





## OUR MISSION

Improve patients' lives by providing superior reconstructive and regenerative orthopedic and spine solutions to physicians worldwide.

**READ MORE** about Helen's recovery on [bonestimulation.com](https://bonestimulation.com)





**Brad Mason**  
President and Chief Executive Officer

## Letter from the CEO

To my fellow Orthofix shareholders,

In 2014, we made good progress in positioning our business for future success. Despite the significant time and resources we devoted to completing the restatement of our financials and getting current with our SEC filings, we have also made significant strides in many financial and operating facets of our business.

Since rejoining Orthofix two years ago, I've been very open about what I've seen as the strengths of the business as well as the areas of opportunity for improvement. Some of the positives that I've mentioned include our customer loyalty, market positions, product portfolio and strong balance sheet, while opportunities for improvement include managing our working capital more efficiently and reducing our operating expenses to improve margins. I have also spoken about the need to strengthen our leadership team, optimize our sales channels, improve our infrastructure and invest in our core technologies.

### 2014 Accomplishments

On the financial side:

- We generated modest revenue growth in 2014 highlighted by mid-single digit growth in three of our four business units,
- We improved our gross margins and net margins (gross profit less sales and marketing expense) significantly, which resulted in a meaningful increase in EBITDA,
- We reduced our sales and marketing expenses as a percentage of sales and our gross inventories by \$16 million, and
- We repaid our credit facility in full in 2014, yet still grew our cash position.

Turning to our operational accomplishments:

- We added experienced and talented people to both our Board of Directors and management team including our Chairman of the Board, Ron Matricaria, Chairman of the Audit Committee Jim Hinrichs and Doug Rice as our Chief Financial Officer,
- We had a very good year in new product introductions in our fixation business unit, launching six major product lines,
- We increased our investment in pre-clinical and clinical research in 2014 over the prior year by one-third,
- We significantly increased the number of people representing our products in the U.S., grew our commercial management and support team worldwide by 35 percent and we are in the process of adding new stocking distributors in 11 countries, and
- We initiated project "Bluecore," a multi-year, company-wide process and systems improvement initiative.

These accomplishments are indicators of the shift in momentum, strategy and execution at Orthofix. We accomplished a lot in 2014, but how will these efforts translate into improving performance and shareholder value in the future? I'll start by telling you about our three main objectives for 2015 and how each of them will drive performance improvement.

### Our first objective is to continue to optimize our sales channels.

Our initial step to accomplish this was to add many new, talented regional sales leaders both in the U.S. and abroad. As our "field generals" these new sales managers are tasked with finding additional sales representatives and distributors to fill gaps in our coverage and in many cases, reduce the size of existing territories to make room for additional salespeople. This process is well underway.

Another critical factor in optimizing our sales channels is field education and training. While we have exceptional training facilities in Lewisville, Texas and Verona, Italy, both of which are utilized extensively, we also have a need for field-based training and education personnel. These teams will support our expanded sales force, assist with new product introductions and help drive growth. We are adding these resources in each of our strategic business units.

We believe these steps will help drive the top line in each of our strategic business units and in fact are already seeing good initial results in BioStim, Biologics and Extremity Fixation.

### **Our second objective is to improve our infrastructure.**

Over the years, our investment in infrastructure improvements has not kept up with our growth, nor have we utilized the current best-in-class technologies, systems, processes and controls. As mentioned above, we initiated project Bluecore, a multi-year worldwide process and system improvement initiative.

The strategic objective of Bluecore is to improve the reliability and efficiency of our systems, processes and reporting as well as drive down our overhead expenses as we complete each phase of the work. We expect to improve supply chain management, simplify finance and accounting procedures and move to less manual processes with fewer redundancies throughout the company.

Bluecore has numerous work streams primarily focused around:

- Re-implementing our Oracle ERP system worldwide, including getting all subsidiaries on one set of books,
- Improving our financial controls and reporting,
- Streamlining our order to cash processes and collections, and
- Optimizing our supply chain for cost reductions and field inventory visibility.

### **Our third objective is to invest in our core technologies.**

For our Spine and Extremity Fixation business units, we are streamlining our new product development processes from concept through post market release. While we expect to continue to develop new, innovative products, our primary focus will be on our current product portfolios — fast customer response, project velocity and iterative improvements. This change to our new product development philosophy for our fixation business units should yield much better productivity while maintaining our current level of spending. We are already seeing positive signs based on the quantity of products in our pipeline as well as shorter time-to-market cycles.

For our BioStim business unit, our strategy is to significantly increase our investment in pre-clinical and clinical research to broaden the therapeutic indications for our technology. Our Chief Scientific Officer, Dr. Jim Ryaby, has assembled a world-class team of researchers who have initiated numerous projects to both support the clinical effectiveness of our current products as well as find new indications for our pulsed electromagnetic field (PEMF) technology. In recent months, we have received U.S. Food and Drug Administration approval for two Investigational Device Exemption clinical trials, one for studying the treatment of odontoid fractures and one for osteoarthritis of the knee.

Our partner in our Biologics business unit, the Musculoskeletal Transplant Foundation or MTF, is the driver of our research and new tissue development efforts. We are increasing our investment with MTF this year and have added a number of new projects in an ongoing effort to develop more novel tissue forms for Orthofix to market.

Along with internal product development, we remain vigilant in finding strategic technology acquisitions and licensing opportunities. As an example of this, we recently announced that Orthofix has entered into an agreement that provides us with an 18-month option to acquire eNeura, Inc., a pioneer in the use of portable, non-invasive Transcranial Magnetic Stimulation (TMS) devices for the treatment of migraine headache. We believe that this exciting PEMF technology not only meets a significant unmet need for patients, but also fits well with our core competencies in the design and manufacture of PEMF devices as well as our third party billing expertise. This transaction and the additional clinical investments I discussed, underscore the commitment we are making to leverage and grow our regenerative business units.

### **2015 Outlook**

We are in the middle of executing on the priorities mentioned above and a lot of heavy lifting is still ahead. While we expect to continue to make good progress in 2015 in these areas, we acknowledge that it will take time before we are firing on all cylinders. However, we do expect to continue our year-over-year growth in constant currency in our BioStim, Biologics and Extremity Fixation business units. While we project that sales in the Spine Fixation business unit will decline for the next few quarters, we anticipate returning to growth late in the year as we benefit from adding new products, sales management, field training specialists and new distributors, a process that we began late in 2014.

Regarding our capital deployment strategy, we will invest in research and development that will drive growth in each of our business units and also in constructing and maintaining systems and processes that reduce our corporate risk profile and operating costs. We will be conservative and opportunistic with any potential acquisitions of complementary products and technologies and as our capital position improves, we will look at additional options to increase our shareholders' return, including buying back Orthofix common stock so long as it is at a price we believe to be below its intrinsic value.

In closing, I would like to personally thank our customers for their loyalty to Orthofix, our Board of Directors for their ongoing support and vision, our team members for their tireless efforts to ensure that Orthofix realizes its true potential and our shareholders for your belief in our team and direction.

Sincerely,



**Brad Mason**  
President and Chief Executive Officer  
Orthofix International, N.V.



---

---

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

**FORM 10-K**

---

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

For the fiscal year ended December 31, 2014

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number: 0-19961

---

**ORTHOFIX INTERNATIONAL N.V.**

(Exact name of registrant as specified in its charter)

---

Curaçao  
(State or other jurisdiction of  
incorporation or organization)

N/A  
(I.R.S. Employer  
Identification No.)

7 Abraham de Veerstraat  
Curaçao  
(Address of principal executive offices)

N/A  
(Zip Code)

599-9-4658525

(Registrant's telephone number, including area code)

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

Common Stock, \$0.10 par value  
(Title of Class)

Nasdaq Global Select Market  
(Name of Exchange on Which Registered)

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

---

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

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

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

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

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

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

Large Accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Smaller reporting company

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

The aggregate market value of registrant's common stock held by non-affiliates, based upon the closing price of the common stock on the last business day of the fiscal quarter ended June 28, 2014, as reported by the Nasdaq Global Select Market, was approximately \$671.9 million.

As of April 23, 2015, 18,766,158 shares of common stock were issued and outstanding.

---

**DOCUMENTS INCORPORATED BY REFERENCE**

Certain sections of the registrant's Definitive Proxy Statement to be filed with the Commission in connection with the 2015 Annual General Meeting of Shareholders are incorporated by reference in Part III of this report.

---

---





Form 10-K for the Year Ended December 31, 2014  
Table of Contents

	<u>Page</u>
PART I	
Item 1. Business .....	3
Item 1A. Risk Factors .....	18
Item 1B. Unresolved Staff Comments .....	32
Item 2. Properties .....	32
Item 3. Legal Proceedings.....	32
Item X. Executive Officers of the Registrant .....	36
Item 4. Mine Safety Disclosure.....	37
PART II	
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities ....	38
Item 6. Selected Financial Data.....	40
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.....	41
Item 7A. Quantitative and Qualitative Disclosures About Market Risk .....	54
Item 8. Financial Statements and Supplementary Data .....	54
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure .....	54
Item 9A. Controls and Procedures .....	54
Item 9B. Other Information .....	60
PART III	
Item 10. Directors, Executive Officers and Corporate Governance.....	60
Item 11. Executive Compensation .....	60
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters .....	60
Item 13. Certain Relationships and Related Transactions, and Director Independence.....	60
Item 14. Principal Accountant Fees and Services .....	60
PART IV	
Item 15. Exhibits, Financial Statement Schedules .....	61



## Explanatory Note

Orthofix International N.V. (together with its respective consolidated subsidiaries and affiliates, the “Company,” sometimes referred to as “we,” “us,” or “our”) is filing this Annual Report on Form 10-K for the fiscal year ended December 31, 2014 (this “Annual Report” or this “Form 10-K”) with the Securities and Exchange Commission (the “SEC”) on a late basis. As described in the Form 12b-25 filed by the Company on March 17, 2015, this Form 10-K and the Company’s Quarterly Reports on Form 10-Q for the fiscal quarters ended June 30, 2014 and September 30, 2014, respectively (the “Late Form 10-Qs”), were delayed while the Company prepared restated financial statements for the fiscal years ended December 31, 2013, 2012 and 2011 (including the interim quarterly periods contained within the fiscal years ended December 31, 2013 and 2012) and the fiscal quarter ended March 31, 2014. These restated financial statements were filed with, and are further described in, (i) an amendment to the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (the “2013 Form 10-K/A”), (ii) an amendment to the Company’s Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2014 (the “2014 First Quarter Form 10-Q/A,” and together with the 2013 Form 10-K/A, the “Amendments”), and (iii) the Late Form 10-Qs. The Amendments and the Late Form 10-Qs were each filed with the SEC on March 31, 2014. As further described herein, in connection with these matters, the Company was granted relief by a NASDAQ Hearings Panel to remain listed on the NASDAQ Stock Market provided that the Company filed the Late Form 10-Qs on or prior to March 31, 2014 and files this Form 10-K on or prior to April 30, 2015. Continued listing with the NASDAQ Stock Market is also contingent upon the Company remaining current in its SEC periodic reporting obligations in the future. The Company currently is preparing its Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2015, and expects to make such filing with the SEC no later than May 18, 2015 (the due date for such filing in the event that the Company seeks relief pursuant to SEC Rule 12b-25).

## Forward-Looking Statements

This report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended, relating to our business and financial outlook, which are based on our current beliefs, assumptions, expectations, estimates, forecasts and projections. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “projects,” “intends,” “predicts,” “potential,” or “continue” or other comparable terminology. These forward-looking statements are not guarantees of our future performance and involve risks, uncertainties, estimates and assumptions that are difficult to predict. Therefore, our actual outcomes and results may differ materially from those expressed in these forward-looking statements. You should not place undue reliance on any of these forward-looking statements. Further, any forward-looking statement speaks only as of the date hereof, unless it is specifically otherwise stated to be made as of a different date. We undertake no obligation to further update any such statement, or the risk factors described in Item 1A under the heading Risk Factors, to reflect new information, the occurrence of future events or circumstances or otherwise.

The forward-looking statements in this filing do not constitute guarantees or promises of future performance. Factors that could cause or contribute to such differences may include, but are not limited to, risks relating to our March 2014 completed original restatement of historical financial statements following an independent review by the Audit Committee of the Company’s Board of Directors, together with related legal proceedings (including potential action by the Division of Enforcement of the SEC and pending securities class action litigation), our March 2015 completed further restatement of historical financial statements, our review of allegations of improper payments involving the our Brazil-based subsidiary (which review is described in Part I, Item 3, “Legal Proceedings”), our recent non-compliance with certain Nasdaq Stock Market LLC listing rules, and related pending hearings proceedings in connection therewith, the expected sales of our products, including recently launched products, unanticipated expenditures, changing relationships with customers, suppliers, strategic partners and lenders, changes to and the interpretation of governmental regulations, the resolution of pending litigation matters (including our indemnification obligations with respect to certain product liability claims against, and the government investigation of, our former sports medicine global business unit) (as further described in Part I, Item 3, “Legal Proceedings”) and other reports that we will file in the future), our ongoing compliance obligations under a corporate integrity agreement with the Office of Inspector General of the Department of Health and Human Services (and related terms of probation) and a deferred prosecution agreement with the U.S. Department of Justice, risks relating to the protection of intellectual property, changes to the reimbursement policies of third parties, the impact of competitive products, changes to the competitive environment, the acceptance of new products in the market, conditions of the orthopedic industry, credit markets and the economy (including the expiration of our current secured revolving credit agreement in August 2015), corporate development and market development activities, including acquisitions or divestitures, unexpected costs or operating unit performance related to recent acquisitions, and other risks described in Part I, Item 1A, “Risk Factors” as well as in other reports that we file in the future.



## PART I

### **Item 1. Business**

*In this report, the terms “we,” “us,” “our,” “Orthofix,” “the Company” and “our Company” refer to the combined operations of all of Orthofix International N.V. and its respective consolidated subsidiaries and affiliates, unless the context requires otherwise.*

#### **Company Overview**

We are a diversified, global medical device company focused on improving patients’ lives by providing superior reconstructive and regenerative orthopedic and spine solutions to physicians worldwide. Headquartered in Lewisville, TX, the Company has four strategic business units that include BioStim, Biologics, Extremity Fixation and Spine Fixation. Orthofix products are widely distributed via the Company’s sales representatives, distributors and its subsidiaries. In addition, Orthofix is collaborating on research and development activities with leading clinical organizations such as the Musculoskeletal Transplant Foundation and the Texas Scottish Rite Hospital for Children.

We have administrative and training facilities in the United States (“U.S.”), Italy, Brazil, the United Kingdom, France, Germany, and Puerto Rico and manufacturing facilities in the U.S. and Italy. We use independent distributors as well as directly distribute our products in the U.S., Italy, the United Kingdom, Germany, Switzerland, Austria, France, Brazil, Australia, and Puerto Rico. In several other markets we distribute our products through independent distributors.

Orthofix International N.V. is a limited liability company operating under the laws of Curaçao. The Company was formed on October 19, 1987 under the laws of the Netherlands Antilles, with the principal executive office in the Netherlands Antilles on the island of Curaçao. Curaçao became a separate and autonomous country on October 10, 2010. Our executive offices in Curaçao are located at 7 Abraham de Veerstraat, Curaçao. Our filings with the Securities and Exchange Commission (the “SEC”), including our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and Annual Proxy Statement on Schedule 14A and amendments to those reports, are available free of charge on our website as soon as reasonably practicable after they are filed with, or furnished to, the SEC. Information on our website or connected to our website is not incorporated by reference into this report. Our Internet website is located at <http://www.orthofix.com>. Our SEC filings are also available on the SEC Internet website at <http://www.sec.gov>.

#### **Business Segments**

Our segment information is prepared on the same basis that management reviews the financial information for operational decision-making purposes. We manage our business by our four strategic business units (“SBUs”), which are comprised of BioStim, Biologics, Extremity Fixation, Spine Fixation, and supported by Corporate activities. These SBUs represent the segments for which our Chief Executive Officer, who is our Chief Operating Decision Maker (the “CODM”), reviews financial information and makes resource allocation decisions among business units. Accordingly, our segment information has been prepared based on our four SBU’s reporting segments. These four segments are discussed below.

##### *BioStim*

The BioStim SBU manufactures, distributes, and provides support services of market leading devices that enhance bone fusion. These Class III medical devices are indicated as an adjunctive, noninvasive treatment to improve fusion success rates in cervical and lumbar spine as well as a therapeutic treatment for non-spine fractures that have not healed (non-unions). These devices utilize Orthofix’s patented pulsed electromagnetic field (“PEMF”) technology, which is supported by strong basic mechanism of action data in the scientific literature and as well as strong level one randomized controlled clinical trials in the medical literature. Current research and clinical studies are also underway to identify potential new clinical indications. This SBU uses both distributors and independent sales representatives to sell its devices to hospitals, doctors and other healthcare providers, primarily in the U.S.

##### *Biologics*

The Biologics SBU provides a portfolio of regenerative products and tissue forms that allow physicians to successfully treat a variety of spinal and orthopedic conditions. This SBU specializes in the marketing of the Company’s regeneration tissue forms. Biologics markets its tissues through a network of distributors, independent sales representatives and affiliates to supply to hospitals, doctors, and other healthcare providers, primarily in the U.S. Our partnership with the Musculoskeletal Transplant Foundation (“MTF”) allows us to exclusively market our Trinity Evolution® and Trinity ELITE® tissue forms for musculoskeletal defects to enhance bony fusion.

### *Extremity Fixation*

The Extremity Fixation SBU offers products and solutions that allow physicians to successfully treat a variety of orthopedic conditions unrelated to the spine. This SBU specializes in the design, development, and marketing of the Company's orthopedic products used in fracture repair, deformity correction and bone reconstruction procedures. Extremity Fixation distributes its products through a network of distributors, independent sales representatives and affiliates. This SBU uses both independent distributors and direct sales representatives to sell orthopedic products to hospitals, doctors, and other health providers, globally.

