 per share of the daily volume-weighted average price of our common stock, if any, for approximately 50,000 warrants, for each of the 60 daily tranches.

During fiscal year 2013, we elected to cash settle 40 tranches and net share settle 20 tranches. Because of our election to cash settle 40 tranches, we used liability accounting for these tranches. As a result, on the date of the election, we reclassified these tranches from equity, Common Stock Warrants, to a liability, Warrants' Liability, in the consolidated balance sheet, at a fair value of $3.6 million. The remaining balance in equity related to these 40 tranches, which amounted to $13.2 million, was reclassified to Additional Paid-In-Capital in the consolidated balance sheet. These tranches were cash settled at a gain of $1.3 million. The remaining 20 tranches were net-share-settled for 27,919 common shares, and as a result, the remaining balance in Common Stock Warrants of $8.4 million was reclassed to Additional Paid-In-Capital in the consolidated balance sheet.

Note 10. Commitments and Contingencies

Litigation

On December 5, 2013, the United States District Court for the District of Massachusetts unsealed a qui tam action filed by former employee Andrew Hagerty against us under the Federal False Claims Act ("FCA") 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 FCA 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 we violated the FCA and various state false claims statutes while marketing our 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, we 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. We 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 FCA, but did not dismiss the claims for wrongful and retaliatory discharge.

We believe that our commercialization practices were and are in compliance with applicable legal standards, and we will continue to defend this case vigorously. We can make no assurance as to the resources that will be needed to respond to these matters or the final outcome, and we cannot estimate a range of potential loss or damages.

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 with assurance 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.

Licensing and Technology Agreements

In June 2012, we entered into a patent license agreement and a technology transfer agreement with Imricor Medical Systems, Inc. ("Imricor") for the integration of magnetic resonance imaging compatibility with our leads. We agreed to a future milestone-based payment to Imricor of $1.0 million and an annual minimum royalty fees of $50,000 upon FDA approval of a licensed product.

In October 2009, we entered into a contractual arrangement with Flint Hills Scientific, L.L.C. ("Flint Hills") that includes a royalty fee with a minimum annual fee of $350,000 that increases to $700,000 in fiscal year 2017, related primarily to cardiac-based seizure detection patents and patent applications. Starting in fiscal year 2016, we expect that royalty fees due to Flint Hills will be in excess of minimums due, based upon expected domestic and international AspireSR product sales.

Lease Agreements

We lease facilities and equipment with non-contingent, non-cancelable leases, accounted for as operating leases, including: (i) a storage, distribution and computer facility in Austin, Texas; (ii) administrative and sales offices in Brussels, Belgium and elsewhere in Europe, the United States, Beijing, China and Hong Kong; and (iii) vehicles and office equipment. Rental expense from operating leases amounted to approximately $830,000, $905,000 and $736,000 for the 52 weeks ended April 24, 2015, April 25, 2014 and April 26, 2013, respectively.

Future minimum lease payments as of April 24, 2015, are as follows:

Fiscal year 2016 (53 weeks)	$1,133,282
Fiscal year 2017	825,632
Fiscal year 2018	530,140
Fiscal year 2019	324,006
Fiscal year 2020	214,532
Thereafter	391,438

Note 11. Stock-Based Incentive Plans

Stock-Based Incentive Plans

Stock-based awards may be granted under the Cyberonics, Inc. Amended and Restated New Employee Equity Inducement Plan ("Inducement Plan") or the Cyberonics, Inc. 2009 Stock Plan ("2009 Plan"). The Inducement Plan is not a stockholder-approved plan and may be used only for awards offered as an inducement to new employees. Our stockholders approved the 2009 Plan in September 2009 and approved an amendment to the

2009 Plan in September 2012 increasing the aggregate maximum number of shares that can be issued under the plan. These plans provide for the grant of non-qualified and incentive stock options, stock appreciation rights, restricted stock, restricted stock units, phantom stock units, and other stock-based awards. As of April 24, 2015, the 2009 Plan includes approximately 1.1 million shares available for future awards, and the Inducement Plan includes approximately 290,000 shares available.

Stock-Based Compensation

Amounts of stock-based compensation recognized in the consolidated statement of income by expense category are as follows:

	52 Weeks Ended April 24, 2015	52 Weeks Ended April 25, 2014	52 Weeks Ended April 26, 2013
Cost of goods sold	$ 559,523	$ 487,706	$ 504,715
Selling, general and administrative	8,356,509	7,998,550	7,949,517
Research and development	3,023,862	2,753,731	3,229,017
Total stock-based compensation expense	$11,939,894	$11,239,987	$11,683,249
Income tax benefit, related to awards, recognized in the consolidated statements of income	3,943,773	3,743,983	3,810,136
Total expense, net of income tax benefit	$ 7,996,121	$ 7,496,004	$ 7,873,113

Amounts of stock-based compensation expense recognized in the consolidated statement of income by type of arrangement are as follows:

	52 Weeks Ended April 24, 2015	52 Weeks Ended April 25, 2014	52 Weeks Ended April 26, 2013
Service-based stock option awards	$ 4,317,298	$ 3,721,733	$ 2,916,855
Service-based restricted and restricted stock unit awards	6,118,907	5,527,458	5,067,292
Performance-based restricted stock and restricted stock unit awards	1,503,689	1,990,796	3,699,102
Total stock-based compensation expense	$11,939,894	$11,239,987	$11,683,249

Stock-Based Compensation Unrecognized

Amount of stock-based compensation cost not yet recognized related to non-vested awards:

	April 24, 2015	
	Unrecognized Compensation Cost	Weighted Average remaining Vesting Period (in years)
Service-based stock option awards	$ 8,881,706	2.44
Service-based restricted and restricted stock unit awards	8,059,040	2.00
Performance-based restricted stock and restricted stock unit	540,395	0.87
Total stock-based compensation cost unrecognized	$17,481,141	

Stock Option Valuation Assumptions

We use the Black-Scholes option pricing methodology to calculate the grant date fair market value of stock option awards. The following table lists the assumptions we utilized as inputs to the Black-Scholes model:

	52 Weeks Ended April 24, 2015	52 Weeks Ended April 25, 2014	52 Weeks Ended April 26, 2013
Dividend Yield[1]	—	—	—
Risk-free interest rate - based on grant date[2]	1.60% - 1.98%	1.36% - 2.01%	0.94% - 1.57%
Expected option term - in years per group of employees/consultants[3]	4.88 - 6.56	5.92 - 6.54	6.41 - 9.39
Expected volatility at grant date	31.67% - 41.09%	40.41% - 43.59%	44.95% - 51.14%

(1) We have not historically paid dividends and currently do not plan to pay dividends.

(2) We use yield rates on U.S. Treasury securities for a period that approximated the expected term of the award to estimate the risk-free interest rate.

(3) We estimated the expected term of options granted using historic data of actual time elapsed between the date of grant and the exercise or forfeiture of options for employees. For consultants, the expected term is the remaining time until expiration of the option.

The following tables detail the activity for service-based stock option awards:

	52 Weeks Ended April 24, 2015			
Options	Number of Optioned Shares	Wtd. Avg. Exercise Price)	Wtd. Avg. Remaining Contractual Term (years)	Aggregate Intrinsic Value[1]
Outstanding - at April 25, 2014	1,012,387	$35.25		
Granted	273,445	57.29		
Exercised	(127,379)	26.89		
Forfeited	(32,355)	42.44		
Expired	(360)	51.90		
Outstanding - at April 24, 2015	1,125,738	41.33	6.97	$24,325,619
Fully vested and exercisable - end of year	509,136	30.15	5.40	16,715,777
Fully vested and expected to vest - end of year[2]	1,095,446	40.98	6.92	$24,061,989

(1) The aggregate intrinsic value of options at quarter end is based on the difference between the fair market value of the underlying stock at April 24, 2015, using the market closing stock price, and the option exercise price for in-the-money options.

(2) Factors in expected future forfeitures.

	52 Weeks Ended April 24, 2015	52 Weeks Ended April 25, 2014	52 Weeks Ended April 26, 2013
Weighted average grant date fair value of stock option awards during the fiscal year	$ 18.64	$ 23.29	$ 20.55
Aggregate intrinsic value of stock option exercises during the fiscal year	$3,973,318	$14,209,939	$11,475,610

Restricted Stock and Restricted Stock Units Awards

The following tables detail the activity for service-based restricted stock and restricted stock unit awards:

	52 Weeks Ended April 24, 2015	
	Number of Shares	Wtd. Avg. Grant Date Fair Value
Non-vested shares at April 25, 2014	348,725	$40.65
Granted	102,652	56.85
Vested	(158,257)	33.27
Forfeited	(13,302)	42.25
Non-vested shares at April 24, 2015	279,818	$50.70

	52 Weeks Ended April 24, 2015	52 Weeks Ended April 25, 2014	52 Weeks Ended April 26, 2013
Weighted average grant date fair value of service-based share grants issued during the fiscal year	$ 56.85	$ 52.02	$ 44.31
Aggregate fair value of service-based share grants that vested during the year	$9,193,525	$8,124,528	$15,969,922

The following tables detail the activity for performance-based and market-based restricted stock and restricted stock unit awards:

	April 24, 2015	
	Number of Shares	Wtd. Avg. Grant Date Fair Value
Non-vested shares at April 25, 2014	333,641	$25.54
Granted	15,837	57.39
Vested	(194,190)	22.65
Forfeited	—	—
Non-vested shares at April 24, 2015	155,288	$31.76

	52 Weeks Ended April 24, 2015	52 Weeks Ended April 25, 2014	52 Weeks Ended April 26, 2013
Weighted average grant date fair value of performance-based share grants issued during the fiscal year	$ 57.39	$ —	$ 50.10
Aggregate fair value of performance-based share grants that vested during the year	$10,519,155	$3,189,770	$3,318,681

Note 12. Employee Retirement Savings Plan and Deferred Compensation Plan

The Employee Retirement Savings Plan

We sponsor the Cyberonics, Inc. Employee Retirement Savings Plan (the "Savings Plan"), which qualifies under Section 401(k) of the IRC. We match 50% of employees' contributions up to 6% of eligible compensation, subject to a five-year vesting period that starts on the date of employment. We incurred expenses for these contributions of approximately $1.8 million, $1.7 million and $1.4 million for the fiscal years 2015, 2014 and 2013, respectively.

The Deferred Compensation Plan

Effective as of January 1, 2013, we offered the Cyberonics, Inc. Non-Qualified Deferred Compensation Plan (the "Deferred Compensation Plan") to a group consisting of certain members of middle and senior management. The Deferred Compensation Plan is an arrangement intended to be exempt from the requirements of Title I of the Employee Retirement Income Security Act of 1974 and in compliance with Section 409A of the Internal Revenue Code ("IRC"). As part of our overall compensation program, the Deferred Compensation Plan provides an opportunity for the group to defer up to 50% of their annual base salary and commissions and 100% of their bonus or performance-based compensation until the earlier of (i) termination of employment or (ii) an elected distribution date. In addition, effective January 1, 2014, we agreed to match 50% of the contributions of non-officer members of the group up to 6% of eligible compensation, subject to a five-year vesting period that starts on the date of employment. Employee deductions result in a liability, refer to Note 8. Long-Term Liabilities." We incurred expenses for this plan, based on the company match, of approximately $76,000 and $22,000 for the fiscal year 2015, a full year, and fiscal year, 2014, a partial plan year, respectively.

Note 13. Stockholders' Equity

Common shares are repurchased on the open market pursuant to the Company's Board of Directors approved repurchase plans. During fiscal years 2015, 2014 and 2013, pursuant to the approved plans, we repurchased 875,121 shares, 1,205,300 shares and 600,000 shares, respectively, at an average price of $55.94, $57.66 and $45.58, respectively. On December 3, 2013, the Board of Directors authorized a repurchase program of one million shares of our common stock. In November 2014, the Board authorized the repurchase of one million shares of common stock; however on February 27, 2015, our treasury stock purchase plan under Rule 10b5-1 of the Exchange Act (the "Plan") terminated, and we stopped repurchasing shares of our stock.

Note 14. Income Taxes

The U.S. and foreign components of income before income taxes and the provision for income taxes are presented in this table:

	52 Weeks Ended April 24, 2015	52 Weeks Ended April 25, 2014	52 Weeks Ended April 26, 2013
Income before income taxes:			
Domestic	$87,274,227	$76,257,151	$74,949,502
Foreign	2,019,850	3,621,545	325,123
	$89,294,077	$79,878,696	$75,274,625
Provision for current income tax expense:			
Federal	$17,102,321	$26,537,978	$13,987,217
State and local	4,002,270	3,250,920	1,692,119
Foreign	1,064,630	103,749	101,281
	$22,169,221	$29,892,647	$15,780,617
Provision for deferred income tax expense:			
Federal	$ 8,954,669	$ (577,992)	$13,066,858
State and local	(511,102)	(792,542)	69,648
Foreign	833,755	(3,533,674)	—
	$ 9,277,322	$ (4,904,208)	$13,136,506
Total provision for income tax expense	$31,446,543	$24,988,439	$28,917,123

The following is a reconciliation of the statutory federal income tax rate to our effective income tax rate expressed as a percentage of income before income taxes:

	52 Weeks Ended April 24, 2015	52 Weeks Ended April 25, 2014	52 Weeks Ended April 26, 2013
U.S. statutory rate	35.0%	35.0%	35.0%
Change in deferred tax valuation allowance	—	(4.4)	(0.1)
Adjustment to Cyberonics BVBA NOL deferred tax asset resulting from the Belgium tax audit	—	7.3	—
Adjustment to Cyberonics BVBA NOL deferred tax asset valuation allowance resulting from the Belgium tax audit	—	(7.3)	—
State and local tax provision, net of federal benefit	2.7	2.5	2.3
Foreign taxes	1.5	0.5	0.1
Research and development tax credit	(2.1)	(3.4)	(1.4)
Gain on warrant liability	—	—	(0.6)
Reserve for uncertain tax positions	(1.5)	—	1.8
Domestic manufacturing deduction[1]	(2.9)	—	—
Other, net	2.5	1.1	1.3
Effective tax rate	35.2%	31.3%	38.4%

(1) Fiscal year 2015 was the first year we were eligible to utilize the domestic manufacturing deduction.

Significant components of our deferred tax assets are as follows:

	April 24, 2015	April 25, 2014
Deferred tax assets (liabilities):		
Foreign net operating loss carryforwards	1,906,364	3,533,675
State net operating loss carryforwards	70,129	462,149
Tax credit carryforwards	3,059,133	12,467,782
Deferred compensation	6,847,074	6,646,084
Accruals and reserves	3,003,760	2,227,878
Licensing income and expense	(285,597)	(675,036)
Property and equipment	(630,789)	(957,697)
Other	919,272	1,146,024
Total deferred tax assets	14,889,346	24,850,859
Deferred tax valuation allowance	(1,612,766)	(1,871,850)
Net deferred tax assets	$13,276,580	$22,979,009

	April 24, 2015	April 25, 2014
Current deferred tax asset	$ 9,466,309	$18,600,795
Current valuation allowance	(799,990)	(1,330,672)
Non-current deferred tax asset	8,384,241	8,829,556
Non-current valuation allowance	(812,776)	(541,180)
	16,237,784	25,558,499
Current deferred tax liability	(1,467,593)	(61,758)
Non-current deferred tax liability	(1,493,611)	(2,517,732)
	(2,961,204)	(2,579,490)
Net deferred tax assets	$13,276,580	$22,979,009

As of April 24, 2015, we have fully utilized our federal net operating loss ("NOL") carryforwards and our federal tax credit carryforwards. As of April 24, 2015, we have state tax credit carryforwards of $1.7 million, primarily related to R&D credits. We have a gross capital loss carryforward for federal income tax purposes of $3.5 million, subject to a full valuation allowance, expiring during fiscal year 2018. At April 24, 2015, we had state and local NOL carryforwards of $2.1 million, which expire at various dates starting in fiscal year 2016. We have foreign NOL carryforwards of $5.6 million with no expiration date. We believe it is more likely than not that future operating results will generate sufficient net taxable income to utilize these NOL carryforwards and tax credit carryforwards.