### *Spine Fixation*

The Spine Fixation SBU specializes in the design, development and marketing of a portfolio of implant products used in surgical procedures of the spine. Spine Fixation distributes its products through a network of distributors and affiliates. This SBU uses distributors and independent sales representatives to sell spine products to hospitals, doctors and other healthcare providers, globally.

### **Business Strategy**

Our business strategy is to develop and deliver advanced repair and regenerative solutions to the spine and orthopedic markets in order to facilitate bone fusion and healing as well as correct bone and spine deformities. Our strategy for growth and profitability includes the following initiatives by SBU:

**BioStim:** Provide osteogenesis stimulation devices that deliver noninvasive treatment for promoting healing in fractured bones and spinal fusions. Our key initiatives are:

- Invest in basic science, clinical and evidence-based research to support broader indications for our stimulation products;
- Enhance our customer service and physician interaction through automation;
- Leverage our leadership in spinal osteogenesis stimulation to increase our market share in appendicular (non-spine) osteogenesis stimulation; and
- Invest in product development for next generation osteogenesis technology.

**Biologics:** Provide a portfolio of regenerative tissues and products that provide physicians with additional surgical options that augment their surgical procedures and results. Our key initiatives are:

- Continually add new distribution in key under penetrated markets and by capitalizing on other business units' customer relationships and hospital access;
- Penetrate new and un-tapped Orthopedics fields of use such as the: Trauma, Joint Revisions and Craniomaxillofacial markets; and
- Continue to focus our sales efforts on our newest state of the art tissue form, Trinity ELITE®.

**Extremity Fixation:** Provide external and internal temporary to definitive fixation devices used in fracture repair, deformity correction and bone reconstruction. Our key initiatives are:

- Increase coverage in the U.S. and existing international markets and expand into additional high potential countries;
- Implement a worldwide sales productivity process that will drive an increase in market penetration in each country;
- Develop and acquire premium products for temporary fixation, deformity correction and pediatrics, rather than generic or commodity fixation products; and
- Restructure the U.S. business for growth and profitability.

**Spine Fixation:** Provide a portfolio of surgical products that allow physicians to successfully treat a variety of spinal conditions. Our key initiatives are:

- Rationalize our cost structure to increase the margin contribution of this business;
- Optimize our sales channel in the U.S. by increasing the number of our sales representatives by fifty percent in the next two years and adding field based management and training resources; and
- Increase new product introductions through product acquisitions and a more streamlined and productive new product development process.

**Other Financial and Business Initiatives:**

- Continue to identify, recruit and hire highly talented and experienced commercial and corporate leaders;
- Expand our geographic sales coverage to high priority countries and U.S. territories where we currently are underpenetrated;
- Drive sales in the U.S. by expanding our integrated delivery networks, group purchasing organizations and regional hospital system commercial contracting team and expertise;
- Invest in a reimbursement strategy and team dedicated to addressing the requirements of third party payors. This team will be supported with evidence-based clinical research and cost effectiveness studies coordinated by our research team;
- Continue to enhance physician relationships through extensive product education and training programs;
- Achieve more effective and efficient business processes, systems and controls throughout the organization; and
- Increase our research and development investment in our core technologies of osteogenesis stimulation and regenerative tissue forms.

*Corporate*

Corporate activities are comprised of the operating expenses, including share-based compensation of Orthofix International N.V. and its holding company subsidiaries, along with activities not necessarily identifiable within the four SBUs.

**Net Sales by SBU:**

The table below presents net sales for continuing operations by SBU reporting segment. Net sales include product sales and marketing service fees.

	Net Sales by SBU					
	Year ended December 31,					
	2014		2013		2012	
(U.S. Dollars in thousands)	Net Sales	Percent of Total Net Sales	Net Sales	Percent of Total Net Sales	Net Sales	Percent of Total Net Sales
BioStim .....	\$ 154,676	38%	\$ 145,085	36%	\$ 174,562	40%
Biologics .....	55,881	14%	53,746	14%	53,731	12%
Extremity Fixation .....	109,678	27%	103,359	26%	112,011	25%
Spine Fixation .....	82,042	21%	95,421	24%	99,885	23%
Total Net Sales .....	<u>\$ 402,277</u>	<u>100%</u>	<u>\$ 397,611</u>	<u>100%</u>	<u>\$ 440,189</u>	<u>100%</u>

Additional financial information regarding our business segments can be found in Item 7 under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” as well as in Item 8 under the heading “Financial Statements and Supplementary Data.”

## Products

Our revenues are derived from the sales of products and marketing service fees in four SBUs, BioStim, Biologics, Extremity Fixation and Spine Fixation, which accounted for 38%, 14%, 27%, and 21%, respectively, of our total net sales in 2014. Marketing service fee sales is comprised of fees earned for the marketing of tissue forms including Trinity Evolution<sup>®</sup>, Trinity ELITE<sup>®</sup> and VersaShield<sup>®</sup>.

The following table identifies our principal products by trade name and describes their primary applications:

<b>Product</b>	<b>Primary Application</b>
<b><u>BioStim Solutions</u></b>	
Cervical-Stim <sup>®</sup>	Pulsed electromagnetic field (“PEMF”) non-invasive cervical spine regenerative stimulator used to enhance bone growth
Spinal-Stim <sup>®</sup>	PEMF non-invasive lumbar spine regenerative stimulator used to enhance bone growth
Physio-Stim <sup>®</sup>	PEMF long bone non-invasive regenerative stimulator used to enhance bone growth in non-union fractures
<b><u>Biologic Solutions</u></b>	
AlloQuent <sup>®</sup> Structural Allografts	Interbody devices made of cortical bone that are designed to restore the space that has been lost between two or more vertebrae due to a degenerated disc
Trinity ELITE <sup>®</sup>	A fully moldable allograft with viable cells used during surgery that is designed to enhance the success of a spinal fusion or bone fusion procedure
Trinity Evolution <sup>®</sup>	An allograft with viable cells used during surgery that is designed to enhance the success of a spinal fusion or bone fusion procedure
VersaShield <sup>®</sup>	A thin hydrophilic amniotic membrane designed to serve as a wound or tissue covering for a variety of surgical demands
Collage <sup>®</sup> Synthetic Osteoconductive Scaffold	A bone void filler
<b><u>Extremity Fixation Solutions</u></b>	
Fixator	External fixation and internal fixation, including the Sheffield Ring, limb-lengthening systems, DAF, ProCallus <sup>™</sup> , XCaliber <sup>®</sup> and Gotfried P.C.C.P <sup>®</sup>
Eight-Plate Guided Growth System <sup>®</sup>	Treatment for bowed legs or knock knees of children
LRS Advanced Limb Reconstruction System <sup>®</sup>	External fixation for limb lengthening and corrections of deformity
TrueLok <sup>™</sup>	Ring fixation system for limb lengthening and deformity correction
TL-HEX TrueLok Hexapod System <sup>®</sup> (“TL-HEX <sup>™</sup> ”)	Hexapod external fixation system for trauma and deformity correction with associated software
Galaxy Fixation <sup>™</sup> System	External fixation system for temporary and definitive fracture fixation, including anatomical specific clamps.
PREFIX <sup>™</sup> and PREFIX 2 <sup>™</sup>	External fixation range for temporary fixation of fractures in trauma
VeroNail <sup>®</sup> Trochanteric Nailing System	Trochanteric titanium nailing system for hip fractures
Centronail <sup>®</sup> Titanium Nailing System	Complete range of intramedullary nails including the Humeral Nail
Cemex <sup>®</sup>	Bone cement
OSCAR <sup>®</sup>	Ultrasonic bone cement removal



<b>Product</b>	<b>Primary Application</b>
Centronail® Ankle Compression Nailing System (“CAN”)	A differentiated solution for hindfoot fusions
Contours™ Lapidus Plating System™ (“LPS”)	A plate design contoured specifically for a tarsometatarsal (“TMT”) fusion
Contours PHP Proximal Humeral Plate™ (“PHP”)	An innovative plating solution for fraction fixation of the proximal humerus.
Contours VPS® Volar Plating System™ III	The 3rd generation of plates to treat distal radius fractures.
<b><u>Spine Fixation Solutions</u></b>	
3°™ /Reliant® Anterior Cervical Plating Systems	Plating systems implanted during anterior cervical spine fusion procedures
Hallmark® Anterior Cervical Plate System	A cervical plating system implanted during anterior cervical spine fusion procedures
Ascent® LE Posterior Occipital Cervico-Thoracic (“POCT”) System	A system of pedicle screws and rods implanted during a posterior spinal fusion procedure involving the stabilization of several degenerated or deformed cervical vertebrae
NewBridge® Laminoplasty Fixation System	A device implanted during a posterior surgical procedure designed to expand the cervical vertebrae and relieve pressure on the spinal canal
Construx® Mini PEEK Spacer System	Smaller, unibody versions of the Construx PEEK VBR System, implanted as a cervical interbody or partial vertebrectomy solution
CONSTRUX® Mini PTC™ PEEKTI Composite Spacer System™	A cervical interbody with porous titanium end plates that may promote bone ingrowth and a PEEK core to maintain imaging characteristics.
Construx® PEEK VBR System	A modular device implanted during the replacement of degenerated or deformed spinal vertebrae to provide additional anterior support
NGage® Surgical Mesh System	A modular metallic interbody implant placed between two vertebrae designed to restore disc space and increase stability that has been lost due to degeneration or deformity
PILLAR® PL & TL PEEK VBR System	Interbody devices for Posterior Lumbar Interbody Fusion (“PLIF”) and Transforaminal Lumbar Interbody Fusion (“TLIF”) procedures
FORZA® Spacer System	PLIF and TLIF procedures
PILLAR® AL PEEK Partial VBR System	An intervertebral body fusion device for Anterior Lumbar Interbody Fusion (“ALIF”) procedures
PILLAR® SA PEEK Spacer System	An intervertebral body fusion device that incorporates screw fixation to optimize implant stability
Firebird® Spinal Fixation System	A system of rods, crossbars and modular pedicle screws designed to be implanted during a posterior lumbar spine fusion procedure
Firebird® Deformity Correction System	An extension to the Firebird™ Spinal Fixation System that provides additional instrument and implant options for complex thoracolumbar spine procedures
Phoenix® Minimally Invasive Spinal Fixation System	A multi-axial extended reduction screw body used with the Firebird Spinal Fixation System designed to be implanted during a posterior thoracolumbar spine fusion procedure
SFS™ Spinal Fixation System	A system of screws, hooks, rods, spacers, staples, washers, dominos, lateral offsets, cross-connectors that provides simple, reliable and comprehensive stabilization solution for spinal non-cervical fixation
SambaScrew®	A minimally invasive screw system that is intended for fixation of sacroiliac joint disruptions in skeletally mature patients

<b>Product</b>	<b>Primary Application</b>
ProView™ Minimal Access Portal (“MAP”) System	An instrument system for minimally invasive posterior lumbar spinal fusion, including tubular and expandable retractors, a percutaneous screw delivery system and the ONYX™ System for Disc removal and interbody space preparation
Unity® Lumbosacral Fixation System	A plating system implanted during anterior lumbar spine fusion procedures
LONESTAR® Cervical Stand Alone	A stand-alone spacer system designed to provide the biomechanical strength to a tradition or minimal invasive ACDF procedure with less disruption of patient anatomy and preserve the anatomical profile.
SKYHAWK® Lateral Interbody Fusion System	Provides a complete solution for the surgeon to perform a Lateral Lumbar Interbody Fusion, an approach to spinal fusion in which the surgeon access the intervertebral disc space using a surgical approach from the patient’s side that disturbs fewer structures and tissues.
CENTURION® Posterior Occipital Cervico-Thoracic System	A multiple component system comprised of a variety of non-sterile, single use components made of titanium alloy or cobalt chrome that allow the surgeon to build a spinal implant construct.

We have proprietary rights in all of the above products with the exception of Cemex®, Eight-Plate Guided Growth System® and Contour VPS®. We have the exclusive distribution rights for the Cemex® in Italy and for the Eight-Plate Guided Growth System® and Contour VPS® worldwide.

We have numerous trademarked products and services including but not limited to the following: Orthofix®, Blackstone®, Spinal-Stim®, Cervical-Stim®, 3°™, Reliant®, Hallmark®, Firebird®, Ascent®, Construx®, Unity®, NGage®, Newbridge®, Trinity ELITE®, Trinity Evolution®, VersaShield®, PILLAR™, Alloquent®, ProView®, ProCallus®, XCaliber®, VeroNail®, Centronail®, PREFIX™, Gotfried P.C.C.P®, Physio-Stim®, TrueLok™, Galaxy Fixation™ System and TL-HEX™, LONESTAR®, SKYHAWK® and CENTURION®.

## **BioStim**

### *Spinal Regenerative Solutions*

Regenerative stimulators used in spinal applications are designed to enhance bone growth and the success rate of certain spinal fusions by stimulating the body’s own natural healing mechanism post-surgically. These non-invasive portable devices are intended to be used as part of a home treatment program prescribed by a physician.

We offer two spinal regenerative stimulation devices, Spinal-Stim® and Cervical-Stim®, through our subsidiary, Orthofix Inc. Our stimulation products use a PEMF technology designed to enhance the growth of bone tissue following surgery and are placed externally over the site to be healed. Research data shows that our PEMF signal induces mineralization and results in a process that stimulates new regeneration at the spinal fusion site. We have sponsored independent research at the Cleveland Clinic, New York University and University of Medicine and Dentistry of New Jersey, where scientists conducted animal and cellular studies to identify the mechanisms of action of our PEMF signals on bone and efficacy of healing. From this effort, a total of six studies have been published in peer-reviewed journals. Among other insights, the studies illustrate positive effects of PEMF on callus formation and bone strength as well as proliferation and differentiation of cells involved in regeneration and healing. Furthermore, we believe that the research work with Cleveland Clinic allowing for characterization and visualization of the Orthofix PEMF waveform is paving the way for signal optimization for a variety of new applications and indications. This collection of pre-clinical data along with additional clinical data could represent new clinical indication opportunities for our regenerative stimulation solutions.

Some spine fusion patients are at greater risk of not achieving a solid fusion of new bone around the fusion site. These patients typically have one or more risk factors such as smoking, obesity or diabetes, or their surgery involves the revision of a failed fusion or the fusion of multiple levels of vertebrae in one procedure. For these patients, post-surgical regenerative stimulation has been shown to significantly increase the probability of fusion success. Spinal-Stim® is a non-invasive spinal fusion stimulator system commercially available in the U.S. since 1990 and approved in Europe. Spinal-Stim® is designed for the treatment of the lower thoracic and lumbar regions of the spine. The device uses proprietary technology and a wavelength to generate a PEMF signal. The U.S. Food and Drug Administration (the “FDA”) has approved Spinal-Stim® as a spinal fusion adjunct to increase the probability of fusion success and as a non-operative treatment for salvage of failed spinal fusion at least nine months post-operatively.

Our Cervical-Stim<sup>®</sup> stimulator product remains the only FDA-approved bone growth stimulator on the market indicated for use as an adjunct to cervical (upper) spine fusion surgery in patients at high-risk for non-fusion. The FDA approved this device in 2004, and it has been commercially available in the U.S. since 2005.

### *Orthopedic Regenerative Solutions*

Our Physio-Stim<sup>®</sup> regenerative stimulator products use PEMF technology similar to that described previously in the discussion of our spine stimulators. The primary difference is that the Physio-Stim<sup>®</sup> physical configuration is designed for use on long bones.

A bone's regenerative power results in most fractures healing naturally within a few months. In certain situations, however, fractures do not heal or heal slowly, resulting in "non-unions." Traditionally, orthopedists have treated such fracture conditions surgically, often by means of a bone graft with fracture fixation devices, such as bone plates, screws or intramedullary rods. These are examples of "invasive" treatments. Our patented regenerative stimulators are designed to use a low level of PEMF signals to activate the body's natural healing process.

Our systems offer portability, rechargeable battery operation, integrated component design, patient monitoring capabilities and the ability to cover a large treatment area without factory calibration for specific patient application.

### **Biologics**

The regenerative solutions offered as part of our biologics' portfolio include solutions for a variety of musculoskeletal defects used in spinal and extremity orthopedic procedures.

### *Regenerative Solutions*

Our premier biologics tissues include Trinity ELITE<sup>®</sup> and Trinity Evolution<sup>®</sup>, which are allografts that contain viable cells and are used during surgery in the treatment of musculoskeletal defects for bone reconstruction and repair. These allografts are intended to offer a viable alternative to an autograft procedure; harvesting autograft adds risk of an additional surgical procedure and related patient discomfort in conjunction with a repair surgery.

To offer structural support and facilitate bone growth in spine fusion procedures we offer a full line of Alloquent<sup>®</sup> allograft structural spacers derived from human cadaveric bone. These spacers are used to restore the height lost between vertebral bodies when discs are removed in fusion procedures and to facilitate spine fusion.

We market Collage<sup>®</sup>, as an osteoconductive scaffold and a bone graft substitute product. The product is a combination synthetic bone graft substitute comprised of beta tri-calcium phosphate and type 1 bovine collagen.

We market VersaShield<sup>®</sup>, a thin hydrophilic amniotic membrane designed to serve as a wound or tissue covering for a variety of surgical demands. Amniotic tissue forms derived from donated human placenta are used in a wide variety of applications and are valued for their healing properties, scar reduction and anti-adhesion characteristics. VersaShield<sup>®</sup> is derived from the human placental layers amnion and chorion; these thin elastic membranes allow the tissue to conform to the surface of the surgical site.

We receive a marketing fee through our collaboration with MTF for Trinity Evolution<sup>®</sup>, Trinity ELITE<sup>®</sup>, and VersaShield<sup>®</sup>. Under our Agreements with MTF, MTF processes the tissues, maintains inventory, and invoices hospitals and surgery centers and other points of care for service fees, which are submitted by customers via purchase orders. We have exclusive worldwide rights to market our Trinity Evolution<sup>®</sup> and Trinity ELITE<sup>®</sup> technologies, and market our VersaShield<sup>®</sup> under a private label brand via a non-exclusive marketing agreement for the tissue form.

To date, our Biologics are offered primarily in the U.S. market due in part to restrictions in providing U.S. human donor tissue in other countries.

### **Extremity Fixation**

The medical devices offered in our Extremity Fixation SBU include both internal and external fixation solutions for extremity repair and deformity correction, both for adults and pediatrics.

## *Extremity Repair Solutions*

Our fracture repair products consist of fixation devices designed to stabilize a broken bone until it can heal. Our fracture repair products come in two main types: external devices and internal devices. With these devices, we can treat simple and complex fracture patterns along with achieving deformity corrections.

### *External Fixation*

External fixation devices are used to stabilize fractures from outside the skin with minimal invasion into the body. These fixation devices use screws that are inserted into the bone on either side of the fracture site, to which the fixator body is attached externally. The bone segments are aligned by manipulating the external device using patented ball joints and, when aligned, are locked in place for stabilization. External fixation may also be used as temporary devices in complex trauma cases to stabilize the fracture prior to treating it definitively. We believe that external fixation is among the most minimally invasive surgical options for fracture management. Also, we believe external fixation is the ideal treatment option for highly complex fractures, patients who have fractures close to the joints, or patients with known risk factors or co-morbidities.

The Limb Reconstruction System (“LRS”) uses callus distraction to lengthen bone in a variety of procedures. It can be used in monofocal lengthening and corrections of deformity. Its multifocal procedures include bone transport, simultaneous compression and distraction at different sites, bifocal lengthening and correction of deformities with shortening. In 2009, improvements on size, flexibility and ease of use were implemented for the release of the LRS Advanced Limb Reconstruction System®.

Our external fixation product, Galaxy Fixation™, which was released in 2012, incorporates a streamlined combination of clamps with both pin-to-bar and bar-to-bar coupling capabilities that provide a complete range of applications and reduces inventory. It also includes specific units for the elbow, shoulder and wrist. While the rigidity and stability allows for use in definitive fixation, the design also addresses the need for rapid stabilization needed for temporary fixation in large trauma centers.

The TrueLok™ Ring Fixation System is a surgeon-designed, lightweight external fixation system for limb lengthening and deformity correction. In essence, a ring fixation construct consists of circular rings and semi-circular external supports centered on the patient’s limb and secured to the bone by crossed, tensioned wires and half pins. The rings are connected externally to provide stable bone fixation. The main external connecting elements are threaded rods, linear distractors, or hinges and angular distractors, which allow the surgeon to adjust the relative position of rings to each other. The ring positions are manipulated either acutely or gradually in minute increments to perform the correction of the deformity, limb lengthening, or bone segment transportation as required by the surgeon. Created with pre-assembled function blocks, the TrueLok is a simple, stable, versatile ring fixation system.

Building on the TrueLok brand, in the international markets, TL-HEX™ TrueLok Hexapod System®, was released in 2012. TL-HEX™ is a hexapod-based system designed at Texas Scottish Rite Hospital for Children as a three-dimensional bone segment repositioning module to augment the previously developed TrueLok™ frame. In essence, the system consists of circular and semi-circular external supports secured to the bones by wires and half pins and interconnected by six struts. This allows multi-planar adjustment of the external supports. The rings’ position is adjusted either rapidly or gradually in precise increments to perform bone segment repositioning in three-dimensional space. All the basic components from the TrueLok Ring Fixation System (wire and half pin fixation bolts, posts, threaded rods, plates as well as other assembly components and instrumentation) can be utilized with TL-HEX™; therefore external supports from both systems can be connected to each other when building fixation blocks. As with any other hexapod-type external fixator, for successful application of the TL-HEX™, an associated software is also available ([www.tlhex.com](http://www.tlhex.com)).

Another one of our external fixation devices is the XCaliber® fixator, which is made from a lightweight radiolucent material and provided in three configurations to cover long bone fractures, fractures near joints and ankle fractures. The radiolucency of XCaliber® fixators allows X-rays to pass through the device and provides the surgeon with improved X-ray visualization of the fracture and alignment. These three configurations cover a broad range of fractures. The XCaliber® fixators are provided pre-assembled in sterile kits to decrease time in the operating room.

Our proprietary XCaliber® bone screws are designed to be compatible with our external fixators and reduce inventory for our customers. Some of these screws are covered with hydroxyapatite, a mineral component of bone that reduces superficial inflammation of soft tissue and improves bone grip. Other screws in this proprietary line do not include the hydroxyapatite coating, but offer different advantages such as patented thread designs for better adherence in hard or poor quality bone. We believe we have a full line of bone screws to meet the demands of the market. Adding to the XCaliber® bone screw product line are also cylindrical screws first released for the US market and which we expect will be following in international markets. The type of screw is geared towards the trauma applications of the Galaxy Fixation™ System.

## *Internal Fixation*

Internal fixation devices come in various sizes, depending on the bone that requires treatment, and consist of either long rods, commonly referred to as nails, or plates that are attached with the use of screws. A nail is inserted into the medullary canal of a fractured long bone of the human arms and legs, e.g., humerus, femur and tibia. Alternatively, a plate is attached by screws to an area such as a broken wrist, hip or foot. Examples of our internal fixation devices include:

- The Centronail® Titanium Nailing System is designed to stabilize fractures in the femur, tibia, supracondylar and humerus. Its main advantages are, it is made of titanium, offers improved mechanical distal targeting and instrumentation and has a design that requires significantly less inventory.
- The Centronail® Ankle Compression Nail from Orthofix is an arthrodesis nailing system designed to improve upon the stability, simplicity, and flexibility of current hindfoot nails. This product was released in the US market in 2012.
- The VeroNail® marks Orthofix's entry into the intramedullary hip nailing market. Designed for use in hip fractures, it provides a minimally-invasive screw and nail design intended to reduce surgical trauma and allow patients to begin walking again shortly after the operation. It uses a dual screw configuration that we believe provides more stability than previous single screw designs.
- The Contours LPS™ (Lapidus Plating System) sold in the U.S. is intended for the correction of moderate to severe forefoot hallus valgus (HV), accompanying bunions and associated instability. The Lapidus Plating System consists of plates, screws and instrumentation. The anatomical plates are low-profile, titanium, (left and right) designed specifically for 1st metatarsocuneiform joint arthrodesis allowing compression across the joint achieved through a delta-shaped hole and compression screws. Lapidus System screws are titanium, low-profile and self-tapping, and include locking, non-locking, and bone compression screws in a variety of lengths.

In addition to the treatment of bone fractures, we also design, manufacture and distribute devices intended to treat congenital bone conditions, such as angular deformities (e.g., bowed legs in children), or degenerative diseases, as well as conditions resulting from a previous trauma. An example of a product offered in this area is the Eight-Plate Guided Growth System®.

## **Spine Fixation**

Neck and back pain is a common health problem for many people throughout the world and often requires surgical or non-surgical intervention for improvement. Neck and back problems are usually of a degenerative or neurological nature and are generally more prevalent among the older population. As the population ages, we believe physicians will see an increasing number of patients with degenerative spine issues who wish to have a better quality of life than that experienced by previous generations. Treatment options for spine disorders are expected to expand to fill the existing gap between conservative pain management and invasive surgical options, such as spine fusion.

We believe our spine products are positioned to address the needs of spine patients. Our products currently address the cervical fusion segment as well as the lumbar fusion segment, which is the largest sub-segment of the spine market.

We offer a wide array of spinal repair products used during surgical procedures intended to treat a variety of spine conditions. Many of these surgeries are fusion procedures in the cervical, thoracic and lumbar spine that utilize metal plates, rods and screws, interbody spacers, Human Cell, Tissues and Cellular and Tissue-Based Products, or HCT/P, as well as vertebral body replacement devices to promote bone growth.

## *Spinal Repair Solutions*

The human spine is made up of 33 interlocking vertebrae that protect the spinal cord and provide structural support for the body. The top seven vertebrae make up the cervical spine, which bears the weight of the skull and provides the largest range of motion. The next 17 mobile vertebrae encompass the thoracic and lumbar, or thoracolumbar, sections of the spine. The thoracic spine (12 vertebrae) helps to protect the organs of the chest cavity by attaching to the rib cage, and is the least mobile segment of the spine. The lumbar spine (five vertebrae) carries the greatest portion of the body's weight, allowing a degree of flexion, extension and rotation thus handling the majority of the bending movement. Additionally, five fused vertebrae make up the sacrum (part of the pelvis) and four vertebrae make up the final part of the spine, the coccyx.

Spinal bending and rotation are accomplished through the vertebral discs located between each vertebra. Each disc is made up of a tough fibrous exterior, called the annulus, which surrounds a soft core called the nucleus. Excess pressure, deformities, injury or disease can lead to a variety of conditions affecting the vertebrae and discs that may ultimately require medical intervention in order to relieve patient pain and restore stability in the spine.

Spinal fusion is the permanent union of two or more vertebrae to immobilize and stabilize the affected portion of the spine. Most fusion surgeries involve the placement of a bone graft between the affected vertebrae, which is typically held in place by metal implants that also provide stability to the spine until the desired growth of new bone can complete the fusion process. These implants typically consist of some combination of rods, screws and plates that are designed to remain in the patient even after the fusion has occurred.

Most fusion procedures performed on the lumbar area of the spine are done from the posterior, or back, while the majority of cervical fusions are performed from the anterior, or front, of the body. However, the growing use of interbody devices specially designed for an anterior approach has resulted in the increasing use of this approach for many lumbar surgeries. Interbody devices are small hollow implants typically made of bone, metal or a thermoplastic compound called Polyetheretherketones (“PEEK”) that are placed between the affected vertebrae to restore the space lost by the degenerated disc. The hollow spaces within these interbody devices are typically packed with some form of bone grafting material designed to accelerate the formation of new bone around the graft, which ultimately results in the desired fusion.

We provide a wide array of implants designed for use primarily in cervical, thoracic and lumbar fusion surgeries. These implants are made of metal, bone, or PEEK. The majority of implants offered by our products are made of titanium metal. This includes the 3<sup>c</sup>™, Reliant® and Hallmark® cervical plates. Additionally, the Spinal Fixation System (“SFS”), the Firebird® Spinal Fixation Systems, the Phoenix® Minimally Invasive Spinal Fixation System, the Ascent® and Ascent® LE POCT Systems are sets of rods, crossbars and screws that are implanted during posterior fusion procedures. The Firebird™ Modular and pre-assembled Spinal Fixation System are designed to be used in either open or minimally-invasive posterior lumbar fusion procedures with our product ProView® MAP System. We also offer specialty plates that are used in less common procedures, and as such, are not manufactured by many device makers. These specialty plates include the Newbridge® Laminoplasty Fixation System that is designed to expand the cervical vertebrae and relieve pressure on the spinal canal, as well as the Unity® plate, which is used in anterior lumbar fusion procedures.

We also offer a variety of devices made of PEEK, including vertebral body replacements and interbody devices. Vertebral body replacements are designed to replace a patient’s degenerated or deformed vertebrae, whereas interbody devices, or cages, are designed to replace a damaged disc, restoring the space that had been lost between two vertebrae.

## **Product Development**

Our research and development departments are responsible for new product development. We work regularly with certain institutions referred to below as well as with physicians and other consultants on the long-term scientific planning and evolution of our research and development efforts. These efforts are performed in accordance with best practices on interactions with healthcare professionals as set forth, for example, in the AdvaMed Code of Ethics (“AdvaMed Code”) and the Eucomed Code of Business Practices (“Eucomed Code”). Our primary research and development facilities are located in Verona, Italy and Lewisville, Texas.

We maintain interactive relationships with spine and orthopedic centers in the U.S., Europe, and South and Central America, including research and clinical organizations such as the MTF, the Orthopedic Research and Education Foundation and the Texas Scottish Rite Hospital for Children. Several of the products that we market have been developed through these collaborations. In addition, we regularly receive suggestions for new products from the scientific and medical community, some of which result in Orthofix entering into assignment or license agreements with physicians and third parties. We also receive a substantial number of requests for the production of customized items, some of which have resulted in new products. We believe our policy of accommodating such requests enhances our reputation in the medical community.

In 2014, 2013 and 2012 we incurred \$25.0 million, \$26.8 million and \$28.6 million, respectively, of research and development expense.

## **Patents, Trade Secrets, Assignments and Licenses**

We rely on a combination of patents, trade secrets, assignment and license agreements as well as non-disclosure agreements to protect our proprietary intellectual property. We own numerous U.S. and foreign patents and have numerous pending patent applications and license rights under patents held by third parties. Our primary products are patented in major markets in which they are sold. There can be no assurance that pending patent applications will result in issued patents, that patents issued or assigned to or licensed by us will not be challenged or circumvented by competitors or that such patents will be found to be valid or sufficiently broad to protect our technology or to provide us with any competitive advantage or protection. Third parties might also obtain patents that would require assignments to or licensing by us for the conduct of our business. We rely on confidentiality agreements with key employees, consultants and other parties to protect, in part, trade secrets and other proprietary technology.

We obtain assignments or licenses of varying durations for certain of our products from third parties. We typically acquire rights under such assignments or licenses in exchange for lump-sum payments or arrangements under which we pay to the licensor a percentage of sales. However, while assignments or licenses to us generally are irrevocable, there is no assurance that these arrangements will continue to be made available to us on terms that are acceptable to us, or at all. The terms of our license and assignment agreements vary in length from a specified number of years to the life of product patents or the economic life of the product. These agreements generally provide for royalty payments and termination rights in the event of a material breach.

## **Corporate Compliance and Government Regulation**

### *Corporate Compliance and Ethics Program*

We have a comprehensive compliance program, which we branded the *Integrity Advantage*<sup>TM</sup> Program, which is overseen by our Chief Compliance Officer throughout our Company. It is a fundamental policy of our Company to conduct business in accordance with the highest ethical and legal standards. Our corporate compliance and ethics program is designed to promote legal compliance and ethical business practices throughout our domestic and international businesses.

Our *Integrity Advantage*<sup>TM</sup> Program is designed to meet U.S. Sentencing Commission Guidelines for effective organizational compliance and ethics programs and to prevent and detect violations of applicable federal, state and local laws. Key elements of the *Integrity Advantage*<sup>TM</sup> Program include:

- Organizational oversight by senior-level personnel responsible for the compliance function within our Company;
- Written standards and procedures, including a Corporate Code of Business Conduct;
- Methods for communicating compliance concerns, including anonymous reporting mechanisms;
- Investigation and remediation measures to ensure prompt response to reported matters and timely corrective action;
- Compliance education and training for employees and contracted business associates;
- Auditing and monitoring controls to promote compliance with applicable laws and assess program effectiveness;
- Disciplinary guidelines to enforce compliance and address violations;
- Exclusion lists screening of employees, and contracted business associates; and
- Risk assessments to identify areas of regulatory compliance risk.

For information regarding the Company's current review of allegations of potential improper payments involving the Company's Brazil-based subsidiary, see Part I, Item 3, "Legal Proceedings."

### *Government Regulation*

Our research, development and clinical programs, as well as our manufacturing and marketing operations, are subject to extensive regulation in the U.S. and other countries. Most notably, all of our products sold in the U.S. are subject to the Federal Food, Drug, and Cosmetic Act and the Public Health Services Act as implemented and enforced by the FDA. The regulations that cover our products and facilities vary widely from country to country. The amount of time required to obtain approvals or clearances from regulatory authorities also differs from country to country.

Unless an exemption applies, each medical device we wish to commercially distribute in the U.S. will be covered by either premarket notification ("510(k)") clearance, letter to file, approval of a premarket approval application ("PMA"), or some other approval from the FDA. The FDA classifies medical devices into one of three classes. Devices deemed to pose low risk are placed in class I. Those devices that are considered moderate risk are class II, which typically requires the manufacturer to submit to the FDA a premarket notification requesting permission to commercially distribute the device, a process generally known as 510(k) clearance. Some low risk class I devices are exempted from this requirement. Devices deemed by the FDA to pose the greatest risks, such as life-sustaining, life-supporting or implantable devices, or devices deemed not substantially equivalent to a previously cleared 510(k) device, are placed in class III, requiring approval of a PMA.

Manufacturers of most class II medical devices are required to obtain 510(k) clearance prior to marketing their devices. To obtain 510(k) clearance, a company must submit a premarket notification demonstrating that the proposed device is "substantially equivalent" in intended use and in technological and performance characteristics to another legally marketed 510(k)-cleared "predicate device." By regulation, the FDA is required to clear or deny a 510(k) premarket notification within 90 days of submission of the application. As a practical matter, clearance may take longer. The FDA may require further information, including clinical data, to

make a determination regarding substantial equivalence. After a device receives 510(k) clearance, any modification that could significantly affect its safety or effectiveness, or that would constitute a major change in its intended use, requires a new 510(k) clearance or could require a PMA approval. With certain exceptions, most of our products are subject to the 510(k) clearance process. On January 27, 2010, the FDA requested comments on actions that the FDA's Center for Devices and Radiological Health ("CDRH") can consider taking to strengthen the 510(k) review process conducted by the CDRH. In August 2010, the FDA published a series of recommended changes to the 510(k) review process.