At April 24, 2015, we had valuation allowances of $1.6 million against our capital loss carryforward, excess tax benefits from stock-based awards exercised or vested for state tax purposes and pre-operating expenses in Costa Rica. During the fiscal year ended April 24, 2015, we utilized $1.1 million of federal excess tax benefit NOL carryforwards, which resulted in a tax benefit recorded in additional paid-in capital on our consolidated balance sheet.

We have not provided U.S. income taxes on our undistributed earnings from our foreign subsidiaries. These earnings, while not material to our consolidated statement of income, are intended to be permanently reinvested outside the United States.

The following is a roll-forward of our total gross unrecognized tax benefit:

	52 Weeks Ended April 24, 2015	52 Weeks Ended April 25, 2014	52 Weeks Ended April 26, 2013
Balance at beginning of year	$ 7,079,351	$7,079,351	$6,075,693
Tax positions related to current year	—	—	1,339,561
Tax positions related to prior years	(1,297,084)	—	(335,903)
Balance at end of year	$ 5,782,267	$7,079,351	$7,079,351

Tax authorities may disagree with certain positions we have taken and assess additional taxes. We regularly assess the likely outcomes of our tax positions in order to determine the appropriateness of our reserves for uncertain tax positions. However, there can be no assurance that we will accurately predict the outcome of these audits and the actual outcome of an audit could have a material impact on our consolidated results of income, financial position or cash flows.

During the second quarter of fiscal year 2015, based upon our review and rework of certain prior-year R&D tax credits, we believe that the credits are more likely than not to be sustained upon examination and as a result we released the reserve against these R&D tax credits. We are unable to estimate the amount of change in our unrecognized tax benefits over the next 12 months; however, we do not anticipate a significant change.

We are subject to income tax examinations for our U.S. federal income taxes, non-U.S. income taxes and state and local income taxes for fiscal year 1992 and subsequent years, with certain exceptions.

Note 15. Income Per Share

The following table sets forth the computation of basic and diluted net income per share of common stock:

	52 Weeks Ended April 24, 2015	52 Weeks Ended April 25, 2014	52 Weeks Ended April 26, 2013
Numerator:			
Net income	$57,847,534	$54,890,257	$46,357,502
Denominator:			
Basic weighted average shares outstanding	26,391,064	27,142,597	27,604,006
Add effects of stock options[1]	234,657	323,877	404,954
Diluted weighted average shares outstanding	26,625,721	27,466,474	28,008,960
Basic income per share	$ 2.19	$ 2.02	$ 1.68
Diluted income per share	$ 2.17	$ 2.00	$ 1.66

(1) Excluded from the computation of diluted EPS for the fiscal years 2015, 2014 and 2013 were outstanding options to purchase 56,547, 38,048 and 30,987 common shares, respectively, because to include them would have been anti-dilutive.

Note 16. Foreign Currency

We operate in a number of international markets and are exposed to the risk of foreign currency exchange rate movements, particularly with respect to the U.S. dollar versus the euro. The effect on earnings of our aggregate foreign currency exchange gains (losses) before tax for the fiscal years 2015, 2014 and 2013 were approximately $441,000, $(295,000) and $(304,000), respectively. We did not hedge our foreign currency risks; however, in the future we may hedge our foreign currency exposures. We report our foreign currency gains and losses in Other Income and Expense, Net in the consolidated income statement.

Note 17. Fair Value Measurements

Fair Value Measurements

Fair value is defined as the exit price or the amount that we would receive upon selling our assets in an orderly transaction to a market participant as of the period ending on the measurement date. The guidance also establishes a hierarchy for inputs used in measuring fair value. The hierarchy is broken down into three levels defined as follows:

- Level 1 - Inputs are quoted prices in active markets for identical assets.
- Level 2 - Inputs include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active and inputs that are observable for the asset, either directly or indirectly.
- Level 3 - Inputs are unobservable inputs for the asset.

Observable inputs are inputs market participants would use in valuing the asset based on market data obtained from sources independent of us. Unobservable inputs are inputs that reflect our assumptions about the factors market participants would use in valuing our asset and are developed based on the best information available in

the circumstances. The categorization of assets within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement. Level 3 financial assets include investment securities for which there is limited market activity such that the determination of fair value requires significant judgment or estimation.

Financial Instruments

The carrying values of our cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair values due to the short-term nature of these items.

Investments in Debt Securities

The balance of our investments in short-term securities as of April 24, 2015 consisted of a certificate of deposit and commercial paper that are considered held-to-maturity debt securities and carried at amortized cost, which approximates fair value. Refer to "Note 6. Investments" for further information.

Investments in Cost-Method Equity Securities

Our investment in cost-method equity securities consisted of convertible preferred stock of two privately-held companies for which there are no quoted market prices. We have not estimated the fair value of these investments because their fair value is not readily determinable without incurring excessive cost. However, in each reporting period, we evaluate whether an event or change in circumstances may indicate a significant adverse effect on the fair value of these investments. Impairment indicators include failed clinical studies, adverse regulatory actions, a change in the investees' competitive position or difficulty in raising funds. One of our investments, Cerbomed GmbH, is attempting to close an additional round of financing and has reached agreement with a potential financial investor; however, there can be no assurance the that the parties will agree on the terms of a binding agreement or that the financing round will close. If the financing round does not close or dependent upon the final terms of the arrangement, it is possible our investment could be impacted and therefore subsequently valued at less than the carrying amount of the investment. When impairment is recognized, the investments are adjusted to fair value using Level 3 inputs. There has been no impairment recognized for our cost-method equity investments to date. Refer to "Note 6. Investments" for further information.

Investment in Convertible Debt Security

We invested in a convertible debt security issued by NeuroVista Corporation ("NeuroVista") on August 20, 2010. NeuroVista was a privately-held company focused on the development of an implantable device intended to inform patients when seizures are likely to occur, as well as to alert caregivers when seizures do occur. We considered this security an 'available-for-sale' debt security measured at fair value on a recurring basis using Level 3 inputs, as the investee was a privately-held entity without quoted market prices. During fiscal year 2013, we determined that we were unlikely to receive the return of our principal and accrued interest and performed a fair value analysis of the assets we expected to receive in foreclosure. We estimated the fair value of the debt instrument at $1,450,000, with the resulting impairment loss of $4,058,768 reported as other-than-temporary and separately stated in the consolidated statement of income. Later in fiscal 2013, NeuroVista advised us that an event of default had occurred under the terms of the convertible debt security, and we conducted a foreclosure sale of the assets subject to our security interest and took possession of the company's tangible and intangible assets that resulted in no further gain or loss on the settlement of the debt security.

Liabilities Measured at Fair Value on a Recurring Basis

The liability under our Deferred Compensation Plan is based a tracking portfolio of mutual funds for each participant. The tracking portfolio consisted of the quoted market prices of a portfolio of publically traded mutual funds. We adjust our liability to the period ended quoted market prices, which are Level 1 inputs. We report the liability in Other Long-Term Liabilities in the consolidated balance sheets. The balances of our plan liabilities were $1,311,194 and $482,405 at April 24, 2015 and April 25, 2014, respectively.

Note 18. Quarterly Financial Information - Unaudited

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
52 weeks ended April 24, 2015					
Net sales	$72,003,966	$73,417,194	$72,065,231	$74,071,607	$291,557,998
Gross profit	65,593,574	66,651,322	65,525,364	66,476,869	264,247,129
Net income	13,518,822	17,273,190	16,541,460	10,514,062	57,847,534
Diluted income per share[1]	$ 0.50	$ 0.64	$ 0.62	$ 0.40	$ 2.17
52 weeks ended April 25, 2014					
Net sales	$68,872,357	$70,101,119	$68,191,414	$74,849,270	$282,014,160
Gross profit	62,328,324	63,175,013	61,731,266	67,424,666	254,659,269
Net income	8,673,926	13,888,462	13,899,863	18,428,006	54,890,257
Diluted income per share[1]	$ 0.31	$ 0.50	$ 0.51	$ 0.68	$ 2.00

(1) EPS in each quarter is computed using the weighted-average number of shares outstanding during that quarter while EPS for the full year is computed using the weighted-average number of shares outstanding during the year. Thus, the sum for the four quarters' EPS does not necessarily equal the full year EPS.

Note 19. Geographic Information

	Net Sales		
	52 Weeks Ended April 24, 2015	52 Weeks Ended April 25, 2014	52 Weeks Ended April 26, 2013
United States	$235,711,706	$226,922,684	$210,352,698
International[1]	55,846,292	55,091,476	43,967,719
Total	$291,557,998	$282,014,160	$254,320,417

(1) Sales are classified according to the country of destination, regardless of the shipping point. All licensing revenue is classified as domestic.

	Long-Lived Assets[1]	
	April 24, 2015	April 25, 2014
United States	$28,464,978	$29,398,306
International	11,821,698	10,136,567
Total	$40,286,676	$39,534,873

(1) Long-lived assets consist of PP&E.

Note 20. Proposed Merger with Sorin S.p.A.

Proposed Merger

On February 26, 2015, we entered into a binding letter of intent (the "LOI") with Sorin S.p.A., a joint stock company organized under the laws of Italy ("Sorin"), Sand Holdco PLC (f/k/a Sand Holdco Limited), a public limited company incorporated under the laws of England and Wales and a wholly owned subsidiary of Sorin ("Holdco"), and Cypher Merger Sub, Inc., a Delaware corporation and wholly owned subsidiary of Holdco ("Merger Sub"), providing that, subject only to completion of the employee consultation procedures required under French law, the parties would enter into a definitive merger agreement, which was attached as an exhibit to the LOI, providing for a business combination transaction between Cyberonics and Sorin. On March 23, 2015, Cyberonics, Sorin, Holdco and Merger Sub entered into the definitive merger agreement contemplated by the LOI (the "Transaction Agreement").

Under the terms of the Transaction Agreement, Cyberonics and Sorin will combine under a newly formed company, Holdco, which will be domiciled in the United Kingdom (the "UK"), in an all-stock transaction with a combined equity value of approximately $2.7 billion based on the closing price of shares of Cyberonics and Sorin on February 25, 2015, the last trading day prior to announcement of entry into the LOI. Pursuant to the Transaction Agreement and subject to the satisfaction or waiver of all conditions under the Transaction Agreement, the business combination transaction will take place in two steps: First, Sorin will be merged with and into Holdco (the "Sorin Merger"), with Holdco surviving as the continuing company. Immediately following the effective time of the Sorin Merger, Merger Sub will be merged with and into Cyberonics (the "Cyberonics Merger" and, together with the Sorin Merger, the "Mergers"), with Cyberonics surviving as a wholly owned subsidiary of Holdco.

Subject to the terms and conditions of the Transaction Agreement, at the effective time of the Sorin Merger, each issued and outstanding ordinary share of Sorin will be converted into the right to receive 0.0472 ordinary shares of Holdco ("Holdco Shares") and at the effective time of the Cyberonics Merger, each share of our common stock will be converted into the right to receive one Holdco Share. In connection with the Mergers, our common stock will be delisted from the NASDAQ stock market and Sorin ordinary shares will be delisted from the Italian Stock Exchange (i.e. Mercato Telematico Azionario, organized and managed by Borsa Italiana S.p.A.). Holdco will apply to list the Holdco Shares to be issued in the Mergers on the NASDAQ stock market and the London Stock Exchange (the "LSE"). Following consummation of the Mergers, assuming no withdrawal rights under Italian law are exercised by Sorin shareholders with respect to the Sorin Merger, former Sorin shareholders are expected to own approximately 46 percent of Holdco and former stockholders of Cyberonics are expected to own approximately 54 percent of Holdco, on a fully diluted basis.

Closing of the Mergers under the Transaction Agreement is subject to certain closing conditions, including, among others, the required approval of each of our stockholders and Sorin's shareholders, and the receipt of required regulatory clearances. On May 26, 2015, at the extraordinary general meeting of Sorin's shareholders, the Sorin shareholders approved the proposed merger.

Merger Expenses

All costs and expenses incurred in connection with the Transaction Agreement and the Mergers and the other transactions contemplated by the Transaction Agreement generally are to be paid by the party incurring such costs and expenses, but we will share equally with Sorin all expenses associated with antitrust filings, the NASDAQ listing application, the LSE listing application and the printing, filing and mailing of the proxy statement/prospectus and Sand HoldCo PLC's registration statement, the information document relating to the Sorin extraordinary general meeting and other disclosure documents required in connection with the Mergers. We recognize expenses resulting directly from the proposed Mergers as a separate operating item in the consolidated statement of income. For the year ended April 24, 2015, we recognized $8,692,072 of merger expenses related to professional fees for legal services, accounting services, due diligence, a fairness opinion and the preparation of registration and regulatory filings in the U.S. and Europe.

Note 21. New Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board ("the FASB") issued amended guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carry-forward, similar tax loss, or tax credit carry-forward exists. The guidance requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented as a reduction of a deferred tax asset when a net operating loss ("NOL") carry-forward, similar tax loss, or tax credit carry-forward exists, with certain exceptions. This accounting guidance is effective prospectively. We adopted this guidance for the first quarter of fiscal year 2015, which ended July 25, 2014. Due to the utilization of our carry-forwards in fiscal year 2015, the adoption of this FASB guidance had no impact to our consolidated financial statements for the year ended April 24, 2015.

In May 2014, the FASB issued accounting guidance on revenue recognition for revenue from contracts with customers. This guidance 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, 2016, 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. We have not yet selected a transition method, nor have we determined the effect of the standard on our ongoing financial reporting. In April 2015, the FASB proposed an accounting standards update which, if adopted, would extend the effective date for the revenue recognition guidance to annual reporting periods beginning after December 15, 2017, and interim periods within that reporting period, with early adoption permitted using the original effective date.