Class III medical devices are required to undergo the PMA approval process in which the manufacturer must establish the safety and effectiveness of the device to the FDA's satisfaction. A PMA application must provide extensive preclinical and clinical trial data and also information about the device and its components regarding, among other things, device design, manufacturing and labeling. Also during the review period, an advisory panel of experts from outside the FDA may be convened to review and evaluate the application and provide recommendations to the FDA as to the approvability of the device. In addition, the FDA will typically conduct a preapproval inspection of the manufacturing facility to ensure compliance with quality system regulations. By statute, the FDA has 180 days to review the PMA application, although, generally, review of the application can take between one and three years, or longer. Once approved, a new PMA or a PMA Supplement is required for modifications that affect the safety or effectiveness of the device, including, for example, certain types of modifications to the device's indication for use, manufacturing process, labeling and design. Our regenerative bone growth stimulation products are classified as Class III by the FDA, and have been approved for commercial distribution in the U.S. through the PMA process.

In addition, our Biologics business markets tissue for bone repair and reconstruction under the brand names Trinity Evolution<sup>®</sup> and Trinity ELITE<sup>®</sup> which are allogeneic, cancellous bone matrices containing viable stem cells. We believe these allografts are properly classified under FDA's Human Cell, Tissues and Cellular and Tissue-Based Products, or HCT/P, regulatory paradigm and not as a medical device or as a biologic or as a drug. We believe they are regulated under Section 361 of the Public Health Service Act and C.F.R. Part 1271. Biologics also distributes certain surgical implant products known as "allograft" products that are derived from human tissues and which are used for bone reconstruction or repair and are surgically implanted into the human body. We believe that these tissues are properly classified by the FDA as minimally-manipulated tissue and are covered by FDA's "Good Tissues Practices" regulations, which cover all stages of allograft processing. There can be no assurance our suppliers of the Trinity Evolution<sup>®</sup>, Trinity ELITE<sup>®</sup> and allograft products will continue to meet applicable regulatory requirements or that those requirements will not be changed in ways that could adversely affect our business. Further, there can be no assurance these products will continue to be made available to us or that applicable regulatory standards will be met or remain unchanged. Moreover, products derived from human tissue or bones are from time to time subject to recall for certain administrative or safety reasons and we may be affected by one or more such recalls. For a description of these risks, see Item 1A Risk Factors.

The medical devices we develop, manufacture, distribute and market are subject to rigorous regulation by the FDA and numerous other federal, state and foreign governmental authorities. The process of obtaining FDA clearance and other regulatory approvals to develop and market a medical device, particularly from the FDA, can be costly and time-consuming, and there can be no assurance such approvals will be granted on a timely basis, if at all. While we believe we have obtained all necessary clearances and approvals for the manufacture and sale of our products and that they are in material compliance with applicable FDA and other material regulatory requirements, there can be no assurance that we will be able to continue such compliance. After a device is placed on the market, numerous regulatory requirements continue to apply. Those regulatory requirements include: product listing and establishment registration; Quality System Regulation ("QSR"), which require manufacturers, including third-party manufacturers, to follow stringent design, testing, control, documentation and other quality assurance procedures during all aspects of the manufacturing process; labeling regulations and FDA prohibitions against the promotion of products for uncleared, unapproved or off-label uses or indications; clearance of product modifications that could significantly affect safety or efficacy or that would constitute a major change in intended use of one of our cleared devices; approval of product modifications that affect the safety or effectiveness of one of our PMA approved devices; Medical Device Reporting regulations, which require that manufacturers report to FDA if their device may have caused or contributed to a death or serious injury, or has malfunctioned in a way that would likely cause or contribute to a death or serious injury if the malfunction of the device or a similar device were to recur; post-approval restrictions or conditions, including post-approval study commitments; post-market surveillance regulations, which apply when necessary to protect the public health or to provide additional safety and effectiveness data for the device; the FDA's recall authority, whereby it can ask, or under certain conditions order, device manufacturers to recall from the market a product that is in violation of governing laws and regulations; regulations pertaining to voluntary recalls; and notices of corrections or removals.

We and certain of our suppliers also are subject to announced and unannounced inspections by the FDA to determine our compliance with FDA's QSR and other regulations. If the FDA were to find that we or certain of our suppliers have failed to comply with applicable regulations, the agency could institute a wide variety of enforcement actions, ranging from a public warning letter to more severe sanctions such as: fines and civil penalties against us, our officers, our employees or our suppliers; unanticipated expenditures to address or defend such actions; delays in clearing or approving, or refusal to clear or approve, our products; withdrawal or suspension of approval of our products or those of our third-party suppliers by the FDA or other regulatory bodies;



product recall or seizure; interruption of production; operating restrictions; injunctions; and criminal prosecution. In June 2011, the FDA preannounced an inspection to close out the March 2009 Warning Letter issued to Blackstone Medical, Inc., and to determine compliance to Orthofix's Quality System Requirements as well as to our Tissue Distribution program. At the close of the inspection, Orthofix received one Quality System observation on a form 483 however the FDA inspector concluded that all the corrective actions pertinent to the warning letter were adequately completed. When the FDA concludes that an inspection is "closed" under 21 C.F.R. 20.64 (d) (3), it will release a copy of the Establishment Inspection Report ("EIR") to the inspected establishment. Orthofix received its EIR for the June 2011 inspection in August 2011 indicating that this inspection was closed. The corrective action associated with the one observation on the 483 was fully corrected by Orthofix and verified by the FDA in January 2012 during a routine inspection of the Lewisville facility. At the conclusion of the January inspection the FDA issued a 483 due to minor deficiencies within our quality systems. The Company replied with a formal response, and after reviewing the evidence the FDA determined our corrective action adequate and the audit was closed. In addition to the domestic FDA inspections, all manufacturing facilities of the Company are subject to annual Notified Body inspections. No major findings have been received and certification has been granted or maintained. The FDA also has the authority to request repair, replacement or refund of the cost of any medical device manufactured or distributed by us. Any of those actions could have a material adverse effect on our development of new laboratory tests, business strategy, financial condition, results of operations or cash flows.

Moreover, governmental authorities outside the U.S. have become increasingly stringent in their regulation of medical devices, and our products may become subject to more rigorous regulation by non-U.S. governmental authorities in the future. U.S. or non-U.S. government regulations may be imposed in the future that may have a material adverse effect on our business and operations. The European Commission ("EC") has harmonized national regulations for the control of medical devices through European Medical Device Directives with which manufacturers must comply. Under these new regulations, manufacturing plants must have received a full Quality Assurance Certification from a "Notified Body" in order to be able to sell products within the member states of the European Union. This Certification allows manufacturers to stamp the products of certified plants with a "CE" mark. Products covered by the EC regulations that do not bear the CE mark cannot be sold or distributed within the European Union. We have received certification for all currently existing manufacturing facilities.

Our products may be reimbursed by third-party payors, such as government programs, including Medicare, Medicaid, and Tricare or private insurance plans and healthcare networks. Third-party payors may deny reimbursement if they determine that a device provided to a patient or used in a procedure does not meet applicable payment criteria or if the policyholder's healthcare insurance benefits are limited. Also, third-party payors are increasingly challenging the medical necessity and prices paid for our products and services. The Medicare program is expected to continue to implement a new payment mechanism for certain items of durable medical equipment, prosthetic, orthotic supplies ("DMEPOS") via the implementation of its competitive bidding program. The initial implementation was terminated shortly after it began in 2008 and the Centers for Medicare and Medicaid Services ("CMS") began the rebid process in 2009 ("Round 1 Rebid") with implementation of the rebid round occurring on January 1, 2011. Payment rates for certain DMEPOS items included in the Round 1 Rebid product categories, which categories do not currently include our products, will be determined based on bid prices rather than the current Medicare DMEPOS fee schedule. CMS has released the geographical areas included in Round 2 of the program, yet final decisions concerning which products will be affected have not been announced. The Company's bone growth stimulation products are exempt from this competitive bidding process.

Our subsidiary Orthofix Inc. received accreditation status by the Accreditation Commission for Health Care, Inc. ("ACHC") for the services of DMEPOS. ACHC, a private, not-for-profit corporation, which is certified to ISO 9001:2000 standards, was developed by home care and community-based providers to help companies improve business operations and quality of patient care. Although accreditation is generally a voluntary activity where healthcare organizations submit to peer review their internal policies, processes and patient care delivery against national standards, CMS required DMEPOS suppliers to become accredited. By attaining accreditation, Orthofix Inc. has demonstrated its commitment to maintain a higher level of competency and strive for excellence in its products, services, and customer satisfaction.

Our sales and marketing practices are also subject to a number of U.S. laws regulating healthcare fraud and abuse such as the federal Anti-Kickback Statute and the federal Physician Self-Referral Law (known as the "Stark Law"), the Civil False Claims Act and the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") as well as numerous state laws regulating healthcare and insurance. These laws are enforced by the Office of Inspector General within the U.S. Department of Health and Human Services, the U.S. Department of Justice, and other federal, state and local agencies. Among other things, these laws and others generally: (1) prohibit the provision of anything of value in exchange for the referral of patients for, or the purchase, order, or recommendation of, any item or service reimbursed by a federal healthcare program, (including Medicare and Medicaid); (2) require that claims for payment submitted to federal healthcare programs be truthful; (3) prohibit the transmission of protected healthcare information to persons not authorized to receive that information; and (4) require the maintenance of certain government licenses and permits.

In addition, U.S. federal and state laws protect the confidentiality of certain health information, in particular individually identifiable information such as medical records and restrict the use and disclosure of that protected information. At the federal level,

the Department of Health and Human Services promulgates health information privacy and security rules under HIPAA. These rules protect health information by regulating its use and disclosure, including for research and other purposes. Failure of a HIPAA “covered entity” to comply with HIPAA regarding such “protected health information” could constitute a violation of federal law, subject to civil and criminal penalties. Covered entities include healthcare providers (including those that sell devices or equipment) that engage in particular electronic transactions, including, as we do, the transmission of claims to health plans. Consequently, health information that we access, collect, analyze, and otherwise use and/or disclose includes protected health information that is subject to HIPAA. As noted above, many state laws also pertain to the confidentiality of health information. Such laws are not necessarily preempted by HIPAA in particular those state laws that afford greater privacy protection to the individual than HIPAA. These state laws typically have their own penalty provisions, which could be applied in the event of an unlawful action affecting health information.

On February 1, 2013, the Centers for Medicare & Medicaid Services (“CMS”) published a final rule that makes information publicly available about payments or other transfers of value from certain manufacturers of drugs, devices, biologicals and medical supplies covered by Medicare, Medicaid, and the Children’s Health Insurance Program (“CHIP”), defined as applicable manufacturers, to physicians and teaching hospitals, which are defined as covered recipients. Called the “National Physician Payment Transparency Program: Open Payments,” this is one of many steps in the Affordable Care Act designed to create greater transparency in health care markets.

The final rule, which implements Section 6002 of the Affordable Care Act, also makes information publicly available about physician (or immediate family members of a physician) ownership or investment interests in applicable manufacturers and group purchasing organizations (“GPOs”).

The law specifies that applicable manufacturers must report annually to the Secretary of Health and Human Services all payments or transfers of value (including gifts, consulting fees, research activities, speaking fees, meals, and travel) from applicable manufacturers to covered recipients. In addition to reporting on payments, applicable manufacturers, as well as applicable GPOs, must report ownership and investment interests held by physicians (or the immediate family members of physicians) in such entities. However, the law does not require applicable manufacturers or applicable GPOs to report ownership or investment interests held by teaching hospitals. The law requires CMS to provide applicable manufacturers, applicable GPOs, covered recipients, and physician owners and investors at least 45 days to review, dispute and correct their reported information before posting it on a publicly available website. The information on the website must be easily aggregated, downloaded and searchable.

## **Sales, Marketing and Distribution**

### *General Trends*

We believe that demographic trends, principally in the form of a better informed, more active and aging population in the major healthcare markets of the U.S., Western Europe and Japan, together with opportunities in emerging markets such as the Asia-Pacific Region (including China) and Latin America, as well as our focus on innovative products, will continue to have a positive effect on the demand for our products.

### *Strategic Business Units*

Our revenues are generally derived from the sales of products in four SBUs, BioStim, Biologics, Extremity Fixation, and Spine Fixation, which accounted for 38%, 14%, 27%, and 21%, respectively, of our total net sales in 2014.

### *Sales, Marketing and Distributor Network*

We have established a broad distribution network comprised of direct sales representatives and distributors. This established distribution network provides us with a platform to introduce new products and expand sales of existing products. We distribute our products worldwide in over 50 countries.

In our largest market, the U.S., our sales, marketing and distribution network is comprised of several sales forces addressing different business units. A hybrid distribution network of direct sales representatives and independent distributors addresses the BioStim SBU for regenerative stimulation products. Primarily an independent distribution network supplemented by some direct sales representatives addresses the Biologics SBU. A hybrid distribution network of both direct sales representatives and distributors addresses the Extremity Fixation SBU. Primarily an independent distribution network addresses the Spine Fixation SBU.

Outside the U.S., we employ both direct sales representatives and distributors within our international sales subsidiaries. We also utilize independent distributors in Europe, the Far East, the Middle East and Central and South America in countries where we do

not have subsidiaries. In order to provide support to our independent distribution network, we have a group of sales and marketing specialists who regularly visit independent distributors to provide training and product support.

### *Marketing and Product Education*

We seek to market our products principally to medical professionals, hospitals, government health agencies and organizations that contract on a large scale.

We support our sales force through specialized training workshops in which surgeons and sales specialists participate. We also produce marketing and training materials, including materials outlining surgical procedures, for our customers, sales force and distributors in a variety of languages using printed, video and multimedia formats.

To provide additional advanced training for surgeons, consistent with the AdvaMed Code and the Eucomed Code guidelines, we organize regular multilingual teaching seminars in multiple locations. Those places include our facility in Verona, Italy, various locations in Latin America and the Orthofix Institute for Research, Training and Education in the North American Operations and Training Center in Lewisville, Texas. The Orthofix Institute is a state of the art facility that features a lecture room, classroom, workshop and a 7-station bioskills laboratory. In 2014, surgeons from around the world attended these product education seminars, which included a variety of lectures from specialists as well as demonstrations and hands-on workshops. Each year many of our sales representatives and distributors independently conduct basic product training and education courses to local surgeons. We also regularly provide sales training at our training center in Lewisville, Texas, with our sales representatives in the field and in regional locations throughout the world. Additionally, we have implemented a web-based sales training program, which provides ongoing education for our sales representatives.

### **Competition**

Our regenerative stimulation products, which are part of our Biologics and BioStim SBU's, compete principally with similar products marketed by Biomet Spine, a business unit of Biomet, Inc; DJO Incorporated; and the Exogen product line owned by Smith and Nephew plc. and Essex Woodlands, a private equity firm. Our spinal implant, HCT/P products, and Trinity Evolution<sup>®</sup> and Trinity ELITE<sup>®</sup>, HCT/Ps from which we derive marketing fees, compete with products marketed by Medtronic, Inc.; DePuy Synthes, a division of Johnson and Johnson; Stryker Corp.; Zimmer, Inc.; NuVasive, Inc.; Biomet Spine; and various smaller public and private companies. For external and internal fixation devices, our principal competitors include DePuy Synthes; Zimmer, Inc.; Stryker Corp.; Smith & Nephew plc; and Biomet Orthopedics, a business unit of Biomet, Inc.

We believe we enhance our competitive position by focusing on product features such as innovation, ease of use, versatility, cost and patient acceptability. We attempt to avoid competing based solely on price. Overall cost and medical effectiveness, innovation, reliability, after-sales service and training are the most prevalent methods of competition in the markets for our products, and we believe we compete effectively.

### **Manufacturing and Sources of Supply**

We generally design, develop, assemble, test and package our stimulation and orthopedic products, and subcontract the manufacture of a substantial portion of the component parts. We design and develop our spinal implant and Alloquest<sup>®</sup> Allograft HCT/Ps and subcontract the manufacture of a significant portion of the parts and instruments. Through subcontracting a portion of our manufacturing, we attempt to maintain operating flexibility in meeting demand while focusing our resources on product development, education and marketing as well as quality assurance standards. Although certain of our key raw materials are obtained from a single source, we believe alternate sources for these materials are available. Further, we believe an adequate inventory supply is maintained to avoid product flow interruptions. We have not experienced difficulty in obtaining the materials necessary to meet our production schedules.

Trinity Evolution<sup>®</sup> and Trinity ELITE<sup>®</sup>, HCT/Ps for which we have exclusive marketing rights, are allograft tissue forms that are supplied to customers by MTF in accordance with orders received directly from us. MTF sources, processes and packages the tissue forms and is the sole supplier of Trinity Evolution<sup>®</sup> and Trinity ELITE<sup>®</sup> to our customers.

Our products are currently manufactured and assembled in the U.S., Italy, and the United Kingdom. We believe our plants comply in all material respects with the requirements of the FDA and all relevant regulatory authorities outside the U.S. For a description of the laws to which we are subject, see Item 1—Business—Corporate Compliance and Government Regulation. We actively monitor each of our subcontractors in order to maintain manufacturing and quality standards and product specification conformity.

Our business is generally not seasonal in nature. However, sales associated with products for elective procedures appear to be influenced by the somewhat lower level of such procedures performed in the late summer. In addition, we do not consider the backlog of firm orders to be material.

## Capital Expenditures

We incurred tangible and intangible capital expenditures in the amount of \$18.5 million, \$29.7 million and \$28.8 million in 2014, 2013 and 2012, respectively, principally for computer software and hardware, patents, licenses, plant and equipment, tooling and molds and product instrument sets. In 2014 and 2013, the most significant capital expenditure was \$5.4 million and \$17.3 million, respectively, related to instrumentation and tooling. We plan to invest approximately \$20 to \$25 million in capital expenditures during 2015 to support the planned expansion of our business and our infrastructure initiative, which we call “Bluecore.” See Part II, Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for additional information on Bluecore. We expect these capital expenditures to be financed principally with cash generated from operations.

## Employees

At December 31, 2014, we had 922 employees worldwide. Of these, 622 were employed in the U.S. and 300 were employed at other non-U.S. locations. Our relations with our Italian employees, who numbered 162 at December 31, 2014, are governed by the provisions of a National Collective Labor Agreement setting forth mandatory minimum standards for labor relations in the metal mechanic workers industry. We are not a party to any other collective bargaining agreement. We believe we have good relations with our employees. Of our 922 employees, 384 were employed in sales and marketing functions, 208 in general and administrative roles, 220 in production and operations and 110 in research and development.

## Item 1A. Risk Factors

*In addition to the other information contained in this report and the exhibits hereto, you should carefully consider the risks described below. These risks are not the only ones that we may face. Additional risks not presently known to us or that we currently consider immaterial may also impair our business operations. This report also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by us described below or elsewhere in this report.*

### **Our management has identified material weaknesses in the Company’s internal control over financial reporting which could, if not remediated, result in additional material misstatements in our consolidated financial statements. We may be unable to develop, implement and maintain appropriate controls in future periods.**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, and the Sarbanes-Oxley Act of 2002 and SEC rules require that our management report annually on the effectiveness of the Company’s internal control over financial reporting and our disclosure controls and procedures. Among other things, our management must conduct an assessment of the Company’s internal control over financial reporting to allow management to report on, and our independent registered public accounting firm to audit, the effectiveness of the Company’s internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. As disclosed in Part II, Item 9A, “Controls and Procedures” of this report, our management, with the participation of our current President and Chief Executive Officer and our Chief Financial Officer, has determined that we have material weaknesses in the Company’s internal control over financial reporting as of December 31, 2014 related to revenue recognition practices for sales to the Company’s distributors, accounts receivable reserves, inventory reserves, foreign subsidiary oversight and manual journal entry control procedures. Some of these material weaknesses resulted in material misstatements in our previously filed annual audited and interim unaudited consolidated financial statements, which caused us to file multi-year restatements of historical financial statements in each of March 2014 and March 2015.

A “material weakness” is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim consolidated financial statements will not be prevented or detected on a timely basis. We are actively engaged in developing and implementing a remediation plan designed to address such material weaknesses. However, additional material weaknesses in the Company’s internal control over financial reporting may be identified in the future. Any failure to implement or maintain required new or improved controls, or any difficulties we encounter in their implementation, could result in additional material weaknesses, or could result in material misstatements in our consolidated financial statements. These misstatements could result in a further restatement of our consolidated financial statements, cause us to fail to meet our reporting obligations, reduce our ability to obtain financing or cause investors to lose confidence in our reported financial information, leading to a decline in our stock price.

Although we are working to remedy the ineffectiveness of the Company's internal control over financial reporting, there can be no assurance as to when the remediation plan will be fully developed, when it will be fully implemented or the aggregate cost of implementation. Until our remediation plan is fully implemented, our management will continue to devote significant time and attention to these efforts. If we do not complete our remediation in a timely fashion, or at all, or if our remediation plan is inadequate, there will continue to be an increased risk that we will be unable to timely file future periodic reports with the SEC and that our future consolidated financial statements could contain errors that will be undetected. Further and continued determinations that there are material weaknesses in the effectiveness of the Company's internal control over financial reporting could also reduce our ability to obtain financing or could increase the cost of any financing we obtain and require additional expenditures of both money and our management's time to comply with applicable requirements. For more information relating to the Company's internal control over financial reporting (and disclosure controls and procedures) and the remediation plan undertaken by us, see Part II, Item 9A, "Controls and Procedures."

**Our failure to prepare and timely file our periodic reports with the SEC limits our access to the public markets to raise debt or equity capital.**

We did not file our Quarterly Reports on Form 10-Q for the fiscal quarters ended June 30, 2013, September 30, 2013, June 30, 2014 and September 30, 2014, respectively, or this Form 10-K, within the time frame required by SEC rules. Because we have not remained current in our reporting requirements with the SEC, we are limited in our ability to access the public markets to raise debt or equity capital. Our limited ability to access the public markets could prevent us from pursuing transactions or implementing business strategies that we might otherwise believe are beneficial to our business. Even if we maintain timely compliance with our SEC reporting obligations prospectively, until one year from the date of the filing of this Form 10-K, we will be ineligible to use shorter and less costly filing forms, such as Form S-3, to register our securities for sale. We may use Form S-1 to register a sale of our stock to raise capital or complete acquisitions, but doing so would likely increase transaction costs and adversely impact our ability to raise capital or complete acquisitions of other companies in a timely manner.

**We have not been in compliance with Nasdaq Stock Market LLC's requirements for continued listing and, as a result, our common stock may be delisted from trading on Nasdaq, which could have a material effect on us and our shareholders.**

As a result of the accounting review that led to our filing of a multi-year restatement of historical financial statements in March 2014, we were late in the filing of our Quarterly Reports on Form 10-Q for the fiscal quarters ended June 30, 2013 and September 30, 2013, which caused us to be out of compliance with the rules of the Nasdaq Stock Market LLC ("Nasdaq") and subject to having our stock delisted from trading on Nasdaq. In connection with our completion of that restatement in March 2014, a Nasdaq Hearings Panel determined on April 1, 2014 that we had regained compliance with Nasdaq's listing rules. However, as a result of our further evaluation of certain accounting matters, and ultimate determination in August 2014 that we would further restate historical financial statements (which restatement was completed in March 2015), our Quarterly Reports on Form 10-Q for the fiscal quarters ended June 30, 2014 and September 30, 2014, respectively, as well as this Form 10-K, also became late. Under NASDAQ rules, this resulted in us receiving a delisting determination letter and participating in a NASDAQ Hearings Panel process. Pursuant to that process, the Hearings Panel granted our request for an extension through March 31, 2015 to file these two Quarterly Reports on Form 10-Q, and through April 30, 2015 to file this Form 10-K.

As of the date hereof, we have now filed each of these reports within the applicable extension periods provided by the Hearings Panel, and we therefore believe that we currently again comply with Nasdaq's listing rules. However, there can be no assurance that the Nasdaq Hearings Panel will determine that we are in compliance, or that such panel will not otherwise determine to delist our common stock or put restrictions on the ability of our common stock to remain listed prospectively. In addition, the Company currently is preparing its Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2015, and currently expects to make such filing with the SEC no later than May 16, 2015 (the due date for such filing in the event that the Company seeks relief pursuant to SEC Rule 12b-25). However, in the event that the Company is not able to file this report by such date (or any future SEC period report by its applicable due date), it would constitute an additional delinquency with Nasdaq's listing rules, thereby requiring the Company to seek further relief from the Hearings Panel to avoid delisting.

If our common stock were delisted, there could be no assurance whether or when it would again be listed for trading on Nasdaq or any other exchange. Further, the market price of our shares might decline and become more volatile, and our shareholders may find that their ability to trade in our stock would be adversely affected. Furthermore, institutions whose charters do not allow them to hold securities in unlisted companies might sell our shares, which could have a further adverse effect on the price of our stock.

**If we fail to comply with the terms of our Deferred Prosecution Agreement and Corporate Integrity Agreement (and a related term of probation) we may be subject to criminal prosecution and/or exclusion from federal healthcare programs.**

On June 6, 2012, in connection with our settlement of a U.S. government investigation and related qui tam complaint related to our regenerative stimulation business, and our settlement of a U.S. government investigation and related qui tam complaint related to Blackstone Medical, Inc. (“Blackstone”), we entered into a five-year corporate integrity agreement (the “CIA”) with the Office of Inspector General of the Department of Health and Human Services (“HHS-OIG”). The CIA acknowledges the existence of our current compliance program, and requires that we continue to maintain during the term of the CIA a compliance program designed to promote compliance with federal healthcare and Food and Drug Administration (“FDA”) requirements. We are also required to maintain several elements of the existing program during the term of the CIA, including maintaining a Chief Compliance Officer, a Compliance Committee, and a Code of Conduct. The CIA requires that we conduct certain additional compliance-related activities during the term of the CIA, including various training and monitoring procedures, and maintaining a disciplinary process for compliance obligations. Pursuant to the CIA, we are required to notify the HHS-OIG in writing, among other things, of: (i) any ongoing government investigation or legal proceeding involving an allegation that the Company has committed a crime or has engaged in fraudulent activities; (ii) any other matter that a reasonable person would consider a probable violation of applicable criminal, civil, or administrative laws related to compliance with federal healthcare programs or FDA requirements; and (iii) any change in location, sale, closing, purchase, or establishment of a new business unit or location related to items or services that may be reimbursed by federal healthcare programs. We are also subject to periodic reporting and certification requirements attesting that the provisions of the CIA are being implemented and followed, as well as certain document and record retention mandates. The CIA provides that in the event of an uncured material breach of the CIA, we could be excluded from participation in federal healthcare programs and/or subject to prosecution and subject to other monetary penalties, each of which could have a material adverse effect on our business, financial condition, results of operations or cash flows.

In connection with this settlement and the guilty plea of our subsidiary, Orthofix Inc., to one felony count of obstruction of a federal audit (18 U.S.C. §1516), the court imposed a five-year term of probation on Orthofix Inc., with special conditions that mandate certain non-disparagement obligations and order Orthofix Inc. to continue complying with the terms of the CIA through the expiration of its term. In the event that we fail to satisfy these terms of probation, we could be subject to additional criminal penalties or prosecution, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

On July 10, 2012, we entered into definitive agreements with the U.S. Department of Justice (“DOJ”) and the SEC agreeing to settle our self-initiated and self-reported internal investigation of our Mexican subsidiary, Promeca S.A. de C.V. (“Promeca”), regarding non-compliance by Promeca with the Foreign Corrupt Practices Act (the “FCPA”). As part of the settlement, we entered into a three-year deferred prosecution agreement (“DPA”) with the DOJ and a consent to final judgment (the “Consent”) with the SEC. The DOJ has agreed not to pursue any criminal charges against us in connection with this matter if we comply with the terms of the DPA. The DPA takes note of our self-reporting of this matter to the DOJ and the SEC, and of remedial measures, including the implementation of an enhanced compliance program, previously undertaken by us. The DPA and the Consent collectively require, among other things, that with respect to anti-bribery compliance matters we shall continue to cooperate fully with the government in any future matters related to corrupt payments, false books and records or inadequate internal controls. In that regard, we have represented that we have implemented and will continue to implement a compliance and ethics program designed to prevent and detect violations of the FCPA and other applicable anti-corruption laws. We will periodically report to the government during the term of the DPA regarding such remediation and implementation of compliance measures. As part of the settlement, we also agreed pursuant to the Consent to certain reporting obligations to the SEC regarding the status of our remediation and implementation of compliance measures. In the event that we fail to comply with these obligations, we could be subject to criminal prosecution by the DOJ for the FCPA-related matters we self-reported. Such a criminal prosecution could subject us to penalties that could have a material adverse effect our business, financial condition, results of operations or cash flows.

**We are investigating allegations involving potential improper payments with respect to our subsidiary in Brazil.**

In August 2013, the Company’s internal legal department was notified of certain allegations involving potential improper payments with respect to our Brazilian subsidiary, Orthofix do Brasil. The Company engaged outside counsel to assist in the review of these matters, focusing on compliance with applicable anti-bribery laws, including the FCPA. This review remains ongoing. The FCPA and related provisions of law provide for potential criminal and civil sanctions in connection with anti-bribery violations, including criminal fines, civil penalties, disgorgement of past profits and other kinds of remedies. We currently cannot reasonably estimate a possible loss, or range of loss, in connection with this review. In the event that such loss is substantial, it could have a material adverse effect on our business, financial condition, results of operations or cash flows.

Consistent with the provisions of the DPA and the Consent described above, the Company contacted the DOJ and the SEC in August 2013 to voluntarily self-report the Brazil-related allegations, and the Company and its counsel remain in contact with both agencies regarding the status of the review. In the event that the DOJ and the SEC find that the matters related to our Brazilian

subsidiary could give rise to a review of our obligations under the terms of the DPA and/or the Consent, we currently cannot reasonably estimate a possible loss, or range of loss, in connection with that review, including any effects it may have with respect to the DPA and the Consent. In the event such a review were to occur, any losses resulting therefrom, if substantial, could have a material adverse effect on our business, financial condition, results of operations or cash flows.

**The SEC Enforcement Staff's investigation and a pending securities class action complaint have resulted in significant costs and expenses, have diverted resources and could have a material adverse effect on our business, financial condition, results of operations or cash flows.**

As further described in Part I, Item 3, "Legal Proceedings" of this Form 10-K, in July 2013, the Audit Committee (the "Audit Committee") of the Board of Directors of the Company began conducting an independent review, with the assistance of outside professionals, of certain accounting matters. This review resulted in a March 2014 completed multi-year restatement of our historical consolidated financial statements. In March 2015, we completed a further multi-year restatement of historical consolidated financial statements.

We initiated contact with the staff of the Division of Enforcement of the SEC (the "SEC Enforcement Staff") in July 2013 to advise them of the initiation of the Audit Committee's review and the then-potential restatement of our annual audited and interim unaudited consolidated financial statements. The SEC is conducting a formal investigation of these matters, and both the Company and the Audit Committee are cooperating fully with the SEC. Since our initial contact, we have received requests from the SEC for documents and other information concerning various accounting practices, internal controls and business practices, and it is anticipated that we may receive additional such requests in the future. We have further provided notice concerning these matters to HHS-OIG pursuant to our CIA with HHS-OIG, which is described in more detail in Part I, Item 3, "Legal Proceedings."

As also further described in Part I, Item 3, "Legal Proceedings" of this Form 10-K, on August 14, 2013, a securities class action complaint against the Company was filed in the United States District Court for the Southern District of New York arising out of the restatement of our prior consolidated financial statements and the matters described above. The lead plaintiff's complaint, as amended, purports to bring claims on behalf of persons who purchased the Company's common stock between March 2, 2010 and July 29, 2013. The complaint asserts that the Company and four of its former executive officers, Alan W. Milinazzo, Robert S. Vaters, Brian McCollum, and Emily V. Buxton (collectively, the "Individual Defendants"), violated Section 10(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Securities and Exchange Commission Rule 10b-5 ("Rule 10b-5") by making false or misleading statements in or relating to the Company's financial statements. The complaint further asserts that the Individual Defendants were liable as control persons under Section 20(a) of the Exchange Act for any violation by the Company of Section 10(b) of the Exchange Act or Rule 10b-5. As relief, the complaint requests compensatory damages on behalf of the proposed class and lead plaintiff's attorneys' fees and costs. On March 6, 2015, the court granted the defendants' motion to dismiss as to Mr. Milinazzo and denied it with respect to the Company and the other Individual Defendants.

We have incurred and/or expect to incur significant professional fees and other costs in responding to the SEC investigation and in defending against the class action complaint. If we do not prevail in the pending complaint or any other litigation, we may be required to pay a significant amount of monetary damages that may be in excess of our insurance coverage. Further, if the SEC were to conclude that enforcement action is appropriate, or if HHS-OIG were to conclude that we violated the CIA, we could be required to pay large civil penalties and fines. The SEC also could impose other sanctions against us or certain of our current and former directors and officers. Any of these events could have a material adverse effect on our business, financial condition, results of operations or cash flows. Additionally, while we believe we have made appropriate judgments in determining the errors and correct adjustments in preparing our restated consolidated financial statements, the SEC may disagree with the manner in which we have accounted for and reported these adjustments. Accordingly, there is a risk that we may have to further restate our historical consolidated financial statements, amend prior filings with the SEC or take other actions not currently contemplated. In addition, our Board of Directors, management and employees may expend a substantial amount of time on the SEC investigation and the pending class action complaint, diverting resources and attention that would otherwise be directed toward our operations and implementation of our business strategy, all of which could materially adversely affect our business, financial condition, results of operations or cash flows.

**The potential for additional litigation or other proceedings or enforcement actions could adversely affect us, require significant management time and attention, result in significant legal expenses or damages, and cause our business, financial condition, results of operations or cash flows to suffer.**

The matters that led to the SEC investigation and the class action complaint described above have also exposed us to greater risks associated with litigation, regulatory proceedings and government enforcement actions. We and current and former members of our senior management may in the future be subject to additional litigation or governmental proceedings relating to such matters. Subject to certain limitations, we are obligated to indemnify our current and former officers and directors in connection with any such lawsuits or governmental proceedings and related litigation or settlement amounts. Regardless of the outcome, these lawsuits and any

other litigation or governmental proceedings that may be brought against us or our current or former officers and directors, could be time-consuming, result in significant expense and divert the attention and resources of our management and other key employees. An unfavorable outcome in any of these matters could exceed coverage provided under potentially applicable insurance policies. Any such unfavorable outcome could have a material adverse effect on our business, financial condition, results of operations, or cash flows. Further, we could be required to pay damages or additional penalties or have other remedies imposed against us, or our current or former directors or officers, which could harm our reputation, business, financial condition, results of operations or cash flows.

**Continuing negative publicity may have a material adverse effect on our business, financial condition, results of operations or cash flows.**

As a result of the restatement of our consolidated financial statements and related matters, the ongoing SEC investigation, the securities class action complaint and our recent non-compliance with Nasdaq listing rules, we have been the subject of negative publicity. This negative publicity may adversely affect our stock price and may harm our reputation and our relationships with current and future investors, lenders, customers, suppliers and employees. As a result, our business, financial condition, results of operations or cash flows may be materially adversely affected.