PART B

APRIL 25, 2014, APRIL 26, 2013 AND APRIL 27, 2012
TOGETHER WITH REPORTS OF INDEPENDENT REGISTERED
PUBLICACCOUNTING FIRM

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Cyberonics, Inc.:

We have audited the accompanying consolidated balance sheets of Cyberonics, Inc. and subsidiaries as of April 25, 2014 and April 26, 2013, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the 52 weeks ended April 25, 2014, April 26, 2013 and April 27, 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cyberonics, Inc. and subsidiaries as of April 25, 2014 and April 26, 2013, and the results of their operations and their cash flows for the 52 weeks ended April 25, 2014, April 26, 2013 and April 27, 2012, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Cyberonics, Inc.'s internal control over financial reporting as of April 25, 2014, based on criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated June 16, 2014 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Houston, Texas
June 16, 2014

CYBERONICS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	52 Weeks Ended April 25, 2014	52 Weeks Ended April 26, 2013	52 Weeks Ended April 27, 2012
Net sales	$282,014,160	$254,320,417	$218,502,731
Cost of sales	27,354,891	21,907,264	19,656,332
Gross profit	254,659,269	232,413,153	198,846,399
Operating expenses:			
Selling, general and administrative	120,641,897	112,515,262	102,568,776
Research and development	46,562,775	41,551,444	35,334,770
Litigation settlement	7,442,847	—	—
Total operating expenses	174,647,519	154,066,706	137,903,546
Income from operations	80,011,750	78,346,447	60,942,853
Interest income (expense), net	162,218	(35,016)	29,393
Impairment of investment	—	(4,058,768)	—
Gain on warrants' liability	—	1,325,574	—
Other expense, net	(295,272)	(303,612)	(550,818)
Income before income taxes	79,878,696	75,274,625	60,421,428
Income tax expense	24,988,439	28,917,123	24,343,696
Net income	$ 54,890,257	$ 46,357,502	$ 36,077,732
Basic income per share	$ 2.02	$ 1.68	$ 1.30
Diluted income per share	$ 2.00	$ 1.66	$ 1.28
Shares used in computing basic income per share	27,142,597	27,604,006	27,826,586
Shares used in computing diluted income per share	27,466,474	28,008,960	28,306,732

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	52 Weeks Ended April 25, 2014	52 Weeks Ended April 26, 2013	52 Weeks Ended April 27, 2012
Net income	$54,890,257	$46,357,502	$36,077,732
Other comprehensive income (loss):			
Foreign currency translation adjustment	286,837	(253,824)	993,286
Total other comprehensive income (loss)	286,837	(253,824)	993,286
Total comprehensive income	$55,177,130	$46,103,678	$37,071,018

See accompanying Notes to Consolidated Financial Statements

CYBERONICS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	April 25, 2014	April 26, 2013
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 103,299,116	$ 120,708,572
Short-term Investments	25,028,957	15,000,000
Accounts receivable, net	50,674,041	39,450,113
Inventories	17,630,111	17,718,454
Deferred tax assets	17,208,365	10,297,991
Other current assets	6,590,612	4,183,213
Total Current Assets	220,431,202	207,358,343
Property, plant and equipment, net	39,534,873	28,555,742
Intangible assets, net	11,654,690	9,219,999
Long-term investments	15,944,427	10,588,202
Deferred tax assets	5,770,644	7,825,286
Other assets	855,558	495,738
Total Assets	$ 294,191,394	$ 264,043,310
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 7,569,784	$ 8,025,512
Accrued liabilities	22,327,913	20,999,966
Total Current Liabilities	29,897,697	29,025,478
Long-term liabilities	5,193,853	5,449,604
Total Liabilities	35,091,550	34,475,082
Commitments and Contingencies		
Stockholders' Equity:		
Preferred Stock, $.01 par value per share; 2,500,000 shares authorized; no shares issued and outstanding	—	—
Common Stock, $.01 par value per share; 50,000,000 shares authorized; 31,819,678 shares issued and 26,745,713 shares outstanding at April 25, 2014 and 31,288,540 shares issued and 27,472,854 shares outstanding at April 26, 2013	318,197	312,885
Additional paid-in capital	426,866,998	380,158,961
Treasury stock, 5,073,965 and 3,815,686 common shares at April 25, 2014 and April 26, 2013, respectively, at cost	(188,519,469)	(116,160,606)
Accumulated other comprehensive income	454,850	167,977
Retained earnings (deficit)	19,979,268	(34,910,989)
Total Stockholders' Equity	259,099,844	229,568,228
Total Liabilities and Stockholders' Equity	$ 294,191,394	$ 264,043,310

See accompanying Notes to Consolidated Financial Statements

CYBERONICS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock							
	Shares	Amount	Additional Paid-In Capital	Common Stock Warrants	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Accumulated Earnings(Deficit)	Total Stockholders' Equity
Balance at April 29, 2011	29,712,007	$297,120	$300,580,501	$ 25,200,000	$ (32,706,563)	$(571,485)	$(117,346,223)	$175,453,350
Stock-based compensation plans	926,598	9,266	21,380,385	—	—	—	—	21,389,651
Purchase of Treasury Stock	—	—	—	—	(50,444,649)	—	—	(50,444,649)
Net income	—	—	—	—	—	—	36,077,732	36,077,732
Other comprehensive income	—	—	—	—	—	993,286	—	993,286
Balance at April 27, 2012	30,638,605	$306,386	$321,960,886	$ 25,200,000	$ (83,151,212)	$ 421,801	$ (81,268,491)	$183,469,370
Stock-based compensation plans	649,839	6,498	24,282,446	—	—	—	—	24,288,944
Tax benefits from stock-based compensation plans			12,361,561					12,361,561
Purchase of Treasury Stock	—	—	—	—	(33,009,673)	—	—	(33,009,673)
Common stock issued upon conversion of convertible notes	96	1	3,984					3,985
Warrants' settlements			21,550,084	(25,200,000)	279	—	—	(3,649,637)
Net income	—	—	—	—	—	—	46,357,502	46,357,502
Other comprehensive loss	—	—	—	—	—	(253,824)	—	(253,824)
Balance at April 26, 2013	31,288,540	$312,885	$380,158,961	$	$(116,160,606)	$ 167,977	$ (34,910,989)	$229,568,228
Stock-based compensation plans	531,138	5,312	19,634,552	—	—	—	—	19,639,864
Tax benefits from stock-based compensation plans	—	—	27,073,485	—	—	—	—	27,073,485
Purchase of Treasury Stock	—	—	—	—	(72,358,863)	—	—	(72,358,863)
Net income	—	—	—	—	—	—	54,890,257	54,890,257
Other comprehensive income	—	—	—	—	—	286,873	—	286,873
Balance at April 25, 2014	31,819,678	$318,197	$426,866,998	$ —	$(188,519,469)	$ 454,850	$ 19,979,268	$259,099,844

See accompanying Notes to Consolidated Financial Statements

CYBERONICS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	52 Weeks Ended April 25, 2014	52 Weeks Ended April 26, 2013	52 Weeks Ended April 27, 2012
Cash Flows From Operating Activities:			
Net income	$ 54,890,257	$ 46,357,502	$ 36,077,732
Non-cash items included in net income:			
Depreciation	4,288,184	3,770,756	3,474,612
Amortization of intangible assets	1,314,309	867,613	1,228,245
Stock-based compensation	11,239,987	11,683,249	11,102,237
Deferred income taxes	(5,200,888)	22,421,044	22,666,255
Deferred license revenue amortization	(1,467,869)	(1,493,968)	(1,493,968)
Impairment of investment	—	4,058,768	—
Gain on warrants' liability	—	(1,325,574)	—
Unrealized loss in foreign currency transactions and other	72,287	136,344	1,808,435
Changes in operating assets and liabilities:			
Accounts receivable, net	(10,656,327)	(10,184,633)	(1,247,219)
Inventories	254,190	(3,395,899)	682,445
Other current and non-current assets	(2,626,110)	(405,072)	(399,946)
Current and non-current liabilities	2,087,796	6,563,629	1,127,337
Net cash provided by operating activities	54,195,816	79,053,759	75,026,165
Cash Flow From Investing Activities:			
Increase in restricted cash	—	(99,573)	—
Purchase of short-term investments	(39,984,639)	(15,000,000)	—
Maturities of short-term investments	29,990,389	—	—
Purchases of property, plant and equipment	(15,222,440)	(9,705,446)	(17,484,102)
Intangible asset purchases	(3,839,000)	(4,600,000)	(500,000)
Long-term investments	(5,356,225)	(6,588,201)	(4,000,000)
Net cash used in investing activities	(34,411,915)	(35,993,220)	(21,984,102)
Cash Flows From Financing Activities:			
Purchase of treasury stock	(72,358,863)	(33,009,394)	(50,444,649)
Proceeds from exercise of options for common stock	9,737,212	9,742,948	10,772,767
Cash settlement of compensation-based stock units	(1,323,369)	—	—
Realized excess tax benefits - stock-based compensation	26,678,199	4,416,583	—
Repurchase of convertible notes	—	—	(7,044,000)
Net cash used in financing activities	(37,266,821)	(18,849,863)	(46,715,882)
Effect of exchange rate changes on cash and cash equivalents	73,464	(156,379)	1,014,244
Net increase (decrease) in cash and cash equivalents	(17,409,456)	24,054,297	7,340,425
Cash and cash equivalents at beginning of period	120,708,572	96,654,275	89,313,850
Cash and cash equivalents at end of period	$103,299,116	$120,708,572	$ 96,654,275
Supplementary Disclosures of Cash Flow Information:			
Cash paid for interest	$ 4,034	$ 95,729	$ 281,206
Cash paid for income taxes	$ 4,295,774	$ 3,517,787	$ 1,120,336
Supplementary Disclosures of Non-Cash Investing Activities:			
Reclassification from common stock warrants to warrants' liability	$ —	$ (3,649,637)	$ —
Reclassification from common stock warrants to additional paid-in-capital	$ —	$ (21,550,363)	$ —
PP&E and intangible assets obtained in NeuroVista foreclosure	$ —	$ 1,450,000	$ —
Settlement of the NeuroVista note	$ —	$ (1,450,000)	$ —

See accompanying Notes to Consolidated Financial Statements

CYBERONICS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies and Related Data

Nature of Operations. We are a medical device company, incorporated in 1987, engaged in the design, development, sales and marketing of implantable medical devices that deliver a unique therapy, vagus nerve stimulation ("VNS") therapy, using pulsed electrical signals applied to the vagus nerve for the treatment of drug-resistant epilepsy and treatment-resistant depression ("TRD"). We are focused on creating new markets, continuing to advance our current products, developing new medical devices for patients with epilepsy and expanding our business into other indications and other neuroscience opportunities. We are headquartered in Houston, Texas, and are approved to market the VNS Therapy® System in more than 73 countries worldwide. To date an estimated 89,000 patients have been implanted with the device.

Basis of Presentation. We have adopted various accounting policies to prepare the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("U.S.") ("U.S. GAAP").

Fiscal Year-End. We utilize a 52/53-week fiscal year that ends on the last Friday in April. Our fiscal years 2014, 2013 and 2012, which ended April 25, 2014, April 26, 2013 and April 27, 2012, respectively, were 52-week years.

Use of Estimates. The preparation of our consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in such financial statements and accompanying notes. These estimates are based on management's best knowledge of current events and actions we may undertake in the future. Estimates are used in accounting for, among other items, useful lives for depreciation of plant and equipment, valuation of intangible asset investments, amortization of intangible assets, deferred tax assets and liabilities and uncertain income tax positions and stock-based compensation. Actual results could differ materially from those estimates.

Consolidation. The accompanying consolidated financial statements include Cyberonics, Inc. and our wholly-owned subsidiaries: Cyberonics Europe BVBA, Cyberonics France Sarl, Cyberonics Holdings LLC, CYBX Netherlands C.V., Cyberonics Spain, S.L. and Cyberonics Latam, S.R.L. All significant intercompany accounts and transactions have been eliminated.

Cash Equivalents. Our cash equivalents consisted of a highly liquid investment with a maturity of less than three months. We carry this investment at cost which approximates fair value.

Short-Term Investments. Our short-term investments consisted of certificates of deposit and commercial paper with original maturities of six to 12 months that are considered held-to-maturity debt securities and carried at amortized cost, which approximated fair value.

Accounts Receivable. Our accounts receivable consisted of trade receivables resulting from the granting of credit to our direct customers and distributors in the normal course of business. We maintain an allowance for doubtful accounts for potential credit losses based on our estimates of the ability of customers to make required payments, historical credit experience, existing economic conditions and expected future trends. We write-off uncollectible accounts against the allowance when all reasonable collection efforts have been exhausted.

Inventories. We state our inventories at the lower of cost, using the first-in first-out ("FIFO") method, or market. Our calculation of cost includes the acquisition cost of raw materials and components, direct labor and overhead.

Property, Plant and Equipment ("PP&E"). PP&E is carried at cost, less accumulated depreciation. Maintenance, repairs and minor replacements are charged to expense as incurred, while significant renewals and improvements are capitalized. We compute depreciation using the straight-line method over estimated useful lives. Leasehold improvements are depreciated over the life of the lease contract plus expected extensions. Capital improvements to the building are added as building components and depreciated over the useful life of the improvement or the building, whichever is less. PP&E is reviewed for impairment every reporting period.

Intangible Assets. Intangible assets shown on the consolidated balance sheet are all finite-lived and consisted primarily of purchased patent and licensed patent and technology rights. We amortize our intangible assets over

their useful lives using the straight-line method. Amortization expense is recorded in research and development until an associated product is marketed, thereafter we amortize the remaining carrying value of the intangible asset to cost of goods sold using a unit-of-sale method. The unit-of-sale method of amortization is based on current period unit sales and total expected unit sales over the useful life of the intangible asset. The useful life of an intangible asset not associated with a commercialized product is generally based on the life of the patent. We evaluate our intangible assets each reporting period to determine whether events and circumstances indicate either a different useful life or impairment. If we change our estimate of the useful life of an asset, we amortize the carrying amount over the revised remaining useful life. If we identify an impairment indicator, such as an asset that no longer factors into our product commercialization plans, we test the intellectual property for recoverability, and if the carrying amount is not recoverable and exceeds its fair value, impairment is recognized and charged to research and development.

Long-term investments. Our long-term investments consisted of cost-method equity investments. We have invested in the convertible preferred shares of privately-held, development-stage medical device companies. We own less than 20% of the voting stock in these entities and do not have the ability to exercise significant influence over them. The carrying value of these entities is reviewed each reporting period for events or changes in circumstances that indicate an impairment of our investment. Impairment adjustments are subject to a high degree of management judgment, as these investments do not have quoted market prices. Impairment indicators include failed clinical trials, adverse regulatory actions, change in the investees' competitive position or difficulty in raising funds. If impairment is indicated, we determine the fair value of the investment and, if below cost, we determine if the loss is temporary or other-than-temporary. Temporary loss is not recognized and other-than-temporary loss is recognized in 'Other Expense, Net' in the consolidated statement of income.

Revenue Recognition

Product Revenue. We sell our products through a direct sales force in the U.S. and a combination of direct sales representatives and independent distributors in international markets. We recognize revenue when persuasive evidence of a sales arrangement exists, title to the goods and risk of loss transfers to customers or to independent distributors, the selling price is fixed or determinable and collectability is reasonably assured. We estimate expected sales returns based on historical data and record a reduction of sales with a return reserve. We record state and local sales taxes net, that is, we exclude sales tax from revenues.

License Revenue. We record upfront payments received under license agreements as deferred revenue on the consolidated balance sheet and recognize license revenue over the period we are obligated to prosecute the licensed patent applications.

Medical Device Excise Tax ("MDET"). Section 4191 of the Internal Revenue Code enacted by the Health Care and Education Reconciliation Act of 2010, in conjunction with the Patient Protection and Affordable Care Act, established a 2.3% excise tax on medical devices sold domestically beginning on January 1, 2013. We include the cost of MDET in cost of sales on the consolidated statement of income.

Research and Development ("R&D"). All R&D costs are expensed as incurred. R&D includes costs of basic research activities as well as engineering and technical effort required to develop a new product or make significant improvement to an existing product or manufacturing process. R&D costs also include regulatory and clinical trial expenses, including post-market clinical trials. Amortization of intangible assets not associated with a marketable product is recorded in R&D.

Leases. We account for leases that transfer substantially all of the benefits and risks incident to the ownership of property as an acquisition of an asset and the incurrence of an obligation, and we account for all other leases as operating leases. We are a party to contracts for leased facilities and equipment, all of which we consider operating leases. Certain of our leases provide for tenant improvement allowances that have been recorded as deferred rent and amortized, using the straight-line method, over the life of the lease as a reduction to rent expense. In addition, scheduled rent increases and rent holidays are recognized on a straight-line basis over the term of the lease.

Stock-Based Compensation

Stock-Based Incentive Awards. We grant stock-based incentive awards to directors, officers, key employees and consultants on four pre-determined days during each fiscal year. We measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair market value of the award.

We recognize equity-based compensation expense ratably over the period that an employee is required to provide service in exchange for the award (vesting period). We issue new shares upon share option exercise, vesting of a restricted share unit or the award of restricted stock.

Stock Options. Options granted under the Stock Plans are service-based and typically vest annually over four or five years, or cliff-vest in one to three years, following their date of grant as required under the applicable agreement establishing the award and have maximum terms of 10 years. Stock option grant prices are set equal to the closing price of our common stock on the day of the grant. There are no post-vesting restrictions on the shares issued. We use the Black-Scholes option pricing methodology to calculate the grant date fair market value of stock option awards. This methodology takes into account variables such as the future expected volatility of our stock price, the amount of time expected to elapse between the date of grant and the date of exercise and a risk-free interest rate. We determine expected volatility based on the historic volatility of our stock price over a period equal to the expected term of the option. Prior to fiscal year 2014, we included an additional factor, implied volatility, in our estimates of expected volatility, based on option market trading data for our stock; however, during fiscal year 2014, we discontinued this factor due to a low volume of activity in the option trading market.

Restricted Stock and Restricted Stock Units. We grant restricted stock and restricted stock units at no purchase cost to the grantee. Unvested restricted stock entitles the grantees to dividends, if any, and voting rights for their respective shares. Sale or transfer of the shares and share units are restricted until they are vested. We issue new shares for our restricted stock and restricted stock unit awards. Under our stock-based compensation plans we repurchase a portion of these shares from our employees to permit our employees to meet their minimum statutory tax withholding requirements on vesting of their restricted stock. Under this plan we expect to repurchase, and place in treasury, as many as 122,398 shares during fiscal year 2015.

Service-Based Restricted Stock and Restricted Stock Units. The fair market value of serviced-based restricted stock and restricted stock units are determined using the market closing price on the grant date, and compensation is expensed ratably over the vesting period. Calculation of compensation for restricted share grants requires estimation of employee turn-over and forfeiture rates.

Market and Performance-Based Restricted Stock and Performance-Based Restricted Stock Units. We grant restricted stock and restricted stock units subject to market or performance conditions that vest based on the satisfaction of the conditions of the award. The fair market values of market condition-based awards are determined using the Monte Carlo simulation method. The Monte Carlo simulation method is subject to variability as several factors utilized must be estimated, including the derived service period, which is estimated based on our judgment of likely future performance and our stock price volatility. The fair value of performance-based awards is determined using the market closing price on the grant date. Derived service periods and the periods charged with compensation expense for performance-based awards are estimated based on our judgment of likely future performance and may be adjusted in future periods depending on actual performance.

Income Taxes. We are subject to federal, state and foreign income taxes, and we use significant judgment and estimates in accounting for our income taxes. We recognize deferred tax assets and liabilities for the anticipated future tax effects of temporary differences between the financial statements basis and the tax basis of our assets and liabilities, which are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Income tax expense compared to pre-tax income yields an effective tax rate.

We periodically assess the recoverability of our deferred tax assets by considering whether it is more likely than not that some or all of the actual benefit of those assets will be realized. To the extent that realization does not meet the “more-likely-than-not” criterion, we establish a valuation allowance. We periodically review the adequacy and necessity of the valuation allowance by considering significant positive and negative evidence relative to our ability to recover deferred tax assets and to determine the timing and amount of valuation allowance that should be released. This evidence includes: a) profitability in the most recent 12 fiscal quarters, b) internal forecasts for the current and next two future fiscal years, c) size of deferred tax asset relative to estimated profitability, d) the potential effects on future profitability from increasing competition, healthcare reforms and overall economic conditions, e) limitations and potential limitations on the use of our net operating losses due to ownership changes, pursuant to IRC Section 382, and f) the implementation of prudent and feasible tax planning strategies, if any.

We are subject to income tax examinations for our U.S. federal income taxes, non-U.S. income taxes and state and local income taxes for fiscal year 1992 and subsequent years, with certain exceptions. Tax authorities may disagree with certain positions we have taken and assess additional taxes; therefore, in order to determine if an uncertain tax position reserve is required, we regularly assess the likely outcomes of our tax positions in previously filed tax returns and positions we expect to take in future tax returns that are reflected in measuring our current or deferred income tax assets and liabilities. We recognized interest and penalties associated with unrecognized tax benefits and record interest with interest expense, and penalties in administrative expense, in the consolidated statement of income.

Vesting or exercise of restricted stock, restricted stock units and stock options result in a difference between the federal income tax deduction and the financial statement stock-based compensation, which creates an excess tax benefit (windfall) or tax deficiency (shortfall). If a windfall benefit can be utilized to reduce income taxes payable as determined using a "with and without" method, the windfall benefit will offset the shortfall deficiency; if not, then the shortfall is recognized as tax expense. Prior to fiscal year 2013, we were unable to offset shortfalls with windfalls and were required to recognize shortfalls as tax expense. For fiscal years 2013 and 2014, the utilization of windfall benefits offset income taxes payable and shortfalls had no impact on the effective tax rate. The realized excess tax benefits were credited to additional paid-in capital and are not recorded as a tax benefit in the consolidated statement of income.

We classify our deferred tax assets as current or noncurrent based on the classification of the related asset or liability for financial reporting giving rise to the temporary difference. A deferred tax asset that is not related to an asset or liability for financial reporting, including deferred tax assets related to net operating losses, is classified according to the expected reversal date.

Comprehensive Income and Foreign Currency Translations. Comprehensive income refers to net income plus revenues, expenses, gains, and losses that are included in comprehensive income but excluded from net income. Our comprehensive income differs from our net income because of the change in the cumulative foreign currency translation adjustment associated with the translation of our foreign subsidiary financial statements to U.S. dollars from their euro functional currency.

Income Per Share. Accounting standards require dual presentation of earnings per share ("EPS"): basic EPS and diluted EPS. Basic EPS is computed by dividing net earnings applicable to participating securities by the weighted average number of participating securities outstanding for the period. Diluted EPS includes the effect of potentially dilutive instruments. See "Note 16. Income per Share" for additional information.

Derivatives and Hedges. We are exposed to certain foreign currency risks relating to our ongoing business operations. We may, from time to time, enter into foreign currency forward derivative contracts to offset foreign currency exchange risk. We do not enter into forward exchange derivative contracts for speculative purposes. We choose not to offset all foreign currency exchange exposures for a variety of reasons, including but not limited to immateriality, accounting considerations and the economic cost of offsetting particular exposures. There can be no assurance that a foreign currency derivative will offset more than a portion of the financial impact resulting from movements in foreign currency exchange rates. We designate foreign currency forward contracts as non-hedge derivative instruments. The foreign currency exchange gains and losses generated by our derivatives and our foreign currency denominated assets and liabilities are included in Other Expense, Net in our consolidated statement of income.

Fair Value Measurements. Fair value is defined as the exit price or the amount that we would receive upon selling our assets in an orderly transaction to a market participant as of the period ending on the measurement date. The guidance also establishes a hierarchy for inputs used in measuring fair value. The hierarchy is broken down into three levels defined as follows:

- Level 1 - Inputs are quoted prices in active markets for identical assets.
- Level 2 - Inputs include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active and inputs that are observable for the asset, either directly or indirectly.
- Level 3 - Inputs are unobservable inputs for the asset.

Observable inputs are inputs market participants would use in valuing the asset based on market data obtained from sources independent of us. Unobservable inputs are inputs that reflect our assumptions about the factors

market participants would use in valuing our asset and are developed based on the best information available in the circumstances. The categorization of assets within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement. Level 3 financial assets include investment securities for which there is limited market activity such that the determination of fair value requires significant judgment or estimation.

Note 2. Accounts Receivable and Allowance for Bad Debt

Accounts receivable, net consisted of the following:

	April 25, 2014	April 26, 2013
Accounts receivable	$51,358,991	$39,998,483
Allowance for bad debt	(684,950)	(548,370)
	$50,674,041	$39,450,113

Note 3. Inventories

Inventories consisted of the following:

	April 25, 2014	April 26, 2013
Raw materials	$ 7,289,543	$ 7,267,437
Work-in-progress	4,438,280	4,813,227
Finished goods	5,902,288	5,637,790
	$17,630,111	$17,718,454

Note 4. Property, Plant and Equipment

Property, plant and equipment consisted of the following:

	April 25, 2014	April 26, 2013	Lives in years
Land	$ 1,643,813	$ 1,128,813	—
Building and building improvements	25,394,565	16,646,446	36 to 39
Equipment, furniture and fixtures	37,079,945	33,104,334	3 to 5
Leasehold improvements	1,444,622	1,316,088	5 to 8
Capital investment in process	6,925,698	6,627,930	—
Total	72,488,643	58,823,611	
Accumulated depreciation	(32,953,770)	(30,267,869)	
	$ 39,534,873	$ 28,555,742	

Note 5. Intangible Assets

Schedules of finite-lived intangible assets:

	April 25, 2014	April 26, 2013
Developed Technology Rights[1]	$13,964,000	$10,370,000
Other Intangible Assets[2]	1,148,000	993,000
	15,112,000	11,363,000
Accumulated amortization	(3,457,310)	(2,143,001)
Net	$11,654,690	$ 9,219,999

(1) Developed Technology Rights include purchased patents, licensed patent rights and know-how. These assets relate primarily to seizure detection and response, wireless communication technology, rechargeable battery technology, conditionally safe magnetic resonance ("MR") technology for implantable leads and the treatment of obstructive sleep apnea.

(2) Other Intangible Assets primarily consists of purchased clinical neurological and sleep apnea databases.

During the 52 weeks ended April 25, 2014, we purchased intangible assets of $3.8 million which consisted primarily of Developed Technology Rights and included (i) patent acquisitions related to the treatment of

obstructive sleep apnea, (ii) the integration of conditionally safe MR technologies with our leads, and (iii) cardiac-based seizure detection capabilities. These fiscal year 2014 asset acquisitions have an average amortization period of 12 years.

The weighted average amortization period in years for our intangible assets at April 25, 2014:

Developed Technology Rights	12
Other Intangible Assets	7

Aggregate intangible asset amortization was $1,314,309, $867,613 and $1,228,245 for the fiscal years 2014, 2013 and 2012, respectively, which was primarily reported in research and development expense in the consolidated statements of net income. During the quarter ended April 25, 2014, we launched the AspireSR generator in Europe; as a result, we assigned the amortization of intangible assets, with a carrying value of $837,000, to cost of goods sold.

Amortization recorded in the fiscal year 2014 included impairment losses of $90,000 of developed technology rights and amortization recorded in the fiscal year 2012 included impairment losses of $177,000 and $305,000 for Developed Technology Rights and Other Intangible Assets, respectively. These impairment losses were due to intellectual property that no longer factored into our product plans.

The estimated future amortization expense based on our finite-lived intangible assets at April 25, 2014:

Fiscal year 2015	$1,282,356
Fiscal year 2016 (53 week year)	1,298,569
Fiscal year 2017	1,414,490
Fiscal year 2018	1,426,449
Fiscal year 2019	1,337,786

Note 6. Investments

Short-Term Investments detail. Our short-term investments consist of securities with maturities ranging from 6 to 12 months and carried at amortized cost. Refer to "Note 18. Fair Value Measurements."

	April 25, 2014	April 26, 2013
Certificates of deposits	$20,031,289	$15,000,000
Commercial paper	4,997,668	—
	$25,028,957	$15,000,000

Long-Term Investments detail: Our long-term investments consisted of equity positions in two privately-held companies carried at original cost under the cost-method, refer to "Note 18. Fair Value Measurements":

	April 25, 2014	April 26, 2013
ImThera Medical, Inc. - convertible preferred shares and warrants[1]	$12,000,002	$ 8,000,002
Cerbomed GmbH - convertible preferred shares[2]	3,944,425	2,588,200
Carrying amount - long-term investments	$15,944,427	$10,588,202

(1) ImThera Medical, Inc. is developing a neurostimulation device system for the treatment of obstructive sleep apnea. During the quarter ended January 24, 2014, we purchased $4.0 million of convertible preferred non-voting stock with warrants.

(2) Cerbomed GmbH is a German company developing a transcutaneous vagus nerve stimulation device for the treatment of epilepsy. During the quarter ended January 24, 2014, we purchased an addition tranche of convertible preferred stock for €1.0 million, or approximately $1.4 million.

Note 7. Accrued Liabilities

Accrued liabilities consisted of the following:

	April 25, 2014	April 26, 2013
Payroll and other compensation	$16,957,216	$16,869,112
Clinical study costs	1,226,865	1,040,772
Other accrued liabilities	4,143,832	3,090,082
	$22,327,913	$20,999,966

Note 8. Convertible Notes

In September 2005, we issued $125 million of Senior Subordinated Convertible Notes at the interest rate of 3% per year (the "Convertible Notes"). We used a portion of the proceeds, a net of $13.0 million, to purchase call options to buy 3,012,050 shares of our common stock at an exercise price of $41.50 per share (the "Note Hedge"), partially offset by proceeds from the issuance of warrants to sell shares of our common stock (the "Warrants"). The Note Hedge and the Warrants were designed to limit potential dilution from conversion of the Convertible Notes. The Note Hedge was terminated in fiscal year 2009 by Merrill Lynch International. See "Note 9. Warrants" for more information about the warrants.

Over the fiscal years 2009 through 2011 we repurchased our Convertible Notes in privately-negotiated transactions. During fiscal 2012, in connection with the settlement of litigation relating to the Convertible Notes, we were required to retire the Convertible Notes that were tendered to us on December 27, 2011 at par. In fiscal year 2013, we share-settled the remaining outstanding debt on the maturity date of the note, September 27, 2012.

Note 9. Warrants

In September 2005, in conjunction with the issuance of the Convertible Notes, we sold warrants for $25.2 million to Merrill Lynch International. The warrants were recorded in stockholders' equity on our consolidated balance sheets. The warrants entitled the holder to receive the net value for the purchase of 3,012,050 shares of our common stock for the amount in excess of $50.00 per share. The warrant agreement was amended on September 11, 2012, changing the settlement measurement period to a period of 60 trading days, each day as a separate tranche, commencing on September 12, 2012 and ending on December 7, 2012. The settlement was equal to the amount in excess, if any, of $50.00 per share of the daily volume-weighted average price of our common stock, if any, for approximately 50,000 warrants for each of the 60 tranches. The warrants were segregated into three 20-tranche groups for purposes of our electing to settle in cash or net shares. During the quarter ended October 26, 2012, we elected cash settlement for the first two groups of tranches, or 40 tranches. The settlement periods for these two groups ended on October 9, 2012 and November 8, 2012, respectively. The final group of 20 tranches was net share settled with a settlement period ended December 7, 2012.

Because of our election to cash settle the first 40 tranches, we used liability accounting for these tranches. As a result, during the quarter ended October 26, 2012, we reclassified these tranches from equity, Common Stock Warrants, to a liability, Warrants' Liability, in the consolidated balance sheet, at a fair value of $3.6 million. The remaining balance in equity related to the first 40 tranches, which amounted to $13.2 million, was reclassified to Additional Paid-In-Capital in the consolidated balance sheet. The Warrants' Liability was revalued at quarter end at $2.3 million, and as a result, $1.3 million was recorded as a gain in the consolidated statement of income for the quarter ended October 26, 2012. These 40 tranches were settled during quarter ended January 25, 2013, refer to "Note 17. Derivatives - Warrant's Liability." The third group of 20 tranches were net-share-settled for 27,919 shares during the quarter ended January 25, 2013, and as a result, the remaining balance in Common Stock Warrants of $8.4 million was reclassed to Additional Paid-In-Capital in the consolidated balance sheet.

Note 10. Long-Term Liabilities

Other long-term liabilities consisted of the following:

	April 25, 2014	April 26, 2013
Liability for uncertain tax benefits	$4,257,437	$3,599,787
Deferred license revenue	—	1,467,869
Other	936,416	381,948
	$5,193,853	$5,449,604

Note 11. Commitments and Contingencies

Litigation

In April 2012, we filed a complaint in the United States District Court for the Southern District of Texas (12-cv-1118) against Dr. Jacob Zabara in response to a letter from Dr. Zabara alleging that he was entitled to royalties on products that incorporate his patents licensed to us under a 1988 license agreement, even if the patents had expired. The complaint sought a declaratory judgment that Dr. Zabara was not entitled to royalties

for expired patents and not entitled to royalties at all unless our device includes an invention claimed in an unexpired, licensed patent. Dr. Zabara answered the complaint and filed counterclaims seeking a declaratory judgment that he was entitled to an ongoing royalty, that we breached the license agreement by failing to pay at least a minimum royalty and by failing to pay a royalty on tunneling tools, and that we failed to use our "best efforts to develop and market a Product or Products" as required by the license agreement.