**We may be subject to federal and state healthcare fraud and abuse laws, and could face substantial penalties if we are determined not to have fully complied with such laws.**

Healthcare fraud and abuse regulation by federal and state governments impact our business. Healthcare fraud and abuse laws potentially applicable to our operations include:

- the federal Health Care Programs Anti-Kickback Law, which constrains our marketing practices, educational programs, pricing and discounting policies, and relationships with healthcare practitioners and providers, by prohibiting, among other things, soliciting, receiving, offering or paying remuneration, in exchange for or to induce the purchase or recommendation of an item or service reimbursable under a federal healthcare program (such as the Medicare or Medicaid programs);
- federal false claims laws, which prohibit, among other things, knowingly presenting, or causing to be presented, claims for payment from Medicare, Medicaid, or other federal government payors that are false or fraudulent; and
- state laws analogous to each of the above federal laws, such as anti-kickback and false claims laws that may apply to items or services reimbursed by non-governmental third-party payors, including commercial insurers.

Due to the breadth of some of these laws, there can be no assurance that we will not be found to be in violation of any such laws, and as a result we may be subject to penalties, including civil and criminal penalties, damages, fines, the curtailment or restructuring of our operations or the exclusion from participation in federal or state healthcare programs. Any penalties could adversely affect our ability to operate our business and our financial results. Any action against us for violation of these laws, even if we successfully defend against them, could cause us to incur significant legal expenses and divert our management's attention from the operation of our business.

In addition, it is possible that one or more private insurers with whom we do business may attempt to use any penalty we might be assessed or any exclusion from federal or state healthcare program business as a basis to cease doing business with us. If this were to occur, it could also have a material adverse effect on our business and financial position.

**Reimbursement policies of third parties, cost containment measures and healthcare reform could adversely affect the demand for our products and limit our ability to sell our products.**

Our products are sold either directly by us or by independent sales representatives to customers or to our independent distributors and purchased by hospitals, doctors and other healthcare providers. These products may be reimbursed by third-party payors, such as government programs, including Medicare, Medicaid and Tricare, or private insurance plans and healthcare networks. Major third-party payors for medical services in the U.S. and internationally continue to work to contain health care costs and are increasingly challenging the policies and the prices charged for medical products and services. Any medical policy developments that eliminate, reduce or materially modify coverage of, or reimbursement rates for, our products could have an impact on our ability to sell our products. In addition, third-party payors may deny reimbursement if they determine that a device or product provided to a patient or used in a procedure does not meet applicable payment criteria or if the policyholder's healthcare insurance benefits are limited. These policies and criteria may be revised from time-to-time.

Limits put on reimbursement could make it more difficult to buy our products and substantially reduce, or possibly eliminate, patient access to our products. In addition, should governmental authorities continue to enact legislation or adopt regulations that



affect third-party coverage and reimbursement, access to our products and coverage by private or public insurers may be reduced with a consequential material adverse effect on our sales and profitability.

The Centers for Medicare and Medicaid Services (“CMS”), in its ongoing implementation of the Medicare program, has obtained a related technical assessment of the medical study literature to determine how the literature addresses spinal fusion surgery in the Medicare population. The impact that this information will have on Medicare coverage policy for our products is currently unknown, but we cannot provide assurances that the resulting actions will not restrict Medicare coverage for our products. It is also possible that the government’s focus on coverage of off-label uses of devices approved by the FDA could lead to changes in coverage policies regarding off-label uses by TriCare, Medicare and/or Medicaid. There can be no assurance that we or our distributors will not experience significant reimbursement problems in the future related to these or other proceedings. Globally, our products are sold in many countries, such as the United Kingdom, France, and Italy, which have publicly funded healthcare systems. The ability of hospitals supported by such systems to purchase our products is dependent, in part, upon public budgetary constraints. Any increase in such constraints may have a material adverse effect on our sales and collection of accounts receivable from such sales.

As required by law, CMS has continued efforts to implement a competitive bidding program for selected durable medical equipment, prosthetic, orthotic supplies (“DMEPOS”) items paid for by the Medicare program. In this program, Medicare rates are based on bid amounts for certain products in designated geographic areas, rather than the Medicare fee schedule amount. Only those suppliers selected through the competitive bidding process within each designated competitive bidding area (CBA) are eligible to have their products reimbursed by Medicare. CMS completed the Round 1 Rebid process in the last quarter of 2012. The implementation of Rebid for Round 1 occurred on January 1, 2013 and for Round 2 on July 1, 2013. Our products are not yet included in the competitive bidding process. We cannot predict which products from any of our businesses will ultimately be affected or whether or when the competitive bidding process will be extended to our businesses. While some of our products are designated by FDA as Class III medical devices and thus are not currently included within the competitive bidding program, some of our products may be encompassed within the program at varying times. There can be no assurance that the implementation of the competitive bidding program will not have an adverse impact on the sales of some of our products.

**We and certain of our suppliers may be subject to extensive government regulation that increases our costs and could limit our ability to market or sell our products.**

The medical devices we manufacture and market are subject to rigorous regulation by the FDA and numerous other federal, state and foreign governmental authorities. These authorities regulate the development, approval, classification, testing, manufacturing, labeling, marketing and sale of medical devices. Likewise, our use and disclosure of certain categories of health information may be subject to federal and state laws, implemented and enforced by governmental authorities that protect health information privacy and security. For a description of these regulations, see Item 1, “Business,” under the subheading “Government Regulation.”

The approval or clearance by governmental authorities, including the FDA in the U.S., is generally required before any medical devices may be marketed in the U.S. or other countries. We cannot predict whether, in the future, the U.S. or foreign governments may impose regulations that have a material adverse effect on our business, financial condition, results of operations or cash flows. The process of obtaining FDA clearance and other regulatory clearances or approvals to develop and market a medical device can be costly and time-consuming, and is subject to the risk that such approvals will not be granted on a timely basis, if at all. The regulatory process may delay or prohibit the marketing of new products and impose substantial additional costs if the FDA lengthens review times for new devices. The FDA has the ability to change the regulatory classification of a cleared or approved device from a higher to a lower regulatory classification, which could materially adversely impact our ability to market or sell our devices. In addition, we may be subject to compliance action, penalties or injunctions if we are determined to be promoting the use of our products for unapproved or off-label uses, or if the FDA challenges one or more of our determinations that a product modification did not require new approval or clearance by the FDA.

We and certain of our suppliers also are subject to announced and unannounced inspections by the FDA to determine our compliance with FDA’s QSR and other regulations. If the FDA were to find that we or certain of our suppliers have failed to comply with applicable regulations, the agency could institute a wide variety of enforcement actions, ranging from a public warning letter to more severe sanctions such as: fines and civil penalties against us, our officers, our employees or our suppliers; unanticipated expenditures to address or defend such actions; delays in clearing or approving, or refusal to clear or approve, our products; withdrawal or suspension of approval of our products or those of our third-party suppliers by the FDA or other regulatory bodies; product recall or seizure; interruption of production; operating restrictions; injunctions; and criminal prosecution. The FDA also has the authority to request repair, replacement or refund of the cost of any medical device manufactured or distributed by us. Any of the foregoing actions could have a material adverse effect on our development of new laboratory tests, business strategy, financial condition, results of operations or cash flows.

**The impact of the Affordable Care Act (“ACA”) and other United States healthcare reform legislation on us remains uncertain.**

In 2010 federal legislation to reform the United States healthcare system was enacted into law. The ACA is far-reaching and is intended to expand access to health insurance coverage, improve quality and reduce costs over time. The ACA mandated certain CMS demonstration projects to test the effects of new approaches for paying for health services and delivering care, including bundled payments, value-based purchasing programs, establishment of accountable care organizations, a focus on patient-centered homes and physician payment reforms that incentivize the delivery of high quality, resource-conscious health care. Several provisions of the ACA specifically impact the medical equipment industry, including the elimination of the full inflation update to the DMEPOS fee schedule for the years 2011 through 2014. Instead, beginning in 2011, the ACA reduced the inflation update for DMEPOS by a “productivity adjustment” factor intended to reflect productivity gains in delivering health care services. For 2014, the update factor is 1.0% (reflecting a 1.8% inflation update that is partially offset by a 0.8% “productivity adjustment”).

The ACA establishes new disclosure requirements (Physician Payment Sunshine Act) regarding financial arrangements between medical device, pharmaceutical and biologics manufacturers that participate in U.S. federal health care programs and physicians and teaching hospitals, including physicians who serve as consultants. The recordkeeping requirements were effective as of August 1, 2013. Manufacturers and GPOs were required to report the data for August through December of 2013 to CMS by June 30, 2014, and the first reports were made publicly available on September 30, 2014. The regulations require us to report annually to CMS certain payments and transfers of value to physicians and teaching hospitals. Failure to fully and accurately disclose transfers of value to physicians and teaching hospitals could subject us to civil monetary penalties. Several states also have enacted specific marketing and payment disclosure requirements, and other states may do so in the future.

We expect the new law will have a significant impact upon various aspects of our business operations. However, it is unclear how the new law will impact patient access to new technologies or reimbursement rates under the Medicare program. Many of the details of the new law will be included in new and revised regulations, which have not yet been promulgated, and require additional guidance and specificity to be provided by the Department of Health and Human Services, Department of Labor and Department of the Treasury. Accordingly, while it is too early to understand fully and predict the ultimate impact of the new law on our business, the legislation could have a material adverse effect on our business, cash flows, financial condition or results of operations.

**Our business may be adversely affected if consolidation in the healthcare industry leads to demand for price concessions or if a group purchasing organization or similar entity excludes us from being a supplier.**

Because healthcare costs have risen significantly over the past decade, numerous initiatives and reforms have been launched by legislators, regulators and third-party payors to curb these costs. As a result, there has been a consolidation trend in the healthcare industry to create larger companies, including hospitals, with greater market power. As the healthcare industry consolidates, competition to provide products and services to industry participants has become and may continue to become more intense. This has resulted and may continue to result in greater pricing pressures and the exclusion of certain suppliers from important markets as group purchasing organizations (“GPOs”), independent delivery networks and large single accounts continue to use their market power to consolidate purchasing decisions. If a GPO were to exclude us from being one of their suppliers, our net sales could be adversely impacted. We expect that market demand, government regulation, third-party reimbursement policies and societal pressures will continue to change the worldwide healthcare industry, which may exert further downward pressure on the prices of our products.

**The industry in which we operate is highly competitive. New developments by others could make our products or technologies non-competitive or obsolete.**

The medical devices industry is highly competitive. We compete with a large number of companies, many of which have significantly greater financial, manufacturing, marketing, distribution and technical resources than we do. Many of our competitors may be able to develop products and processes competitive with, or superior to, our own. Furthermore, we may not be able to successfully develop or introduce new products that are less costly or offer better performance than those of our competitors, or offer purchasers of our products payment and other commercial terms as favorable as those offered by our competitors. For more information regarding our competitors, see Item 1, “Business,” under the subheading “Competition.”

In addition, the orthopedic medical device industry in which we compete is undergoing, and is characterized by, rapid and significant technological change. We expect competition to intensify as technological advances are made. New technologies and products developed by other companies are regularly introduced into the market, which may render our products or technologies non-competitive or obsolete.

**Our ability to market products successfully depends, in part, upon the acceptance of the products not only by consumers, but also by independent third parties.**

Our ability to market our BioStim, Biologics, Extremity Fixation and Spine Fixation products successfully depends, in part, on the acceptance of the products by independent third parties (including hospitals, doctors, other healthcare providers and third-party payors) as well as patients. Unanticipated side effects or unfavorable publicity concerning any of our products could have an adverse effect on our ability to maintain hospital approvals or achieve acceptance by prescribing physicians, managed care providers and other retailers, customers and patients.

**We could be subject to indemnification obligations under our agreement with the purchaser of our former sports medicine business unit.**

In May 2012, we sold our former sports medicine business unit, Breg, Inc., to an affiliate of Water Street Healthcare Partners II, L.P. pursuant to a stock purchase agreement between us and the buyer. Under the stock purchase agreement, we have agreed to indemnify the buyer with respect to certain specified matters, including (i) an ongoing U.S. government investigation and certain ongoing product liability matters relating to a previously owned infusion pump product line, and (ii) product liability claims relating to pre-closing sales of cold therapy units and certain post-closing sales of cold therapy units. These matters are further described under the subheading “Matters Related to Our Former Breg Subsidiary and Possible Indemnification Obligations” in Part I, Item 3, “Legal Proceedings”. We currently cannot reasonably estimate the possible loss, or range of loss, in connection with certain of these indemnified matters. In the event that they are substantial, it could have a material adverse effect our business, financial condition, results of operations or cash flows.

**We depend on our ability to protect our intellectual property and proprietary rights, but we may not be able to maintain the confidentiality, or assure the protection, of these assets.**

Our success depends, in large part, on our ability to protect our current and future technologies and products and to defend our intellectual property rights. If we fail to protect our intellectual property adequately, competitors may manufacture and market products similar to, or that compete directly with, ours. Numerous patents covering our technologies have been issued to us, and we have filed, and expect to continue to file, patent applications seeking to protect newly developed technologies and products in various countries, including the U.S. Some patent applications in the U.S. are maintained in secrecy until the patent is issued. Because the publication of discoveries tends to follow their actual discovery by several months, we may not be the first to invent, or file patent applications on any of our discoveries. Patents may not be issued with respect to any of our patent applications and existing or future patents issued to, or licensed by, us and may not provide adequate protection or competitive advantages for our products. Patents that are issued may be challenged, invalidated or circumvented by our competitors. Furthermore, our patent rights may not prevent our competitors from developing, using or commercializing products that are similar or functionally equivalent to our products.

We also rely on trade secrets, unpatented proprietary expertise and continuing technological innovation that we protect, in part, by entering into confidentiality agreements with assignors, licensees, suppliers, employees and consultants. These agreements may be breached and there may not be adequate remedies in the event of a breach. Disputes may arise concerning the ownership of intellectual property or the applicability or enforceability of confidentiality agreements. Moreover, our trade secrets and proprietary technology may otherwise become known or be independently developed by our competitors. If patents are not issued with respect to our products arising from research, we may not be able to maintain the confidentiality of information relating to these products. In addition, if a patent relating to any of our products lapses or is invalidated, we may experience greater competition arising from new market entrants.

**Third parties may claim that we infringe on their proprietary rights and may prevent us from manufacturing and selling certain of our products.**

There has been substantial litigation in the medical device industry with respect to the manufacture, use and sale of new products. These lawsuits relate to the validity and infringement of patents or proprietary rights of third parties. We may be required to defend against allegations relating to the infringement of patent or proprietary rights of third parties. Any such litigation could, among other things:

- require us to incur substantial expense, even if we are successful in the litigation;
- require us to divert significant time and effort of our technical and management personnel;
- result in the loss of our rights to develop or make certain products; and
- require us to pay substantial monetary damages or royalties in order to license proprietary rights from third parties or to satisfy judgments or to settle actual or threatened litigation.

Although patent and intellectual property disputes within the orthopedic medical devices industry have often been settled through assignments, licensing or similar arrangements, costs associated with these arrangements may be substantial and could include the long-term payment of royalties. Furthermore, the required assignments or licenses may not be made available to us on acceptable terms. Accordingly, an adverse determination in a judicial or administrative proceeding or a failure to obtain necessary assignments or licenses could prevent us from manufacturing and selling some products or increase our costs to market these products.

**We may be subject to product and other liability claims that may not be covered by insurance and could require us to pay substantial sums. Moreover, fluctuations in insurance expense could adversely affect our profitability.**

We are subject to an inherent risk of, and adverse publicity associated with, product liability and other liability claims, whether or not such claims are valid. We maintain product liability insurance coverage in amounts and scope that we believe are reasonable and adequate. There can be no assurance, however, that product liability or other claims will not exceed our insurance coverage limits or that such insurance will continue to be available on reasonable, commercially acceptable terms, or at all. A successful product liability claim that exceeds our insurance coverage limits could require us to pay substantial sums and could have a material adverse effect on our financial condition.

In addition to product liability insurance coverage, we hold a number of other insurance policies, including directors' and officers' liability insurance, property insurance and workers' compensation insurance. If the costs of maintaining adequate insurance coverage should increase significantly in the future, our operating results could be materially adversely impacted.

**Our allograft and mesenchymal stem cell allografts could expose us to certain risks that could disrupt our business.**

Our Biologics business markets tissue under the brand names Trinity Evolution<sup>®</sup> and Trinity ELITE<sup>®</sup>. Trinity Evolution<sup>®</sup> and Trinity ELITE<sup>®</sup> are derived from human cadaveric donors, and our ability to market the tissues depends on our supplier continuing to have access to donated human cadaveric tissue, as well as the maintenance of high standards by the supplier in its processing methodology. The supply of such donors is inherently unpredictable and can fluctuate over time. We believe that Trinity Evolution<sup>®</sup> and Trinity ELITE<sup>®</sup> are properly classified under the FDA's HCT/P regulatory paradigm and not as a medical device or as a biologic or drug. There can be no assurance that the FDA will not at some future date re-classify Trinity Evolution<sup>®</sup> and Trinity ELITE<sup>®</sup>, and the reclassification of this product from a human tissue to a medical device could have adverse consequences for us or for the supplier of this product and make it more difficult or expensive for us to conduct this business by requiring premarket clearance or approval as well as compliance with additional post-market regulatory requirements. The success of our Trinity Evolution<sup>®</sup> and Trinity ELITE<sup>®</sup> allografts will depend on these products achieving broad market acceptance, which can depend on the product achieving broad clinical acceptance, the level of third-party reimbursement and the introduction of competing technologies. Because Trinity Evolution<sup>®</sup> and Trinity Elite are classified as HCT/Ps, they can from time to time be subject to recall for safety or administrative reasons.