On May 3, 2013, the district court ruled (i) that we breached the license agreement by failing to pay the $9,000-per-quarter minimum royalty since July 2011, (ii) that the license agreement required us to use our "best efforts to develop and market a Product or Products" regarding each of the licensed patents, and (iii) that a trial would be required to determine whether we used our "best efforts" as required by the license agreement. Dr. Zabara claimed to be entitled to damages of approximately $0.6 million for unpaid royalties on the tunneling tool and damages of at least $200 million for royalties he claimed would have been earned had we used our "best efforts to develop and market a Product or Products" for the licensed patents not embodied in our epilepsy products.

On July 30, 2013, we executed a letter agreement with Dr. Zabara by which we agreed to settle all claims in the pending lawsuit. On September 12, 2013, the parties executed final settlement papers pursuant to the terms of the letter agreement. The principal terms of settlement included (i) a payment by us of $6.25 million to Dr. Zabara; (ii) the provision of up to 200 VNS Therapy Systems to Dr. Zabara for research purposes; (iii) termination of the 1988 license agreement and all prior consulting agreements, subject to continuation of an existing sublicense and a non-exclusive, royalty-bearing license to us for future-developed products, if any, covered by Dr. Zabara's patents; and (iv) mutual releases. We incurred and recorded a charge of approximately $7.4 million to account for this settlement, including approximately $0.7 million in associated legal fees, during our quarter ended July 26, 2013.

On December 5, 2013, the United States District Court for the District of Massachusetts unsealed a qui tam action (13-cv-10214) filed by former employee Andrew Hagerty against us under the Federal False Claims Act ("FCA") and the false claims statutes of 28 different states and the District of Columbia. The FCA 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.

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, we 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.

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 we violated the FCA and various state false claims statutes while marketing our VNS Therapy System and seeks an unspecified amount consisting of treble damages, civil penalties, and attorneys' fees and expenses.

We believe that our marketing practices were and are in compliance with applicable legal standards, and we intend to defend this case vigorously. We can make no assurance as to the resources that will be needed to respond to these matters or the final outcome of such action, and we cannot estimate a range of potential loss or damages.

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

Licensing and Investment Agreements

In June 2012, we entered into a patent license agreement and a technology transfer agreement with Imricor Medical Systems, Inc. for the integration of magnetic resonance imaging compatibility with our leads. We agreed to future milestone-based payments and minimum royalties and expect future expenditures of $1.3 million through fiscal year 2019.

Lease Agreements

We lease facilities and equipment with non-cancellable leases, accounted for as operating leases, including: (i) a storage and distribution facility in Austin, Texas; (ii) administrative and sales offices in Brussels, Belgium and elsewhere in Europe, the United States, Beijing, China and Hong Kong, and; (iii) vehicles and office equipment.

Future minimum lease payments as of April 25, 2014 are as follows:

52/53 Weeks Ending on the last Friday of April:	
Fiscal year 2015	$1,569,035
Fiscal year 2016 (53 weeks)	1,403,468
Fiscal year 2017	709,047
Fiscal year 2018	433,988
Fiscal year 2019	311,437
Thereafter	603,036

Our lease expenses for the 52 weeks ended April 25, 2014, April 26, 2013 and April 27, 2012 amounted to $0.9 million, $0.7 million and $1.4 million, respectively.

Note 12. Stock-Based Incentive Plans

Stock-Based Incentive Plans

Stock-based awards may be granted under the Cyberonics, Inc. Amended and Restated New Employee Equity Inducement Plan ("Inducement Plan") or the Cyberonics, Inc. 2009 Stock Plan ("2009 Plan"). The Inducement Plan, which includes approximately 290,000 shares available for future awards as of April 25, 2014, is not a stockholder-approved plan and may be used only for awards offered as an inducement to new employees. Our stockholders approved the 2009 Plan in September 2009 and approved an amendment to the 2009 Plan in September 2012 increasing the aggregate maximum number of shares that can be issued under the plan. As of April 25, 2014, the 2009 Plan includes approximately 2.38 million shares available for future awards. These plans provide for the grant of non-qualified and incentive stock options, stock appreciation rights, restricted stock, restricted stock units, phantom stock units, and other stock-based awards.

Stock-Based Compensation

Amounts of stock-based compensation recognized in the consolidated statement of income by expense category are as follows:

	52 Weeks Ended April 25, 2014	52 Weeks Ended April 26, 2013	52 Weeks Ended April 27, 2012
Cost of goods sold	$ 487,706	$ 504,715	$ 578,157
Selling, general and administrative	7,998,550	7,949,517	8,106,663
Research and development	2,753,731	3,229,017	2,417,417
Total stock-based compensation expense	$11,239,987	$11,683,249	$11,102,237
Income tax benefit, related to awards, recognized in the consolidated statements of income	3,743,983	3,810,136	3,461,453
Total expense, net of income tax benefit	$ 7,496,004	$ 7,873,113	$ 7,640,784

Amounts of stock-based compensation expense recognized in the consolidated statement of income by type of arrangement are as follows:

	52 Weeks Ended April 25, 2014	52 Weeks Ended April 26, 2013	52 Weeks Ended April 27, 2012
Service-based stock option awards	$ 3,721,733	$ 2,916,855	$ 2,639,748
Service-based restricted and restricted stock unit awards	5,527,458	5,067,292	5,290,854
Performance-based restricted stock and restricted stock unit awards	1,990,796	3,699,102	3,171,635
Total stock-based compensation expense	$11,239,987	$11,683,249	$11,102,237

Stock-Based Compensation Unrecognized

Amount of stock-based compensation cost not yet recognized related to nonvested awards:

	April 25, 2014	
	Unrecognized Compensation Cost	Weighted Average remaining Vesting Period (in years)
Service-based stock option awards	$ 8,661,928	2.62
Service-based restricted and restricted stock unit awards	8,995,313	2.08
Performance-based restricted stock and restricted stock unit awards	1,951,338	0.63
Total stock-based compensation cost unrecognized	$19,608,579	

Stock Option Valuation Assumptions

We use the Black-Scholes option pricing methodology to calculate the grant date fair market value of stock option awards. The following table lists the assumptions we utilized as inputs to the Black-Scholes model:

	52 Weeks Ended April 25, 2014	52 Weeks Ended April 26, 2013	52 Weeks Ended April 27, 2012
Dividend Yield[1]	—	—	—
Risk-free interest rate - based on grant date[2]	1.36% - 2.01%	0.94% - 1.57%	0.73% - 2.23%
Expected option term - in years per group of employees/ consultants[3]	5.92 - 6.54	6.41 - 9.39	4.08 - 6.59
Expected volatility at grant date	40.41% - 43.59%	44.95% -51.14%	47.04% - 59.07%

(1) We have not historically paid dividends and currently do not plan to pay dividends.

(2) We use yield rates on U.S. Treasury securities for a period that approximated the expected term of the award to estimate the risk-free interest rate.

(3) We estimated the expected term of options granted using historic data of actual time elapsed between the date of grant and the exercise or forfeiture of options for employees. For consultants the expected term is the remaining time until expiration of the option.

Stock Option Activity

The following tables detail the activity for service-based stock option awards:

Options	Number of Optioned Shares	Wtd. Avg. Exercise Price	Wtd. Avg. Remaining Contractual Term (years)	Aggregate Intrinsic Value[1]
Outstanding - at April 26, 2013	1,161,427	$27.67		
Granted	257,277	52.18		
Exercised	(400,350)	24.06		
Forfeited	(5,967)	42.15		
-	—			
Outstanding - at April 25, 2014	1,012,387	35.25	6.98	$25,341,486
Fully vested and exercisable - end of quarter	408,300	25.04	5.09	14,511,343
Fully vested and expected to vest - end of quarter[2]	983,327	34.93	6.93	$24,926,902

(1) The aggregate intrinsic value of options at quarter end is based on the difference between the fair market value of the underlying stock at April 25, 2014, using the market closing stock price, and the option exercise price for in-the-money options.
(2) Factors in expected future forfeitures.

	52 Weeks Ended April 25, 2014	52 Weeks Ended April 26, 2013	52 Weeks Ended April 27, 2012
Weighted average grant date fair value of stock option awards during the fiscal year	$ 23.29	$ 20.55	$ 12.31
Aggregate intrinsic value of stock option exercises during the fiscal year	$14,209,939	$11,475,610	$5,636,206

Restricted Stock and Restricted Stock Units Awards

The following tables detail the activity for service-based restricted stock and restricted stock unit awards:

	52 Weeks Ended April 25, 2014	
	Number of Shares	Wtd. Avg. Grant Date Fair Value
Non-vested shares at April 26, 2013	367,734	$31.61
Granted	131,417	52.02
Vested	(147,807)	28.21
Forfeited	(2,619)	42.70
Non-vested shares at April 25, 2014	348,725	$40.65

	52 Weeks Ended April 25, 2014	52 Weeks Ended April 26, 2013	52 Weeks Ended April 27, 2012
Weighted average grant date fair value of service-based share grants issued during the fiscal year	$ 52.02	$ 44.31	$ 26.58
Aggregate fair value of service-based share grants that vested during the year	$8,124,528	$15,969,922	$7,638,546

The following tables detail the activity for performance-based and market-based restricted stock and restricted stock unit awards:

	52 Weeks Ended April 25, 2014	
	Number of Shares	Wtd. Avg. Grant Date Fair Value
Non-vested shares at April 26, 2013	396,161	$25.54
Granted	—	—
Vested	(62,520)	27.13
Forfeited	—	—
Non-vested shares at April 25, 2014	333,641	$25.24

	52 Weeks Ended April 25, 2014	52 Weeks Ended April 26, 2013	52 Weeks Ended April 27, 2012
Weighted average grant date fair value of performance-based share grants issued during the fiscal year	$ —	$ 50.10	$25.23
Aggregate fair value of performance-based share grants that vested during the year	$3,189,770	$3,318,681	$ —

Note 13. Employee Retirement Savings Plan and Deferred Compensation Plan

The Employee Retirement Savings Plan. We sponsor the Cyberonics, Inc. Employee Retirement Savings Plan (the "Savings Plan"), which qualifies under Section 401(k) of the IRC. The Savings Plan is designed to provide eligible employees with an opportunity to make regular contributions into a long-term investment and savings program. Substantially all U.S. employees are eligible to participate in the Savings Plan beginning with the first quarterly open enrollment date following the start of their employment. We match 50% of employees' contributions up to 6% of eligible earnings, subject to a five-year vesting period. We incurred expenses for these contributions of approximately $1.7 million, $1.4 million and $1.3 million for the fiscal years 2014, 2013 and 2012, respectively.

The Deferred Compensation Plan. Effective as of January 1, 2013, we offered the Cyberonics, Inc. Nonqualified Deferred Compensation Plan (the "Deferred Compensation Plan") to a group consisting of certain members of senior management. The Deferred Compensation Plan is an arrangement intended to be exempt from the requirements of Title I of the Employee Retirement Income Security Act of 1974 and in compliance with Section 409A of the Internal Revenue Code ("IRC"). As part of our overall compensation program, the Deferred Compensation Plan provides an opportunity for the group to defer up to 50% of their annual base salary and commissions and 100% of their bonus or performance-based compensation until the earlier of (i) termination of employment or (ii) an elected distribution date. In addition, for the 2014 plan year, we agreed to match 50% of the contributions of non-officer members of the group up to 6% of eligible earnings, subject to a five-year vesting period. As of April 25, 2014, the liability for compensation deferred under the Deferred Compensation Plan was $0.5 million and the balance of the investment was $0.5 million. The liability was included with "Long-term liabilities" and the investment was included with Other (long-term) assets on our consolidated balance sheets.

Note 14. Stockholders' Equity

With respect to the shares authorized, both common and preferred, our Board of Directors, at its sole discretion, may determine, fix and alter dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any such series and may determine the designation, terms and conditions of the issuance of any such shares. We have 2,500,000 shares of undesignated Preferred Stock authorized and available for future issuance, of which none have been issued through April 25, 2014.

Common shares are repurchased from time to time to return capital to shareholders. During fiscal years 2014, 2013 and 2012, the Company repurchased 1,205,300 shares, 600,000 shares and 1,629,000 shares, respectively, at an approximate average price of $57.66, $45.58 and $30.13, respectively, pursuant to the Board of Directors' repurchase plans. In November 2011, the Board of Directors ("BOD") authorized the repurchase of one million shares. This plan was completed in January 2013. In January 2013, the BOD authorized the repurchase of an additional one million shares, and this program was completed in December 2013. In December 2013, the Board authorized an additional repurchase of one million shares of common stock. The current program is expected to be completed by April 2015. As of April 25, 2014, we have 739,700 shares available for future repurchases under the current plan.

Note 15. Income Taxes

The U.S. and foreign components of income before income taxes and the provision for income taxes are presented in this table:

	52 Weeks Ended April 25, 2014	52 Weeks Ended April 26, 2013	52 Weeks Ended April 27, 2012
Income before income taxes:			
Domestic	$76,257,151	$74,949,502	$63,865,045
Foreign	3,621,545	325,123	(3,443,617)
	$79,878,696	$75,274,625	$60,421,428
Provision for current income tax expense:			
Federal	$26,537,978	$13,987,217	$ 779,690
State and local	3,250,920	1,692,119	772,013
Foreign	103,749	101,281	125,738
	$29,892,647	$15,780,617	$ 1,677,441
Provision for deferred income tax expense:			
Federal	$ (577,992)	$13,066,858	$21,583,269
State and local	(792,542)	69,648	1,082,986
Foreign	(3,533,674)	—	—
	$ (4,904,208)	$13,136,506	$22,666,255
Total provision for income tax expense	$24,988,439	$28,917,123	$24,343,696

The following is a reconciliation of the statutory federal income tax rate to our effective income tax rate expressed as a percentage of income before income taxes:

	52 Weeks Ended April 25, 2014	52 Weeks Ended April 26, 2013	52 Weeks Ended April 27, 2012
U.S. statutory rate	35.0%	35.0%	35.0%
Change in deferred tax valuation allowance[1]	(4.4)	(0.1)	—
Shortfall on settlement of options and restricted stock	—	—	1.4
Adjustment to Cyberonics BVBA NOL deferred tax asset resulting from the Belgium tax audit[2]	7.3	—	—
Adjustment to Cyberonics BVBA NOL deferred tax asset valuation allowance resulting from the Belgium tax audit[2]	(7.3)	—	—
State and local tax provision, net of federal benefit	2.5	2.3	2.6
Foreign taxes	0.5	0.1	0.2
Research and development tax credit[3]	(3.4)	(1.4)	(1.1)
Gain on warrant liability	—	(0.6)	—
Contingency for uncertain tax positions[4]	—	1.8	—
Other, net	1.1	1.3	2.2
Effective tax rate	31.3%	38.4%	40.3%

(1) We released all remaining valuation allowance against Cyberonics Europe BVBA net operating loss carryforwards as the carryforwards are more likely-than-not to be utilized against future taxable income.

(2) We concluded a tax audit with the Belgium tax authority of our European subsidiary, Cyberonics Europe BVBA with respect to transfer pricing for fiscal years 2011 and 2010, and as a result, we agreed to forfeit approximately $18.9 million in Cyberonics Europe BVBA NOLs, and we released an equal amount of valuation allowance that resulted in no effect to the tax provision.

(3) The research and development tax credit recognized for the fiscal year ended April 25, 2014 included the impact of a favorable R&D tax credit adjustment based on our fiscal year 2013 U.S. tax return. The R&D tax credit recognized for the fiscal year ended April 26, 2013 included the impact of the retroactive enactment of the R&D Tax Credit covering the period January 1, 2012 to April 26, 2013, which includes four months from the prior fiscal year ended April 27, 2012.

(4) The contingency in fiscal year 2013 related to the uncertain tax position associated with the impairment of our investment in NeuroVista Corporation's debt obligation.

Significant components of our deferred tax assets are as follows:

	April 25, 2014	April 26, 2013
Deferred tax assets (liabilities):		
Federal net operating loss carryforwards	$ —	$ 11,652,605
Foreign net operating loss carryforwards	3,533,675	12,309,347
State net operating loss carryforwards	462,149	882,678
Tax credit carryforwards	12,467,782	7,084,538
Deferred compensation	6,646,084	6,119,515
Accruals and reserves	2,227,878	2,102,427
Licensing income and expense	(675,036)	776,467
Property and equipment	(957,697)	(789,106)
Other	1,146,024	4,166,569
Total deferred tax assets	24,850,859	44,305,040
Deferred tax valuation allowance	(1,871,850)	(26,181,763)
Net deferred tax assets	$22,979,009	$ 18,123,277

	April 25, 2014	April 26, 2013
Current deferred tax asset	$18,600,795	$ 17,992,339
Current valuation allowance	(1,330,672)	(7,622,379)
Non-current deferred tax asset	8,829,556	27,236,316
Non-current valuation allowance	(541,180)	(18,559,384)
	25,558,499	19,046,892
Current deferred tax liability	(61,758)	(71,969)
Non-current deferred tax liability	(2,517,732)	(851,646)
	(2,579,490)	(923,615)
Net deferred tax assets	$22,979,009	$ 18,123,277

At April 25, 2014, we had net operating loss carryforwards ("NOL") of $3.8 million for federal income tax purposes, which arose from excess tax benefits from stock-based award exercises and vesting resulting in NOLs and not recorded as a deferred tax asset. These NOLs will expire during fiscal years 2027 through 2033. We also have tax credit and capital loss carryforwards, net of unrecognized tax benefits of approximately $12.5 million for federal and state income tax purposes expiring during fiscal years 2029 through 2034. At April 25, 2014, we had NOL of approximately $3.6 million for state and local income tax purposes, expiring at various dates beginning in fiscal year 2015, and we had foreign NOLs of $10.4 million with no expiration period. We believe it is more likely than not that future operating results will generate sufficient net taxable income to utilize these NOLs and tax credit carryforwards.

At April 25, 2014, we had a valuation allowance of $1.9 million against our capital loss carryforward, excess tax benefits from stock-based award exercises and vesting for state tax purposes and pre-operating expenses in Costa Rica, and. During the fiscal year ended April 25, 2014, we utilized $11.7 million of excess tax benefit NOL for federal income tax purposes and released an equal amount of valuation allowance, which was recorded in additional paid-in capital on our consolidated balance sheet.

During fiscal year 2014, we also released valuation allowance, which offset our tax provision by $1.7 million related to the utilization of NOLs associated with the fiscal year 2014 profitable foreign operations. During the fiscal year 2014, the Belgium tax authority concluded an audit of our European subsidiary, Cyberonics Europe BVBA with respect to transfer pricing for fiscal years 2011 and 2010, and as a result we agreed to forfeit approximately $18.9 million in Cyberonics Europe BVBA net operating loss carryforwards, which reduced our deferred tax assets by approximately $6.4 million and released an equal amount of valuation allowance. During fiscal year 2014 and prior years, we reviewed the activity of Cyberonics Europe BVBA in order to determine if the balance of the net operating loss carryforwards ("NOLs") is more likely than not recoverable. After considering all the available positive and negative evidence, management concluded in the quarter ended April 25, 2014, that the NOL was more likely than not recoverable, and as a result, we released the valuation allowance. The positive evidence, which outweighed the negative evidence, included: (i) positive results for the rolling 12 fiscal quarters for the period ended April 25, 2014, using cumulative pre-tax book income as adjusted for permanent differences; while all prior rolling 12 fiscal quarters resulted in cumulative pre-tax book losses as adjusted for permanent differences, (ii) confidence in forecasts of profitability in future years and, (iii) no limitations on the carry-forward period for net operating losses under Belgium tax law. The release of the valuation allowance reduced our tax provision for the fiscal year 2014 by $3.5 million, which reduced our effective tax rate by 4.4%.

We have not provided U.S. income taxes on our undistributed earnings from our foreign subsidiaries. These earnings, while not material to our consolidated statement of income, are intended to be permanently reinvested outside the United States.

The following is a roll-forward of our total gross unrecognized tax benefit:

	52 Weeks Ended April 25, 2014	52 Weeks Ended April 26, 2013	52 Weeks Ended April 27, 2012
Balance at beginning of year	$7,079,351	$6,075,693	$6,326,041
Tax positions related to current year	—	1,339,561	—
Tax positions related to prior years	—	(335,903)	(250,348)
Balance at end of year	$7,079,351	$7,079,351	$6,075,693

The total amount of unrecognized tax benefit, as of April 25, 2014, if recognized, would reduce our income tax expense by approximately $7.1 million. We are unable to estimate the amount of change in our unrecognized tax benefits over the next 12 months; however, we do not anticipate a significant change.

Tax authorities may disagree with certain positions we have taken and assess additional taxes. We regularly assess the likely outcomes of our tax positions in order to determine the appropriateness of our reserves for uncertain tax positions. However, there can be no assurance that we will accurately predict the outcome of these audits and the actual outcome of an audit could have a material impact on our consolidated results of income, financial position or cash flows.

We are subject to income tax examinations for our U.S. federal income taxes, non-U.S. income taxes and state and local income taxes for fiscal year 1992 and subsequent years, with certain exceptions.

Note 16. Income Per Share

The following table sets forth the computation of basic and diluted net income per share of common stock:

	52 Weeks Ended April 25, 2014	52 Weeks Ended April 26, 2013	52 Weeks Ended April 27, 2012
Numerator:			
Net income	$54,890,257	$46,357,502	$36,077,732
Add effect of Convertible Notes[1]	—	—	97,486
Diluted income	$54,890,257	$46,357,502	$36,175,218
Denominator:			
Basic weighted average shares outstanding	27,142,597	27,604,006	27,826,586
Add effects of:			
Stock options	323,877	404,954	367,671
Convertible Notes[1]	—	—	112,475
Diluted weighted average shares outstanding	27,466,474	28,008,960	28,306,732
Basic income per share	$ 2.02	$ 1.68	$ 1.30
Diluted income per share	$ 2.00	$ 1.66	$ 1.28

(1) We determine the dilutive effect of any retired or repurchased Convertible Notes separately from the dilutive effect of Convertible Notes outstanding at period end.

Anti-dilutive securities excluded from the computation of earnings per share:

	52 Weeks Ended April 25, 2014	52 Weeks Ended April 26, 2013	52 Weeks Ended April 27, 2012
Stock options[1]	38,048	30,987	111,738
Warrants[2]	—	—	3,012,050

(1) Outstanding options to purchase common shares that are excluded from the computation of earnings per share because generally the option exercise price exceeds the average market price of our common stock during the reporting period.

(2) In September 2005, we sold common stock warrants at an exercise price of $50.00 per share. The warrants were anti-dilutive for fiscal year 2012 because the exercise price of the warrants exceeded the average market price during this period. The warrants were settled during fiscal year 2013. Refer to "Note 17. Derivatives" for further information.

Note 17. Derivatives

Foreign Currency Exposure

We operate in a number of international markets and are exposed to the impact of foreign currency exchange rate movements on earnings, particularly with respect to the U.S. dollar versus the euro. Our aggregate foreign currency exchange losses for fiscal years 2014 and 2013 were approximately $295,000 and $304,000, respectively, which were not hedged. Our aggregate foreign currency loss for fiscal year ended April 27, 2012 exclusive of foreign currency hedging results was approximately $1,841,000, which was offset by our foreign currency hedging gains of approximately $1,195,000. As a result of the settlement of our euro-based trade receivables due from our European subsidiary, Cyberonics Europe BVBA, and the simultaneous investment in the subsidiary during the quarter ended January 27, 2012, we have not entered into a foreign currency derivative during fiscal year 2013 or fiscal year 2014; however, in the future we may hedge our exposure to foreign currency transactions.

Warrants' Liability

In September 2005, we sold warrants for $25.2 million to Merrill Lynch International. The warrants were recorded in common stock warrants on our consolidated balance sheets. The warrants entitled the holder to receive the net value for the purchase of 3,012,050 shares of our common stock for the amount in excess of $50.00 per share. The warrant agreement was amended during the quarter ended October 26, 2012 to change the settlement measurement period and, as a result, common stock warrants representing the right to receive net value for the purchase of 2,008,000 shares of our common stock at $50.00 per share were re-classed to warrants' liability at a fair value of $3.6 million. At October 26, 2012, we revalued the warrants' liability at $2.3 million and recorded a gain of $1.3 million, which was included in non-operating income in the consolidated statement of income for quarter ended January 25, 2013. The warrants were settled during the quarter ended January 25, 2013. Refer to "Note 9. Warrants" for further information.

Note 18. Fair Value Measurements

Cash equivalents

Our cash equivalents consisted of a U.S. government money market mutual fund, which amounted to $3.8 million at April 25, 2014 and zero at April 26, 2013 and April 27, 2012. We carry this investment at cost which approximates fair value.

Short-Term Investments

Our short-term investments consisted of certificates of deposit and commercial paper with maturities of six to 12 months that are considered held-to-maturity debt securities and carried at amortized cost, which approximated fair value. The next contractual maturity date will be in July 2014 for our commercial paper and in December 2014 for our certificate of deposit.

Investment in Cost-Method Equity Securities

Our investment in cost-method equity securities consisted of convertible preferred stock of two privately-held companies for which there are no quoted market prices. Refer to "Note 6. Investments" for further information. We have not estimated the fair value of these investments because their fair value is not readily determinable without incurring excessive cost. However, each reporting period we evaluate whether we have experienced an event or change in circumstances that may have a significant adverse effect on the fair value of these investments. The information we review falls into Level 3 of the fair value. Impairment indicators include failed clinical trials, adverse regulatory actions, a change in the investees' competitive position or difficulty in raising funds.

Investment in Convertible Debt Security

We invested in a convertible debt security issued by NeuroVista Corporation ("NeuroVista") on August 20, 2010. NeuroVista was a privately-held company focused on the development of an implantable device intended to inform patients when seizures are likely to occur, as well as to alert caregivers when seizures do occur. We considered this security an 'available-for-sale' debt security measured at fair value on a recurring basis using Level 3 inputs, as the investee is a privately-held entity without quoted market prices. During the quarter ended July 27, 2012, we determined that we were unlikely to receive the return of our principal and accrued interest and performed a fair value analysis of the assets we expected to receive in foreclosure. We estimated the fair value of the debt instrument at $1,450,000, with the resulting impairment loss of $4,058,768 reported as other-than-temporary and separately stated in the consolidated statement of income. During the quarter ended October 26, 2012, NeuroVista advised us that an event of default had occurred under the terms of the convertible debt security, and in February 2013, we conducted a foreclosure sale of the assets subject to our security interest and took possession of the company's tangible and intangible assets, which resulted in no further gain or loss on the settlement of the debt security. The following table provides a reconciliation of the beginning and ending balance of the NeuroVista debt instrument measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	52 Weeks Ended April 26, 2013	52 Weeks Ended April 27, 2012
Beginning Balance	$ 5,508,768	$5,209,590
Net purchases / (settlements)	(1,450,000)	—
Interest accrual	—	299,178
Transfers in/(out) of Level 3	—	—
Other-than-temporary impairment included in net income	(4,058,768)	—
Ending Balance	$ —	$5,508,768

Note 19. Quarterly Financial Information - Unaudited

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
52 weeks ended April 25, 2014					
Net sales	$68,872,357	$70,101,119	$68,191,414	$74,849,270	$282,014,160
Gross profit	62,328,324	63,175,013	61,731,266	67,424,666	254,659,269
Net income	8,673,926	13,888,462	13,899,863	18,428,006	54,890,257
Diluted income per share[(1)]	$ 0.31	$ 0.50	$ 0.51	$ 0.68	$ 2.00
52 weeks ended April 26, 2013					
Net sales	$60,321,172	$62,955,645	$62,700,033	$68,343,567	$254,320,417
Gross profit	55,309,995	57,785,841	57,332,815	61,984,502	232,413,153
Net income	8,075,033	13,566,904	13,183,494	11,532,071	46,357,502
Diluted income per share[(1)]	$ 0.29	$ 0.48	$ 0.47	$ 0.41	$ 1.66

(1) EPS in each quarter is computed using the weighted-average number of shares outstanding during that quarter while EPS for the full year is computed using the weighted-average number of shares outstanding during the year. Thus, the sum for the four quarters' EPS does not necessarily equal the full year EPS.

Note 20. Geographic Information

	Net Sales		
	52 Weeks Ended April 25, 2014	52 Weeks Ended April 26, 2013	52 Weeks Ended April 27, 2012
United States	$226,922,684	$210,352,698	$182,955,274
International[(1)]	55,091,476	43,967,719	35,547,457
Total	$282,014,160	$254,320,417	$218,502,731

	Long-Lived Assets[2]		
	52 Weeks Ended April 25, 2014	52 Weeks Ended April 26, 2013	52 Weeks Ended April 27, 2012
United States	$29,398,306	$24,515,681	$21,979,396
International	10,136,567	4,040,061	181,275
Total	$39,534,873	$28,555,742	$22,160,671

(1) Sales are classified according to the country of destination, regardless of the shipping point.

(2) Long-lived assets consist of PP&E. The increase in international assets in fiscal year 2014 is due to the construction of a second manufacturing facility located in Costa Rica and the build-out of the new leased offices in Belgium.

Note 21. New Accounting Pronouncement

In July 2013, the Financial Accounting Standards Board ("FASB") issued amended guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carry-forward, similar tax loss, or tax credit carryforward exists. The guidance requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented as a reduction of a deferred tax asset when a net operating loss carry-forward, similar tax loss, or tax credit carry-forward exists, with certain exceptions. This accounting guidance is effective prospectively starting with our first quarter of fiscal year 2015 and is related to presentation only. Its adoption is not expected to have a material impact on our consolidated results of operations or financial position.

In May 2014, the FASB issued new guidance on the recognition of revenue. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will be effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Our adoption begins with the first fiscal quarter of fiscal year 2017. Early adoption is not permitted. We are currently evaluating the impact of the adoption of this accounting standard update on our consolidated results of operations or financial position.