Our Biologics business also distributes allograft products that are derived from human tissue harvested from cadavers that are used for bone reconstruction or repair, which are surgically implanted into the human body. We believe these allograft products are properly classified as HCT/P products and not as a medical device or a biologic or drug. There can be no assurance that the FDA would agree that this regulatory classification applies to these products and any regulatory reclassification could have adverse consequences for us or for the suppliers of these products and make it more difficult or expensive for us to conduct this business by requiring premarket clearance or approval and compliance with additional post-market regulatory requirements. Moreover, the supply of these products to us could be interrupted by the failure of our suppliers to maintain high standards in performing required donor screening and infectious disease testing of donated human tissue used in producing allograft implants. Our allograft implant business could also be adversely affected by shortages in the supply of donated human tissue or negative publicity concerning methods of recovery of tissue and product liability actions arising out of the distribution of allograft implant products.

**We may not be able to successfully introduce new products to the market, and market opportunities that we expect to develop for our products may not be as large as we expect.**

During 2014, we continued to make improvements in revenues related to several new products we introduced to the market over the past two years, including the CONSTRUX<sup>®</sup> Mini PTC<sup>™</sup> PEEKTI Composite Spacer System<sup>™</sup>, Phoenix<sup>®™</sup> Minimally Invasive Spinal Fixation System, the Firebird<sup>®™</sup> Deformity Correction System, the FORZA<sup>®™</sup> Spacer System, TL-HEX<sup>™</sup> TrueLok Hexapod System<sup>®</sup>, Galaxy Fixation<sup>™</sup> System, Contours LPS<sup>™</sup> (Lapidus Plating System), Centronail<sup>®</sup> Ankle Compression Nail, among others. Despite our planning, the process of developing and introducing new products (including product enhancements) is inherently complex and uncertain and involves risks, including the ability of such new products to satisfy customer needs, gain broad market acceptance (including by physicians) and obtain regulatory approvals, which can depend, among other things, on the product achieving broad clinical acceptance, the level of third-party reimbursement and the introduction of competing technologies. If the market opportunities that we expect to develop for our products, including new products, are not as large as we expect, it could adversely affect our ability to grow our business.

**Growing our business requires that we educate and train physicians regarding the distinctive characteristics, benefits, safety, clinical efficacy and cost-effectiveness of our products.**

Acceptance of our products depends in part on our ability to (i) educate the medical community as to the distinctive characteristics, benefits, safety, clinical efficacy and cost-effectiveness of our products compared to alternative products, procedures and therapies, and (ii) train physicians in the proper use and implementation of our products. We support our sales force and distributors through specialized training workshops in which surgeons and sales specialists participate. We also produce marketing materials, including materials outlining surgical procedures, for our sales force and distributors in a variety of languages using printed, video and multimedia formats. To provide additional advanced training for surgeons, consistent with the AdvaMed Code and the Eucomed Code guidelines, we organize monthly multilingual teaching seminars in multiple locations, including our Orthofix Institute for Research, Training and Education in the North American Operations and Training Center in Lewisville, Texas. However, we may not be successful in our efforts to educate the medical community and properly train physicians. If physicians are not properly trained, they may misuse or ineffectively use our products, which may result in unsatisfactory patient outcomes, patient injury, negative publicity or lawsuits against us. In addition, a failure to educate the medical community regarding our products may impair our ability to achieve market acceptance of our products.

**We may be adversely affected by any disruption in our information technology systems, which could adversely affect our cash flows, operating results and financial condition.**

Our operations are dependent upon our information technology systems, which encompass all of our major business functions. We rely upon such information technology systems to manage and replenish inventory, to fill and ship customer orders on a timely basis, to coordinate our sales activities across all of our products and services and to coordinate our administrative activities. A substantial disruption in our information technology systems for any prolonged time period (arising from, for example, system capacity limits from unexpected increases in our volume of business, outages or delays in our service) could result in delays in receiving inventory and supplies or filling customer orders and adversely affect our customer service and relationships. Our systems might be damaged or interrupted by natural or man-made events or by computer viruses, physical or electronic break-ins and similar disruptions affecting the global Internet. There can be no assurance that such delays, problems, or costs will not have a material adverse effect on our cash flows, operating results and financial condition.

As our operations grow in both size and scope, we will continuously need to improve and upgrade our systems and infrastructure while maintaining the reliability and integrity of our systems and infrastructure. The expansion of our systems and infrastructure will require us to commit substantial financial, operational and technical resources before the volume of our business increases, with no assurance that the volume of business will increase. In particular, we are currently seeking to upgrade our financial reporting system and other information technology systems. These and any other upgrades to our systems and information technology, or new technology, now and in the future, will require that our management and resources be diverted from our core business to assist in compliance with those requirements. There can be no assurance that the time and resources our management will need to devote to these upgrades, service outages or delays due to the installation of any new or upgraded technology (and customer issues therewith), or the impact on the reliability of our data from any new or upgraded technology will not have a material adverse effect on our cash flows, operating results and financial condition.

A significant portion of our operations run on a single Enterprise Resource Planning (“ERP”) platform. To manage our international operations efficiently and effectively, we rely heavily on our ERP system, internal electronic information and communications systems and on systems or support services from third parties. Any of these systems are subject to electrical or telecommunications outages, computer hacking or other general system failure. It is also possible that future acquisitions will operate on different ERP systems and that we could face difficulties in integrating operational and accounting functions of new acquisitions. Difficulties in upgrading or expanding our ERP system or system-wide or local failures that affect our information processing could adversely affect our cash flows, operating results and financial condition.

**We are dependent on third-party manufacturers for many of our products.**

We contract with third-party manufacturers to produce most of our products, like many other companies in the medical device industry. If we or any such manufacturer fails to meet production and delivery schedules, it can have an adverse impact on our ability to sell such products. Further, whether we directly manufacture a product or utilize a third-party manufacturer, shortages and spoilage of materials, labor stoppages, product recalls, manufacturing defects and other similar events can delay production and inhibit our ability to bring a new product to market in timely fashion. For example, the supply of Trinity Evolution® and Trinity ELITE® are derived from human cadaveric donors, and our ability to market the tissues depends on our supplier continuing to have access to donated human cadaveric tissue, as well as, the maintenance of high standards by the supplier in its processing methodology. The supply of such donors is inherently unpredictable and can fluctuate over time. Further, because Trinity Evolution® and Trinity ELITE® are classified as HCT/Ps, they could from time to time be subject to recall for safety or administrative reasons.

**Our quarterly operating results may fluctuate.**

Our operating results have fluctuated significantly in the past on a quarterly basis. Our operating results may fluctuate significantly from quarter to quarter in the future and we may experience losses in the future depending on a number of factors, including the extent to which our products continue to gain or maintain market acceptance, the rate and size of expenditures incurred as we expand our domestic and establish our international sales and distribution networks, the timing and level of reimbursement for our products by third-party payors, the extent to which we are subject to government regulation or enforcement and other factors, many of which are outside our control.

**We depend on our senior management team.**

Our success depends upon the skill, experience and performance of members of our senior management team, who have been critical to the management of our operations and the implementation of our business strategy. We do not have key man insurance on our senior management team, and the loss of one or more key executive officers could have a material adverse effect on our operations and development.

**In order to compete, we must attract, retain and motivate key employees, and our failure to do so could have an adverse effect on our results of operations.**

In order to compete, we must attract, retain and motivate executives and other key employees, including those in managerial, technical, sales, marketing, finance and support positions. Hiring and retaining qualified executives, engineers, technical staff and sales representatives are critical to our business, and competition for experienced employees in the medical device industry can be intense. To attract, retain and motivate qualified employees, we utilize stock-based incentive awards such as employee stock options. If the value of such stock awards does not appreciate as measured by the performance of the price of our common stock and ceases to be viewed as a valuable benefit, our ability to attract, retain and motivate our employees could be adversely impacted, which could negatively affect our results of operations and/or require us to increase the amount we expend on cash and other forms of compensation.

**We are party to numerous contractual relationships.**

We are party to numerous contracts in the normal course of our business. We have contractual relationships with suppliers, distributors and agents, as well as service providers. In the aggregate, these contractual relationships are necessary for us to operate our business. From time to time, we amend, terminate or negotiate our contracts. We are also periodically subject to, or make claims of breach of contract, or threaten legal action relating to our contracts. These actions may result in litigation. At any one time, we have a number of negotiations under way for new or amended commercial agreements. We devote substantial time, effort and expense to the administration and negotiation of contracts involved in our business. However, these contracts may not continue in effect past their current term or we may not be able to negotiate satisfactory contracts in the future with current or new business partners.

**Termination of our existing relationships with our independent sales representatives or distributors could have an adverse effect on our business.**

We sell our products in many countries through independent distributors. Generally, our independent sales representatives and our distributors have the exclusive right to sell our products in their respective territories and are generally prohibited from selling any products that compete with ours. The terms of these agreements vary in length, generally from one to ten years. Under the terms of our distribution agreements, each party has the right to terminate in the event of a material breach by the other party and we generally have the right to terminate if the distributor does not meet agreed sales targets or fails to make payments on time. Any termination of our existing relationships with independent sales representatives or distributors could have an adverse effect on our business unless and until commercially acceptable alternative distribution arrangements are put in place. In addition, we operate in areas of the world that have been disproportionately affected by the global recession and we bear risk that existing or future accounts receivable may be uncollected if these distributors or hospitals experience disruptions to their business that cause them to discontinue paying ongoing accounts payable or become insolvent.

**We face risks related to foreign currency exchange rates.**

Because some of our revenue, operating expenses, assets and liabilities are denominated in foreign currencies, we are subject to foreign exchange risks that could adversely affect our operations and reported results. To the extent that we incur expenses or earn revenue in currencies other than the U.S. dollar, any change in the values of those foreign currencies relative to the U.S. dollar could cause our profits to decrease or our products to be less competitive against those of our competitors. To the extent that our current assets denominated in foreign currency are greater or less than our current liabilities denominated in foreign currencies, we have

potential foreign exchange exposure. The fluctuations of foreign exchange rates during 2014 have had an unfavorable impact of \$0.3 million on net sales from continuing operations outside of the U.S. Although we seek to manage our foreign currency exposure by matching non-dollar revenues and expenses, exchange rate fluctuations could have a material adverse effect on our results of operations in the future. To minimize such exposures, we enter into currency hedges from time to time. At December 31, 2014, we had outstanding a currency swap to hedge a €28.7 million foreign currency exposure.

**We are subject to differing tax rates in several jurisdictions in which we operate.**

We have subsidiaries in several countries. Certain of our subsidiaries sell products directly to other Orthofix subsidiaries or provide marketing and support services to other Orthofix subsidiaries. These intercompany sales and support services involve subsidiaries operating in jurisdictions with differing tax rates. Tax authorities in these jurisdictions may challenge our treatment of such intercompany transactions. If we are unsuccessful in defending our treatment of intercompany transactions, we may be subject to additional tax liability or penalty, which could adversely affect our profitability.

**We are subject to differing customs and import/export rules in several jurisdictions in which we operate.**

We import and export our products to and from a number of different countries around the world. These product movements involve subsidiaries and third parties operating in jurisdictions with different customs and import/export rules and regulations. Customs authorities in such jurisdictions may challenge our treatment of customs and import/export rules relating to product shipments under aspects of their respective customs laws and treaties. If we are unsuccessful in defending our treatment of customs and import/export classifications, we may be subject to additional customs duties, fines or penalties that could adversely affect our profitability.

**Our business is subject to economic, political, regulatory and other risks associated with international sales and operations.**

Since we sell our products in many different countries, our business is subject to risks associated with conducting business internationally. We anticipate that net sales from international operations will continue to represent a substantial portion of our total net sales. In addition, a number of our manufacturing facilities and suppliers are located outside the U.S. Accordingly, our future results could be harmed by a variety of factors, including:

- changes in a specific country's or region's political or economic conditions;
- trade protection measures and import or export licensing requirements or other restrictive actions by foreign governments;
- consequences from changes in tax or customs laws;
- difficulty in staffing and managing widespread operations;
- differing labor regulations;
- differing protection of intellectual property;
- unexpected changes in regulatory requirements; and
- application of the FCPA and other anti-bribery or anti-corruption laws to our operations.

**We may incur costs and undertake new debt and contingent liabilities in a search for acquisitions, and we may be unsuccessful in our search for such acquisitions or have difficulty integrating any acquired businesses or product lines.**

We continue to search for viable acquisition candidates that would expand our market sector or global presence. We also seek additional products appropriate for current distribution channels. The search for an acquisition of another company or product line by us could result in our incurring costs from such efforts as well as the undertaking of new debt and contingent liabilities from such searches or acquisitions. Such costs may be incurred at any time and may vary in size depending on the scope of the acquisition or product transactions and may have a material impact on our results of operations.

In addition, we compete with other medical device companies for these opportunities, and we may be unable to consummate such acquisitions on commercially reasonable terms, or at all. To the extent we are able to make acquisitions; we may experience difficulties in integrating any acquired companies or products into our existing business, including attrition of key personnel from acquired companies or businesses, and significant costs, charges or write downs. In addition, unforeseen operating difficulties integrating acquired companies or businesses could require us to devote significant financial and managerial resources that would otherwise be available to our existing businesses. To the extent we issue additional equity in connection with acquisitions, this may dilute our existing shareholders.

**We may incur significant costs or retain liabilities associated with disposition activity.**

We may from time to time sell, license, assign or otherwise dispose of or divest assets, the stock of subsidiaries or individual products, product lines or technologies, which we determine are no longer desirable for us to own, some of which may be material. Any such activity could result in our incurring costs and expenses from these efforts, some of which could be significant, as well as retaining liabilities related to the assets or properties disposed of even though, for instance, the income-generating assets have been disposed of. These costs and expenses may be incurred at any time and may have a material impact on our results of operations.

**Our subsidiary, Orthofix Holdings, Inc., maintains a \$100 million senior secured line of credit that expires in August 2015.**

On August 30, 2010, the Company, through one of its U.S. subsidiaries, Orthofix Holdings, Inc., entered into a credit agreement providing for (1) a five-year term loan facility of \$100 million, and (2) a five-year revolving credit facility of \$200 million. These loan arrangements refinanced and replaced a prior credit facility that Orthofix Holdings had entered into in 2006 in connection with an acquisition transaction. At the time of implementation in August 2010, the full \$100 million term loan facility and approximately \$132.4 million of the revolving credit facility were drawn. The Company subsequently paid all amounts drawn under both the term loan and revolving loan and, as of the date hereof, there is no balance on either loan facility. Further, in January 2015, at the Company's request, the lenders agreed to reduce the available capacity under the revolving facility to \$100 million.

The credit agreement contains a term that expires on August 30, 2015. As such, to retain the currently available borrowing capacity (or to increase it further), we will need either to amend the existing agreement with the current lenders, or enter into a new credit agreement with the current or different group of lenders. However, there can be no assurance that the current lenders, or a different group of lenders, will be willing to provide us financing on terms as favorable as those contained in the current agreement, or at all (including in the event that current favorable conditions in U.S. and international credit markets were to deteriorate). This might impair our ability to obtain sufficient funds for working capital, capital expenditures, acquisitions, research and development and other corporate purposes. In addition, borrowings under an amended or new credit agreement could be subject to interest rate terms that are less favorable than those that have been available to the Company under the current agreement.

Further, the current credit agreement contains negative covenants applicable to us and our subsidiaries, including restrictions on indebtedness, liens, dividends and mergers and sales of assets. The credit agreement also contains certain financial covenants, a breach of which could result in an event of default under the Credit Agreement, which could permit acceleration of the debt payments under the facility. We believe that we were in compliance with the negative covenants, and there were no events of default, at December 31, 2014 (and in prior periods). However, an amended or new credit agreement would likely have a different set of negative covenants, and there can be no assurance that the Company would be able to meeting such financial covenants in future fiscal quarters. The failure to do so could result in an event of default under such agreement, which could have a material adverse effect on our financial position.

**Our results of operations could vary as a result of the methods, estimates and judgments we use in applying our accounting policies.**

The methods, estimates and judgments we use in applying our accounting policies have a significant impact on our consolidated results of operations (see Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" under the subheading "Critical Accounting Policies and Estimates"). Such methods, estimates and judgments are, by their nature, subject to substantial risks, uncertainties and assumptions, and factors may arise over time that leads us to change our methods, estimates and judgments. Changes in those methods, estimates and judgments could significantly affect our results of operations.

**Valuation adjustments to "goodwill", which represents a significant portion of our total assets, may adversely affect our net income and we may never realize the full value of our intangible assets.**

A significant portion of our assets is comprised of goodwill. We may not receive the recorded value for our goodwill if we sell or liquidate our business or assets. The material concentration of goodwill increases the risk of a large charge to earnings if recoverability of goodwill is impaired, which would have an adverse effect on our net income.

**Provisions of Curaçao law may have adverse consequences for our shareholders.**

We were organized under the laws of the Netherlands Antilles in 1987, with our principal executive office in the Netherlands Antilles located on the island of Curaçao. Prior to October 10, 2010, the Netherlands Antilles, together with Aruba and the Netherlands, formed the Kingdom of the Netherlands, with Curaçao being an island territory of the Netherlands Antilles. Under a constitutional reform of the Kingdom of the Netherlands, agreed upon among the Netherlands Antilles, Aruba and the Netherlands, the Netherlands Antilles was dissolved effective October 10, 2010. Also effective October 10, 2010, Curaçao became an individual constitutional entity within the Kingdom of the Netherlands, having its own government and laws. As a result of the constitutional



reform and the dissolution of the Netherlands Antilles, the Netherlands Antilles law ceased to exist and the Company is now a Curaçao legal entity subject to Curaçao law. Although Curaçao has become a separate and autonomous country with its own laws and regulations, the civil and corporate Netherlands Antilles law, as they applied to the Company before October 10, 2010, did not change under the constitutional reform. In effect, Curaçao has adopted the Netherlands Antilles civil and corporate law (to which the Company was subject) that was in effect prior to October 10, 2010.