PART C

THIRTEEN WEEKS ENDED 24 JULY 2015 AND 25 JULY 2014 (UNAUDITED)

CONDENSED CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

	For the Thirteen Weeks Ended	
	July 24, 2015	July 25, 2014
Net sales	$81,010,801	$72,003,966
Cost of sales	9,433,096	6,410,392
Gross profit	71,577,705	65,593,574
Operating expenses		
Selling, general and administrative	33,705,749	33,027,606
Research and development	10,061,267	10,562,754
Merger related expenses	6,548,842	—
Total operating expenses	50,315,858	43,590,360
Income from operations	21,261,847	22,003,214
Interest income, net	24,846	37,666
Impairment of investment	(2,064,283)	—
Other income (expense), net	(3,948)	171,455
Income before income taxes	19,218,462	22,212,335
Income tax expense	6,799,294	8,693,513
Net income	$12,419,168	$13,518,822
Basic income per share	$ 0.48	$ 0.51
Diluted income per share	$ 0.47	$ 0.50
Shares used in computing basic income per share	25,995,664	26,674,134
Shares used in computing diluted income per share	26,227,801	26,915,388

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	For the Thirteen Weeks Ended	
	July 24, 2015	July 25, 2014
Net income	$12,419,168	$13,518,822
Other comprehensive income (loss), net of tax		
Foreign currency translation adjustment	164,060	(90,880)
Total other comprehensive income (loss)	164,060	(90,880)
Total comprehensive income	$12,583,228	$13,427,942

CONDENSED CONSOLIDATED BALANCE SHEET

	July 24, 2015 (Unaudited)	April 24, 2015
Assets		
Cash and cash equivalents	$ 162,358,675	$ 124,187,094
Short-term investments	6,995,800	27,019,597
Accounts receivable, net	54,991,188	50,569,375
Inventories	24,737,577	23,963,303
Deferred tax assets current, net	7,785,835	7,198,726
Other current assets	6,745,856	7,782,875
Total current assets	**263,614,931**	**240,720,970**
Property, plant and equipment, net	40,735,064	40,286,676
Intangible assets, net	9,911,467	10,168,239
Investments in equity securities	15,062,643	17,126,927
Deferred tax assets non-current, net	6,895,311	6,077,854
Other assets	2,007,970	1,563,529
Total assets	**$ 338,227,386**	**$ 315,944,195**
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	$ 5,792,435	$ 7,251,213
Accrued liabilities	30,510,268	24,197,963
Total current liabilities	36,302,703	31,449,176
Long-term liabilities	8,741,476	7,921,288
Total liabilities	**45,044,179**	**39,370,464**
Commitments and contingencies		
Stockholders' equity		
Preferred stock, $.01 par value per share; 2,500,000 shares authorized; no shares issued and outstanding	—	—
Common stock, $.01 par value per share; 50,000,000 shares authorized; 32,094,186 shares issued and 25,999,942 shares outstanding at July 24, 2015 and 32,054,236 shares issued and 25,996,102 shares outstanding at April 24, 2015	320,942	320,542
Additional paid-in capital	451,618,047	445,362,045
Treasury stock, 6,094,244 and 6,058,134 common shares at July 24, 2015 and April 24, 2015, respectively, at cost	(245,765,042)	(243,534,888)
Accumulated other comprehensive loss	(3,236,710)	(3,400,770)
Retained earnings	90,245,970	77,826,802
Total stockholders' equity	293,183,207	276,573,731
Total liabilities and stockholders' equity	**$ 338,227,386**	**$ 315,944,195**

See accompanying notes to the condensed consolidated financial statements

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)

	Common		Additional	Treasury	Accumulated Other	Accumulated	Total
	Shares	Amount	Paid-In Capital	Stock	Comprehensive Income (Loss)	Earnings	Stockholders' Equity
Balance at April 25, 2014	31,819,678	$318,197	$426,866,998	$(188,519,469)	$ 454,850	$19,979,268	$259,099,844
Stock-based compensation plans	156,308	1,563	5,576,787	—	—	—	5,578,350
Purchase of treasury stock	—	—	—	(13,782,231)	—	—	(13,782,231)
Net income	—	—	—	—	—	13,518,822	13,518,822
Foreign currency translation loss	—	—	—	—	(90,880)	—	(90,880)
Balance at July 25, 2014	**31,975,986**	**$319,760**	**$432,443,785**	**$(202,301,700)**	**$ 363,970**	**$33,498,090**	**$264,323,905**
Balance at April 24, 2015	32,054,236	$320,542	$445,362,045	$(243,534,888)	$(3,400,770)	$77,826,802	$276,573,731
Stock-based compensation plans	39,950	400	6,256,002	—	—	—	6,256,402
Purchase of treasury stock	—	—	—	(2,230,154)	—	—	(2,230,154)
Net income	—	—	—	—	—	12,419,168	12,419,168
Foreign currency translation income	—	—	—	—	164,060	—	164,060
Balance at July 24, 2015	**32,094,186**	**$320,942**	**$451,618,047**	**$(245,765,042)**	**$(3,236,710)**	**$90,245,970**	**$293,183,207**

See accompanying notes to the condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	For the Thirteen Weeks Ended	
	July 24, 2015	July 25, 2014
Cash Flows From Operating Activities:		
Net income	$ 12,419,168	$ 13,518,822
Non-cash items included in net income:		
Depreciation	1,240,806	1,235,902
Amortization of intangible assets	256,772	324,712
Stock-based compensation	3,108,138	3,512,443
Deferred income tax (benefit) expense	(1,384,639)	3,402,023
Loss from impairment of investment	2,064,283	—
Unrealized loss (gain) in foreign currency transactions and other	236,118	(160,061)
Changes in operating assets and liabilities:		
Accounts receivable, net	(4,544,652)	2,129,438
Inventories	(707,677)	(1,057,344)
Other current and non-current assets	602,096	238,129
Current and non-current liabilities	5,447,710	(5,046,273)
Net cash provided by operating activities	18,738,123	18,097,791
Cash Flow From Investing Activities:		
Purchase of short-term investments	(6,995,139)	(4,993,541)
Maturities of short-term investments	27,033,367	5,000,000
Purchase of property, plant and equipment	(1,683,892)	(1,815,500)
Net cash provided by (used in) investing activities	18,354,336	(1,809,041)
Cash Flows From Financing Activities:		
Purchase of treasury stock	(2,230,154)	(13,782,231)
Proceeds from exercise of options for common stock	3,458,205	1,509,758
Cash settlement of compensation-based stock units	(708,264)	(786,361)
Realized excess tax benefits - stock-based compensation	518,769	1,264,795
Net cash provided by (used in) financing activities	1,038,556	(11,794,039)
Effect of exchange rate changes on cash and cash equivalents	40,566	(114,465)
Net increase in cash and cash equivalents	38,171,581	4,380,246
Cash and cash equivalents at beginning of period	124,187,094	103,299,116
Cash and cash equivalents at end of period	$162,358,675	$107,679,362
Supplementary Disclosures of Cash Flow Information:		
Cash paid for interest	$ 14,338	$ 242
Cash paid for income taxes	$ 3,917,014	$ 1,115,197

See accompanying notes to the condensed consolidated financial statements.

CYBERONICS, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
For the Thirteen Weeks Ended July 24, 2015

Note 1. Basis of Presentation and Use of Accounting Estimates

Nature of Operations. We are a medical device company engaged in the design, development, sales and marketing of implantable medical devices for epilepsy, depression and heart failure. Our seminal product, the VNS Therapy® System, is an implantable device that provides neuromodulation therapy for the treatment of drug-resistant epilepsy and treatment-resistant depression ("TRD"). The VITARIA™ System, approved in Europe but not in the U.S., is an implantable device that provides a form of neuromodulation therapy for the treatment of chronic heart failure ("CHF"). We are also developing non-implantable device solutions for the management of epilepsy. We are headquartered in Houston, Texas and are approved to market the VNS Therapy System in 81 countries worldwide.

Expenses related to the Merger with Sorin: On March 23, 2015, Cyberonics and Sorin S.p.A., a joint stock company organized under the laws of Italy ("Sorin"), LivaNova PLC (f/k/a Sand Holdco PLC and Sand Holdco Limited), a public limited company incorporated under the laws of England and Wales and a wholly-owned subsidiary of Sorin, and Cypher Merger Sub, Inc., a Delaware corporation and wholly owned subsidiary of LivaNova PLC ("Merger Sub"), entered into a definitive merger agreement (the "Transaction Agreement"). Under the terms of the Transaction Agreement, Cyberonics and Sorin, a global medical device company and a leader in the treatment of cardiovascular diseases, will combine under a newly formed company, LivaNova PLC. We reported the cost associated with the proposed transaction as a separate operating expense item in the consolidated statement of income. Refer to "Note 18. Proposed Merger with Sorin S.p.A." for further information.

Basis of Presentation. The accompanying unaudited condensed consolidated financial statements of Cyberonics at July 24, 2015 have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") for interim financial information, the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The accompanying consolidated balance sheet of Cyberonics at April 24, 2015 has been prepared from audited financial statements. In the opinion of management, all the adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation have been included. Operating results for the thirteen weeks ended July 24, 2015 are not necessarily indicative of the results that may be expected for any other interim period or the full year ending April 29, 2016. The financial information presented herein should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended April 24, 2015 ("2015 Form 10-K").

Fiscal Year-End. We utilize a 52/53-week fiscal year that ends on the last Friday in April. Both quarters ended July 24, 2015 and July 25, 2014 were thirteen week periods. Our fiscal year 2016 will end April 29, 2016 and is a 53-week year. Our fiscal year ended April 24, 2015 was a 52-week year.

Use of Estimates. The preparation of our condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in such financial statements and accompanying notes. These estimates are based on management's best knowledge of current events and actions we may undertake in the future. Estimates are used in, among other items, the determination of useful lives of property, plant and equipment ("PP&E") and intangible assets, valuation of cost-method equity and intangible asset investments, deferred tax assets and liabilities and uncertain income tax positions and the valuation of stock-based compensation grants. Actual results could differ materially from these estimates.

Consolidation. The accompanying consolidated financial statements include Cyberonics, Inc. and our wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Segments. We have one operating and reportable segment that develops, manufactures and markets our proprietary implantable medical devices that deliver VNS therapy. Our chief operating decision-maker reviews financial information presented on a consolidated basis for purposes of making operating decisions and assessing financial performance.

Note 2. Accounts Receivable and Allowance for Bad Debt

Accounts receivable, net consisted of the following:

	July 24, 2015	April 24, 2015
Accounts receivable	$55,758,824	$51,233,576
Allowance for bad debt	(767,636)	(664,201)
	$54,991,188	$50,569,375

Note 3. Inventories

Inventories consisted of the following:

	July 24, 2015	April 24, 2015
Raw materials	$10,921,201	$11,118,311
Work-in-progress	5,456,541	5,653,250
Finished goods	8,359,835	7,191,742
	$24,737,577	$23,963,303

Note 4. Property, Plant and Equipment

Property, plant and equipment consisted of the following:

	July 24, 2015	April 24, 2015	Lives in years
Land	$ 1,643,813	$ 1,643,812	—
Building and building improvements	27,393,201	26,709,267	36 to 39
Equipment, software, furniture and fixtures	41,328,145	39,324,945	3 to 7
Leasehold improvements	1,342,756	1,339,033	5 to 8
Capital investment in process	5,694,455	6,694,674	—
Total	77,402,370	75,711,731	
Accumulated depreciation	(36,667,306)	(35,425,055)	
Net	$ 40,735,064	$ 40,286,676	

Note 5. Intangible Assets

Schedules of finite-lived intangible assets:

	July 24, 2015	April 24, 2015
Developed Technology Rights[1]	$13,204,000	$13,204,000
Other Intangible Assets[2]	1,023,000	1,023,000
Total	14,227,000	14,227,000
Accumulated amortization	(4,315,533)	(4,058,761)
Net	$ 9,911,467	$10,168,239

(1) Developed Technology Rights include purchased patents, related know-how, and licensed patent rights. These assets relate primarily to seizure detection and response, wireless communication technology, the treatment of obstructive sleep apnea and conditionally safe magnetic resonance ("MR") technology for implantable leads.

(2) Other Intangible Assets primarily consists of purchased clinical neurological and sleep apnea databases.

The weighted average amortization period in years for our intangible assets at July 24, 2015:

Developed Technology Rights	15
Other Intangible Assets	10

Aggregate intangible asset amortization was $257,000 and $325,000 for the thirteen weeks ended July 24, 2015 and July 25, 2014, respectively, which was reported in either research and development expense or cost of goods sold in the consolidated statement of income.

The estimated future amortization expense based on our finite-lived intangible assets at July 24, 2015:

Fiscal year 2016 (remaining 40 weeks)	$ 753,113
Fiscal year 2017	984,392
Fiscal year 2018	998,642
Fiscal year 2019	1,013,034
Fiscal year 2020	615,337
Fiscal year 2021 (53 week period)	623,140
Thereafter	4,923,809

Note 6. Investments

Short-Term Investments Detail. Our short-term investments consist of securities with maturities ranging from six to twelve months and carried at amortized cost. Refer to "Note 16. Fair Value Measurements."

	July 24, 2015	April 24, 2015
Certificates of deposits[1]	$ —	$20,023,145
Commercial paper	6,995,800	6,996,452
	$6,995,800	$27,019,597

(1) During the quarter ended July 24, 2015, our six-month CD matured, was re-invested in a three-month CD and was classified with cash equivalents in the consolidated balance sheet.

Long-Term Investments Detail. Our long-term investments consist of equity positions in two privately-held companies carried at original cost less impairment under the cost-method. Refer to "Note 16. Fair Value Measurements."

	July 24, 2015	April 24, 2015
ImThera Medical, Inc. - convertible preferred shares and warrants[1]	$12,000,002	$12,000,002
Cerbomed GmbH - convertible preferred shares[2]	3,062,641	5,126,925
Carrying amount - long-term investments	$15,062,643	$17,126,927

(1) ImThera Medical, Inc. is developing a neurostimulation device system for the treatment of obstructive sleep apnea.
(2) Cerbomed GmbH ("Cerbomed") is a German company developing a transcutaneous vagus nerve stimulation device for the treatment of epilepsy. During the quarter ended July 24, 2015, we recorded an other-than-temporary impairment of $2.1 million against our investment. Refer to "Note 16. Fair Value Measurements."

Note 7. Accrued Liabilities

Accrued liabilities consisted of the following:

	July 24, 2015	April 24, 2015
Employee related liabilities	$11,256,199	$13,780,631
Merger related expenses	8,538,512	4,101,125
Taxes payable	6,147,269	2,083,392
Clinical study costs	1,141,081	973,988
Other accrued liabilities	3,427,207	3,258,827
	$30,510,268	$24,197,963

Note 8. Long-Term Liabilities

Other long-term liabilities consisted of the following:

	July 24, 2015	April 24, 2015
Liability for uncertain tax benefits	$5,782,267	$5,782,267
Non-qualified deferred compensation plan liability	1,659,496	1,311,194
Other liabilities	1,299,713	827,827
	$8,741,476	$7,921,288

Note 9. Commitments and Contingencies

Litigation

On December 5, 2013, the United States District Court for the District of Massachusetts unsealed a qui tam action filed by former employee Andrew Hagerty against us under the Federal False Claims Act ("FCA") 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 FCA 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 we violated the FCA and various state false claims statutes while marketing our 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, we 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. We 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 FCA, but did not dismiss the claims for wrongful and retaliatory discharge. On July 28, 2015, we filed our answer to the surviving claims in Mr. Hagerty's first Amended Complaint and asserted our 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 court when dismissing claims in his First Amended Complaint alleging that we submitted, or caused the submission of false claims under the False Claims Act. Our response to Mr. Hagerty's Motion Seeking Leave to file a Second Amended Complaint is due in September.

We believe that our commercialization practices were and are in compliance with applicable legal standards, and we will continue to defend this case vigorously. We can make no assurance as to the resources that will be needed to respond to these matters or the final outcome, and we cannot estimate a range of potential loss or damages.

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 with assurance 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.

Licensing and Technology Agreements

In June 2012, we entered into a patent license agreement and a technology transfer agreement with Imricor Medical Systems, Inc. ("Imricor") for the integration of magnetic resonance imaging compatibility with our leads. Our final payment to Imricor of $1.0 million under our current license agreement is expected to occur during the quarter ended October 23, 2015. We also agreed to a royalty fee based on sales of licensed product with a minimum annual royalty fee of $50,000.

In October 2009, we entered into a contractual arrangement with Flint Hills Scientific, L.L.C. ("Flint Hills") that includes a royalty fee with a minimum annual fee of $350,000 that increases to $700,000 in fiscal year 2017, related primarily to cardiac-based seizure detection patents and patent applications. The royalty fee due to Flint Hills for fiscal year 2016 will exceed the minimum annual fee due.

Lease Agreements

We lease facilities and equipment with non-contingent, non-cancellable leases, accounted for as operating leases, including: (i) a storage, distribution and computer facility in Austin, Texas; (ii) administrative and sales offices in

Brussels, Belgium and elsewhere in Europe, the United States, Beijing, China and Hong Kong; and (iii) vehicles and office equipment. Rental expense from operating leases amounted to $471,000 and $609,000 for the thirteen weeks ended July 24, 2015 and July 25, 2014, respectively.

Note 10. Stock-Based Incentive Plans

Stock-Based Incentive Plans

Stock-based awards may be granted under the Cyberonics, Inc. Amended and Restated New Employee Equity Inducement Plan ("Inducement Plan") or the Cyberonics, Inc. 2009 Stock Plan ("2009 Plan"). The Inducement Plan is not a stockholder-approved plan and may be used only for awards offered as an inducement to new employees. Our stockholders approved the 2009 Plan in September 2009 and approved an amendment to the 2009 Plan in September 2012 increasing the aggregate maximum number of shares that can be issued under the plan. These plans provide for the grant of non-qualified and incentive stock options, stock appreciation rights, restricted stock, restricted stock units, phantom stock units, and other stock-based awards. As of July 24, 2015, the 2009 Plan includes 1.2 million shares available for future awards, and the Inducement Plan includes 290,000 shares available for future awards.

Stock-Based Compensation

Amounts of stock-based compensation recognized in the consolidated statement of income by expense category are as follows:

	For the Thirteen Weeks Ended	
	July 24, 2015	July 25, 2014
Cost of goods sold	$ 133,738	$ 103,335
Selling, general and administrative	2,127,888	2,474,072
Research and development	846,512	935,036
Total stock-based compensation expense	3,108,138	3,512,443
Income tax benefit, related to awards, recognized in the consolidated statements	(535,549)	(859,818)
Total expense, net of income tax benefit	$2,572,589	$2,652,625

Amounts of stock-based compensation expense recognized in the consolidated statement of income by type of arrangement are as follows:

	For the Thirteen Weeks Ended	
	July 24, 2015	July 25, 2014
Service-based stock option awards	$1,213,661	$1,201,024
Service-based restricted and restricted stock unit awards	1,352,269	1,719,115
Performance-based restricted stock and restricted stock unit awards	542,208	592,304
Total stock-based compensation expense	$3,108,138	$3,512,443

Note 11. Employee Retirement Savings Plan and Deferred Compensation Plan

The Employee Retirement Savings Plan. We sponsor the Cyberonics, Inc. Employee Retirement Savings Plan (the "Savings Plan"), which qualifies under Section 401(k) of the IRC. We match 50% of employees' contributions up to 6% of eligible compensation, subject to a five-year vesting period that starts on the date of employment. We incurred expenses for these contributions of $592,000 and $606,000 for the thirteen weeks ended July 24, 2015 and July 25, 2014, respectively.

The Deferred Compensation Plan. We offer the Cyberonics, Inc. Non-Qualified Deferred Compensation Plan (the "Deferred Compensation Plan") to a group consisting of certain members of middle and senior management. The Deferred Compensation Plan is an arrangement intended to be exempt from the requirements of Title I of the Employee Retirement Income Security Act of 1974 and in compliance with Section 409A of the Internal Revenue Code ("IRC"). As part of our overall compensation program, the Deferred Compensation Plan provides an opportunity for the group to defer up to 50% of their annual base salary and commissions and 100% of their bonus or performance-based compensation until the earlier of (i) termination of employment or (ii) an elected distribution date. In addition, we match 50% of the contributions of non-officer members of the group up

to 6% of eligible compensation, subject to a five-year vesting period that starts on the date of employment. Employee deductions and company contributions result in a liability; refer to "Note 8. Long-Term Liabilities". We incurred expenses for this plan, based on the company match of $33,000 and $20,000 for the thirteen weeks ended July 24, 2015 and July 25, 2014, respectively.

Belgium Defined Contribution Pension Plan. We offer a defined contribution pension plan to our Belgium employees. Belgium law requires certain minimum plan returns, and we are responsible for required minimum returns in excess of the plan administrator's guaranteed returns. We recognized $365,000 of pension expense for this obligation for the quarter ended July 24, 2015. In addition, we match employee contributions with certain limits and, as a result, we incurred pension expense of $33,000 and $33,000 in the quarters ended July 24, 2015 and July 25, 2014, respectively.

Note 12. Stockholders' Equity

Common shares are repurchased on the open market pursuant to our Board of Directors-approved repurchase plans. In November 2014, our Board of Directors approved a repurchase program of one million shares of common stock. As of July 24, 2015, we had 864,579 shares available to repurchase under this plan, however, on Feb 27, 2015, our treasury stock purchase plan under Rule 10b5-1 of the Exchange Act terminated, and we stopped repurchasing our shares of stock. During the equivalent quarter in the prior fiscal year, pursuant to the approved plan then in effect, we repurchased 189,000 shares of our common stock at an average price of $60.18.

Note 13. Income Taxes

Our effective tax rates were 35.4% and 39.1% for the thirteen weeks ended July 24, 2015 and July 25, 2014, respectively. The effective tax rate, for the thirteen weeks ended July 24, 2015, was primarily comprised of our federal income tax rate of 35%, state and foreign income taxes, permanent differences and discrete items. Permanent differences relate to transactions that are reported for U.S. GAAP purposes but are not reported for income tax purposes in accordance with the Internal Revenue Code. A discrete item is an unusual or infrequently occurring tax credit or expense item recorded in the quarter incurred rather than over the balance of the fiscal year. We periodically assess the recoverability of our deferred tax assets by considering whether it is more likely than not that some or all of the actual benefit of those assets will be realized. To the extent that realization does not meet the "more-likely-than-not" standard, we establish a valuation allowance. During the quarter ended July 24, 2015, we recorded a deferred tax asset for the Cerbomed impairment. The impairment, once realized for income tax purposes, would be a capital loss, which can only be offset by capital gains. We recorded a valuation allowance against the deferred tax asset because we are not anticipating generating capital gains to offset this loss. The valuation allowance increased our effective tax rate by approximately 4.0%. This effect was offset by the favorable tax effect from our Costa Rica manufacturing facility of 2.5% and the 2.1% favorable tax effects of treating the financial statement impact of the merger expenses and the Cerbomed impairment as discrete items. The effective tax rate for the thirteen weeks ended July 25, 2014 was 39.1% and was primarily comprised of our federal income tax rate of 35%, plus state and foreign income taxes, permanent differences and discrete items. We recorded a 2.6% unfavorable discrete item related to a change in our international ownership structure.

Note 14. Income Per Share

The following table sets forth the computation of basic and diluted net income per share of common stock:

	For the Thirteen Weeks Ended	
	July 24, 2015	July 25, 2014
Numerator		
Net income	$12,419,168	$13,518,822
Denominator		
Basic weighted average shares outstanding	25,995,664	26,674,134
Add effects of stock options[1]	232,137	241,254
Diluted weighted average shares outstanding	26,227,801	26,915,388
Basic income per share	$ 0.48	$ 0.51
Diluted income per share	$ 0.47	$ 0.50

(1) Excluded from the computation of diluted EPS for the thirteen weeks ended July 24, 2015 and July 25, 2014 were outstanding options to purchase 21,809 and 36,712 common shares, respectively, because to include them would have been anti-dilutive.

Note 15. Foreign Currency

We operate in a number of international markets and are exposed to the risk of foreign currency exchange rate movements, particularly with respect to the U.S. dollar versus the euro. The effect on earnings of our aggregate foreign currency exchange gains and losses are reported in Other Income Expense, Net in the consolidated income statement. Our foreign currency exchange gains for the thirteen weeks ended July 24, 2015 and July 25, 2014 were $3,948 and $171,455, respectively. We did not hedge our foreign currency risk in either period, however, in the future we may hedge our foreign currency exposures.

Note 16. Fair Value Measurements

Fair value is defined as the exit price or the amount that we would receive upon selling our assets in an orderly transaction to a market participant as of the period ending on the measurement date. The guidance also establishes a hierarchy for inputs used in measuring fair value. The hierarchy is broken down into three levels defined as follows:

- Level 1 - Inputs are quoted prices in active markets for identical assets.
- Level 2 - Inputs include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active and inputs that are observable for the asset, either directly or indirectly.
- Level 3 - Inputs are unobservable inputs for the asset.

Observable inputs are inputs market participants would use in valuing the asset based on market data obtained from sources independent of us. Unobservable inputs are inputs that reflect our assumptions about the factors market participants would use in valuing our assets and are developed based on the best information available in the circumstances. The categorization of assets within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement. Level 3 financial assets include investment securities for which there is limited market activity such that the determination of fair value requires significant judgment or estimation.

Financial Instruments

The carrying values of our cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair values due to the short-term nature of these items.

Assets Measured at Fair Value on a Recurring Basis

Our Non-Qualified Deferred Compensation Plan assets consist of investments in publicly traded mutual funds and the cash surrender value of corporate-owned life insurance policies. The mutual fund investments are considered trading securities. The mutual fund investments and the cash surrender value of our corporate-owned life insurance policies are classified in Other Long-Term Assets in the condensed consolidated balance sheets and are recorded at fair value based on Level 1 inputs. The balance of our plan assets at July 24, 2015 and April 24, 2015 were $1.7 million and $1.2 million, respectively.

Investments in Debt Securities

The balances of our short-term securities consisted of held-to-maturity debt securities, carried at amortized cost that approximates fair value. Our short term securities consist of certificates of deposit and commercial paper.

Investments in Cost-Method Equity Securities

Our investment in cost-method equity securities consisted of convertible preferred stock of two privately-held companies for which there are no quoted market prices. We estimated the fair value of our investments based on a Level 3 input. Based on share prices from recent private equity offerings, we estimate that the fair value of our investment in Cerbomed was $3.1 million as of July 24, 2015, as compared to a cost basis of $5.1 million, and as a result we recorded an impairment of $2.1 million during the quarter ended July 24, 2015. A recent ImThera private equity offering was priced above the cost of our shares, and as a result we estimated the fair value of our investment to be greater than our carrying value and impairment was not recognized during the thirteen weeks ended July 24, 2015. Refer to “Note 6. Investments” for further information.

Liabilities Measured at Fair Value on a Recurring Basis

The liability under our Non-Qualified Deferred Compensation Plan is based on the fair value of the collective investment portfolios of the participating employees. The investment portfolios consist of publicly-traded mutual funds in active markets. We adjust our liability to the quoted market prices, which are Level 1 inputs. We report the balance of the funds in Other Long-Term Liabilities in the consolidated balance sheets. The balances of our plan liabilities were 1.7 million and $1.3 million at July 24, 2015 and April 24, 2015, respectively.

Note 17. Geographic Information

	Net Sales	
	For the Thirteen Weeks Ended	
	July 24, 2015	July 25, 2014
United States	$67,727,008	$58,838,200
International[1]	13,283,793	13,165,766
Total	$81,010,801	$72,003,966

(1) Sales are classified according to the country of destination, regardless of the shipping point.

	Long-lived Assets[1]	
	July 24, 2015	April 24, 2015
United States	$28,984,282	$28,464,978
International	11,750,782	11,821,698
Total	$40,735,064	$40,286,676

(1) Long-lived assets consist of PP&E.

Note 18. Proposed Merger with Sorin S.p.A.

Proposed Merger

As previously disclosed on March 23, 2015, Cyberonics, Sorin, LivaNova PLC (f/k/a Sand Holdco PLC and Sand Holdco Limited) and Merger Sub entered into the Transaction Agreement. Pursuant to the terms of the Transaction Agreement, Sorin will merge with and into LivaNova PLC (the "Sorin Merger"), with LivaNova PLC continuing as the surviving company. Each Sorin ordinary share will be converted into the right to receive 0.0472 ordinary shares, par value £1.00 per share, of LivaNova PLC, subject to the terms of the Transaction Agreement. Immediately following the Sorin Merger, Merger Sub will merge with and into Cyberonics (the "Cyberonics Merger" and, together with the Sorin Merger, the "Mergers"), with Cyberonics continuing as the surviving company and as a wholly-owned subsidiary of LivaNova PLC, and each share of Cyberonics common stock will be converted into the right to receive one LivaNova PLC ordinary share, subject to the terms of the Transaction Agreement.

In connection with the Mergers, Cyberonics common stock (CYBX) will be delisted from the NASDAQ stock market and Sorin ordinary shares will be delisted from the Italian Stock Exchange (i.e. Mercato Telematico Azionario, organized and managed by Borsa Italiana S.p.A.). The parties intend to list LivaNova PLC ordinary shares under the symbol "LIVN" on the NASDAQ stock market and the London Stock Exchange. The transactions contemplated by the Transaction Agreement, which remain subject to approval by Cyberonics shareholders, were overwhelmingly approved by Sorin shareholders on May 26, 2015. Based on the number of Sorin ordinary shares and securities convertible into Sorin ordinary shares and the number of shares of Cyberonics common stock and securities convertible into Cyberonics common stock, in each case outstanding as of August 17, 2015 (the latest practicable date for which such numbers are known), and taking into consideration the purchase by holders of other Sorin ordinary shares pursuant to Article 2437-quater of the Italian Civil Code of all Sorin shares held by any holder who properly exercised and perfected his or her rescission rights under Italian law with respect to Sorin ordinary shares in connection with the Sorin Merger, it is anticipated that existing Cyberonics security holders would own approximately 54% of LivaNova PLC on a fully-diluted basis and existing Sorin security holders would own approximately 46% of LivaNova PLC on a fully-diluted basis, as of immediately after completion of the Mergers.

Completion of the Mergers is subject to certain conditions, some of which are outside of the parties' control. On July 24, 2015, Sorin received a claim from the Italian State's Attorney seeking to enjoin the Sorin Merger. The

claim was filed with the Civil Court of Milan on behalf of the Italian Ministry of the Environment and other Italian government agencies pursuant to provisions of the Italian Civil Code permitting creditors to challenge a merger if the merger will result in harm to the position of creditors with respect to the merged entity. In its claim, the Italian State's Attorney alleges that the Sorin Merger is intended to insulate Sorin from potential liability related to certain environmental litigation against Sorin's previous parent company, SNIA S.p.A., and thus harms the position of the relevant Italian government agencies, which the claim alleges are creditors of Sorin. Sorin believes that the claim is without merit and is contesting it vigorously. Sorin sought an expedited resolution of the Italian State's Attorney's claim in the Civil Court of Milan, which held a hearing on the matter on August 17, 2015. On August 20, 2015, the Civil Court of Milan issued a ruling rejecting the objection of the Italian State's Attorney, thus allowing the Mergers to move forward. Closing of the transaction is expected to occur in the fourth calendar quarter of 2015.

Merger Expenses

All costs and expenses incurred in connection with the Transaction Agreement and the Mergers and the other transactions contemplated by the Transaction Agreement generally are to be paid by the party incurring such costs and expenses, but we will share equally with Sorin all expenses associated with antitrust filings, the NASDAQ listing application, the London Stock Exchange listing application and the printing, filing and mailing of the proxy statement/prospectus and LivaNova PLC's registration statement, the information document relating to the Sorin extraordinary general meeting and other disclosure documents required in connection with the Mergers. We recognize expenses resulting directly from the proposed Mergers as a separate operating item in the consolidated statement of income. For the quarter ended July 24, 2015, we recognized $6.5 million of merger expenses related to professional fees for legal services, accounting services, due diligence, a fairness opinion and the preparation of registration and regulatory filings in the U.S. and Europe.

Note 19. New Accounting Pronouncements

In May 2014, the FASB issued accounting guidance on revenue recognition for revenue from contracts with customers. This guidance 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, 2016, 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. We have not yet selected a transition method, nor have we determined the effect of the standard on our ongoing financial reporting. In August 2015, the FASB extended the effective date for the revenue recognition guidance to annual reporting periods beginning after December 15, 2017, and interim periods within that reporting period, with early adoption permitted using the original effective date.

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