Our corporate affairs are therefore now governed by our Articles of Association and the corporate law of Curaçao as laid down in Book 2 of the Curaçao Civil Code (“CCC”). Although certain of the provisions of the CCC resemble certain of the provisions of the corporation laws of a number of states in the U.S., principles of law relating to such matters as the validity of corporate procedures, the fiduciary duties of management and the rights of our shareholders may differ from those that would apply if the Company were incorporated in a jurisdiction within the U.S. For example, there is no statutory right of appraisal under Curaçao corporate law, nor is there a right for shareholders of a Curaçao corporation to sue a corporation derivatively. In addition, we have been advised by Curaçao counsel that it is unlikely that (1) the courts of Curaçao would enforce judgments entered by U.S. courts predicated upon the civil liability provisions of the U.S. federal securities laws and (2) actions can be brought in Curaçao in relation to liabilities predicated upon the U.S. federal securities laws.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

Our principal facilities as of December 31, 2014 are:

Facility	Location	Approx. Square Feet	Ownership
Manufacturing, warehousing, distribution and research and development facility for Spine and Orthopedics Products and administrative facility for Corporate, Spine, and Biologics .....	Lewisville, TX	140,000	Leased
Research and development, component manufacturing, quality control and training facility for fixation products and sales management, distribution and administrative facility for Italy .....	Verona, Italy	38,000	Owned
International Distribution Center for Orthofix products .....	Verona, Italy	18,000	Leased
Sales management, distribution and administrative offices .....	Florham Park, NJ	2,700	Leased
Sales management, distribution and administrative facility for United Kingdom .....	Maidenhead, England	18,460	Leased
Sales management, distribution and administrative facility for Brazil ....	Curitiba, Brazil	1,065	Leased
Sales management, distribution and administrative facility for Brazil ....	São Paulo, Brazil	21,617	Leased
Sales management, distribution and administrative facility for France ...	Arcueil, France	8,500	Leased
Sales management, distribution and administrative facility for Germany ...	Ottobrunn, Germany	16,145	Leased
Sales management, distribution and administrative facility for Puerto Rico .....	Guaynabo, Puerto Rico	2,996	Leased

**Item 3. Legal Proceedings**

We are party to outstanding legal proceedings, investigations and claims as described below. We believe that it is unlikely that the outcome of each of these matters, including the matters discussed below, will have a material adverse effect on our Company and its subsidiaries as a whole, notwithstanding that the unfavorable resolution of any matter may have a material effect on our net earnings (if any) in any particular quarter. However, we cannot predict with any certainty the final outcome of any legal proceedings, investigations (including any settlement discussions with the government seeking to resolve such investigations) or claims made against us as described in the paragraphs below, and there can be no assurance that the ultimate resolution of any such matter will not have a material adverse impact on our consolidated financial position, results of operations, or cash flows.

We record accruals for certain outstanding legal proceedings, investigations or claims when it is probable that a liability will be incurred and the amount of the loss can be reasonably estimated. We evaluate, on a quarterly basis, developments in legal proceedings, investigations and claims that could affect the amount of any accrual, as well as any developments that would make a loss contingency both probable and reasonably estimable. When a loss contingency is not both probable and reasonably estimable, we do not accrue the loss. However, if the loss (or an additional loss in excess of the accrual) is at least a reasonable possibility and material, then we disclose a reasonable estimate of the possible loss or range of loss, if such reasonable estimate can be made. If we cannot make a reasonable estimate of the possible loss, or range of loss, then that is disclosed.

The assessments of whether a loss is probable or a reasonable possibility, and whether the loss or range of loss is reasonably estimable, often involve a series of complex judgments about future events. Among the factors that we consider in this assessment are the nature of existing legal proceedings, investigations and claims, the asserted or possible damages or loss contingency (if reasonably estimable), the progress of the matter, existing law and precedent, the opinions or views of legal counsel and other advisers, the involvement of the U.S. Government and its agencies in such proceedings, our experience in similar matters and the experience of other companies, the facts available to us at the time of assessment, and how we intend to respond, or have responded, to the proceeding, investigation or claim. Our assessment of these factors may change over time as individual proceedings, investigations or claims progress. For matters where we are not currently able to reasonably estimate a range of reasonably possible loss, the factors that have contributed to this determination include the following: (i) the damages sought are indeterminate, or an investigation has not manifested itself in a filed civil or criminal complaint, (ii) the matters are in the early stages, (iii) the matters involve novel or unsettled legal theories or a large or uncertain number of actual or potential cases or parties, and/or (iv) discussions with the government or other parties in matters that may be expected ultimately to be resolved through negotiation and settlement have not reached the point where we believe a reasonable estimate of loss, or range of loss, can be made. In such instances, we believe that

there is considerable uncertainty regarding the timing or ultimate resolution of such matters, including a possible eventual loss, fine, penalty or business impact, if any.

In addition to the matters described in the paragraphs below, in the normal course of our business, we are involved in various lawsuits from time to time and may be subject to certain other contingencies. To the extent losses related to these contingencies are both probable and reasonably estimable we accrue appropriate amounts in the accompanying financial statements and provide disclosures as to the possible range of loss in excess of the amount accrued, if such range is reasonably estimable. We believe losses are individually and collectively immaterial as to a possible loss and range of loss.

## **Matters Related to the Audit Committee's Review and the Restatement of Certain of our Consolidated Financial Statements.**

### *Audit Committee Review*

In July 2013, the Audit Committee of our Board of Directors began conducting an independent review, with the assistance of outside professionals, of certain accounting matters. This review resulted in a restatement of our previously filed consolidated financial statements for the fiscal years ended December 31, 2012, 2011 and 2010 and the fiscal quarter ended March 31, 2013, as well as the restatement of certain financial information for the fiscal years ended December 31, 2009, 2008 and 2007. This restatement, which we completed and filed in March 2014, is referred to herein as the "Original Restatement."

In connection with the Company's preparation of its consolidated interim quarterly financial statements for the fiscal quarter ended June 30, 2014, the Company determined that certain entries with respect to the previously filed financial statements contained in the filings containing the Original Restatement were not properly accounted for under U.S. GAAP. As a result, the Company determined in August 2014 to restate its previously filed consolidated financial statements for the fiscal years ended December 31, 2013, 2012 and 2011 and quarterly reporting periods contained within the fiscal years ended December 31, 2013 and 2012, as well as the fiscal quarter ended March 31, 2014. This restatement, which we completed in March 2015, is referred to herein as the "Further Restatement."

### *SEC Investigation*

In connection with the initiation of the Audit Committee's independent review, we initiated contact with the staff of the Division of Enforcement of the SEC (the "SEC Enforcement Staff") in July 2013 to advise them of these matters. The Audit Committee and the Company, through respective counsel, have been in direct communication with the SEC Enforcement Staff regarding these matters. The SEC is conducting a formal investigation of these matters, and both the Company and the Audit Committee are cooperating fully with the SEC.

In connection with the above-referenced communications, the Company has received requests from the SEC for documents and other information concerning various accounting practices, internal controls and business practices, and other related matters. Such requests cover the years ended December 31, 2011 and 2012, and in some instances, prior periods. It is anticipated that we may receive additional requests from the SEC in the future, including with respect to the Further Restatement.

We have previously provided notice concerning our communications with the SEC to the Office of Inspector General of the U.S. Department of Health and Human Services ("HHS-OIG") pursuant to our corporate integrity agreement with HHS-OIG (which agreement is described below in this Item 3).

We cannot predict if, when or how this matter will be resolved or what, if any, actions we may be required to take as part of any resolution of these matters. Any action by the SEC, HHS-OIG or other governmental agency could result in civil or criminal sanctions against us and/or certain of our current and former officers, directors and employees. At this stage in the matter, we cannot reasonably estimate the possible loss, or range of loss, in connection with it.

### *Securities Class Action Complaint*

On August 14, 2013, a securities class action complaint against the Company, currently styled *Tejinder Singh v. Orthofix International N.V., et al.* (No.:1:13-cv-05696-JGK), was filed in the United States District Court for the Southern District of New York arising out of the then anticipated restatement of our prior financial statements and the matters described above. Since the date of original filing, the complaint has been amended.

The lead plaintiff's complaint, as amended, purports to bring claims on behalf of persons who purchased the Company's common stock between March 2, 2010 and July 29, 2013. The complaint asserts that the Company and four of its former executive officers, Alan W. Milinazzo, Robert S. Vaters, Brian McCollum, and Emily V. Buxton (collectively, the "Individual Defendants"),

violated Section 10(b) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and Securities and Exchange Commission Rule 10b-5 (“Rule 10b-5”) by making false or misleading statements in or relating to the Company’s financial statements. The complaint further asserts that the Individual Defendants were liable as control persons under Section 20(a) of the Exchange Act for any violation by the Company of Section 10(b) of the Exchange Act or Rule 10b-5. As relief, the complaint requests compensatory damages on behalf of the proposed class and lead plaintiff’s attorneys’ fees and costs. On March 6, 2015, the court granted the defendants’ motion to dismiss as to Mr. Milinazzo and denied it with respect to the Company and the other Individual Defendants. This matter remains at an early stage and, as of the date of this Form 10-K, we cannot reasonably estimate the possible loss, or range of loss, in connection with it.

### **Matters Related to Promeca**

On July 10, 2012, we entered into definitive agreements with the DOJ and the SEC agreeing to settle our self-initiated and self-reported internal investigation of our Mexican subsidiary, Promeca S.A. de C.V. (“Promeca”), regarding non-compliance by Promeca with the Foreign Corrupt Practices Act (the “FCPA”). Under the terms of these agreements, we voluntarily disgorged profits to the United States government in an amount of \$5.2 million, inclusive of pre-judgment interest, and agreed to pay a fine of \$2.2 million. We paid \$2.2 million in July 2012 and \$5.2 million in September 2012. As part of the settlement, we entered into a three-year deferred prosecution agreement (“DPA”) with the DOJ and a consent to final judgment (the “Consent”) with the SEC.

The DOJ has agreed not to pursue any criminal charges against us in connection with this matter if we comply with the terms of the DPA. The DPA takes note of our self-reporting of this matter to DOJ and the SEC, and of remedial measures, including the implementation of an enhanced compliance program, previously undertaken by us. The DPA and the Consent collectively require, among other things, that with respect to anti-bribery compliance matters we shall continue to cooperate fully with the government in any future matters related to corrupt payments, false books and records or inadequate internal controls. In that regard, we have represented that we have implemented and will continue to implement a compliance and ethics program designed to prevent and detect violations of the FCPA and other applicable anti-corruption laws. We will periodically report to the government during the term of the DPA regarding such remediation and implementation of compliance measures. As part of the settlement, we also agreed pursuant to the Consent to certain reporting obligations to the SEC regarding the status of our remediation and implementation of compliance measures. In the event that we fail to comply with these obligations, we could be subject to criminal prosecution by the DOJ for the FCPA-related matters we self-reported.

### **Review of Potential Improper Payments Involving Brazil Subsidiary**

In August 2013, our internal legal department was notified of certain allegations involving potential improper payments with respect to our Brazilian subsidiary, Orthofix do Brasil. We engaged outside counsel to assist in the review of these matters, focusing on compliance with applicable anti-bribery laws, including the FCPA. This review remains ongoing. The FCPA and related provisions of law provide for potential criminal and civil sanctions in connection with anti-bribery violations, including criminal fines, civil penalties, disgorgement of past profits and other kinds of remedies. We currently cannot reasonably estimate a possible loss, or range of loss, in connection with this review.

Consistent with the provisions of the DPA and the Consent described above, the Company contacted the DOJ and the SEC in August 2013 to voluntarily self-report the Brazil-related allegations, and the Company and its counsel remain in contact with both agencies regarding the status of the review. In the event that the DOJ and the SEC find that the matters related to our Brazilian subsidiary could give rise to a review of our obligations under the terms of the DPA and/or the Consent, we currently cannot reasonably estimate a possible loss, or range of loss, in connection with that review, including any effects it may have with respect to the DPA and the Consent.

### **Corporate Integrity Agreement with HHS-OIG**

As previously disclosed, on June 6, 2012, we entered into a definitive settlement agreement with the United States of America, acting through the DOJ and on behalf of HHS-OIG; the TRICARE Management Activity, through its General Counsel; the Office of Personnel Management, in its capacity as administrator of the Federal Employees Health Benefits Program; the United States Department of Veteran Affairs; and the qui tam relator, pursuant to which we agreed to pay \$34.2 million (plus interest at a rate of 3% from May 5, 2011 through the day before payment was made) to settle criminal and civil matters related to the promotion and marketing of our regenerative stimulator devices (which we have also described in the past as our “bone growth stimulator devices”). In connection with such settlement agreement, Orthofix Inc., our wholly owned subsidiary, also pled guilty to one felony count of obstruction of a June 2008 federal audit (§18 U.S.C. 1516) and paid a criminal fine of \$7.8 million and a mandatory special assessment of \$400. Also as previously disclosed, on October 29, 2012, we, through our subsidiary, Blackstone Medical, Inc., entered into a definitive settlement agreement with the U.S. government and the qui tam relator, pursuant to which we paid \$32 million to settle claims (covering a period prior to Blackstone’s acquisition by us) concerning the compensation of physician consultants and

related matters. All of the \$32 million we paid pursuant to such settlement was funded by proceeds we received from an escrow fund established in connection with our acquisition of Blackstone in 2006.

On June 6, 2012, in connection with these settlements, we also entered into a five-year corporate integrity agreement with HHS-OIG (the "CIA"). The CIA acknowledges the existence of our current compliance program and requires that we continue to maintain during the term of the CIA a compliance program designed to promote compliance with federal healthcare and FDA requirements. We are also required to maintain several elements of our previously existing program during the term of the CIA, including maintaining a Chief Compliance Officer, a Compliance Committee, and a Code of Conduct. The CIA requires that we conduct certain additional compliance-related activities during the term of the CIA, including various training and monitoring procedures, and maintaining a disciplinary process for compliance obligations.

Pursuant to the CIA, we are required to notify the HHS-OIG in writing, among other things, of: (i) any ongoing government investigation or legal proceeding involving an allegation that the Company has committed a crime or has engaged in fraudulent activities; (ii) any other matter that a reasonable person would consider a probable violation of applicable criminal, civil, or administrative laws related to compliance with federal healthcare programs or FDA requirements; and (iii) any change in location, sale, closing, purchase, or establishment of a new business unit or location related to items or services that may be reimbursed by federal healthcare programs. We are also subject to periodic reporting and certification requirements attesting that the provisions of the CIA are being implemented and followed, as well as certain document and record retention mandates. The CIA provides that in the event of an uncured material breach of the CIA, we could be excluded from participation in federal healthcare programs and/or subject to monetary penalties.

### **Matters Related to Our Former Breg Subsidiary and Possible Indemnification Obligations**

On May 24, 2012, we sold Breg to an affiliate of Water Street Healthcare Partners II, L.P. ("Water Street") pursuant to a stock purchase agreement (the "Breg SPA"). Under the terms of the Breg SPA, upon closing of the sale, the Company and its subsidiary, Orthofix Holdings, Inc., agreed to indemnify Water Street and Breg with respect to certain specified matters, including the following:

- Breg was engaged in the manufacturing and sale of local infusion pumps for pain management from 1999 to 2008. Since 2008, numerous product liability cases have been filed in the United States alleging that the local anesthetic, when dispensed by such infusion pumps inside a joint, causes a rare arthritic condition called "chondrolysis." The Company incurred losses for settlements and judgments in connection with these matters during 2014, 2013 and 2012 of \$3.8 million, \$6.7 million and \$6.8 million, respectively. In addition, several cases remain outstanding for which the Company currently cannot reasonably estimate the possible loss, or range of loss.
- On or about August 2, 2010, Breg received a HIPAA subpoena issued by the DOJ. The subpoena sought documents from us and our subsidiaries for the period of January 1, 2000 through the date of the subpoena. We believe that this subpoena relates to an investigation by the DOJ into whether Breg's sale, marketing and labeling of local infusion pumps for pain management, prior to Breg's divestiture of this product line in 2008, complied with FDA regulations and federal law. We believe that document production in response to the subpoena was completed as of July 2012, and we currently do not expect any liability to result from this matter.
- At the time of its divestiture by us, Breg was currently and had been engaged in the manufacturing and sales of motorized cold therapy units used to reduce pain and swelling. Several domestic product liability cases have been filed in recent years, mostly in California state court, alleging the use of cold therapy causes skin and/or nerve injury and seeking damages on behalf of individual plaintiffs who were allegedly injured by such units or who would not have purchased the units had they known they could be injured. In September 2014, the Company entered into a master settlement agreement resolving all pending pre-close claims. Pursuant to the terms of the settlement agreement, the Company paid approximately \$1.3 million, and additional amounts owed under the settlement were paid directly by the Company's insurance providers. These amounts paid by the Company were recorded as an expense in discontinued operations during the fiscal quarter ended June 30, 2014. Remaining cold therapy claims include a putative consumer class of individuals who did not suffer physical harm following use of the devices, and an appeal of an adverse July 2012 California jury verdict and a post-close cold therapy claim pending in California state court. We have established an accrual of \$5.7 million for the July 2012 verdict and post-close cold therapy liabilities, however, actual liability could be higher or lower than the amount accrued. The putative class action is at an early stage and the Company currently cannot reasonably estimate the possible loss, or range of loss.

**Item X. Executive Officers of the Registrant**

The following table sets forth certain information about the persons who served as our executive officers as of the date of this Form 10-K.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Bradley R. Mason .....	61	President and Chief Executive Officer and Director
Doug Rice .....	49	Chief Financial Officer, Chief Accounting Officer
Davide Bianchi.....	50	President, Global Extremity Fixation
Michael M. Finegan .....	51	Chief Strategy Officer
Jeffrey M. Schumm.....	53	Chief Administrative Officer, General Counsel and Corporate Secretary

Our officers serve at the discretion of the Board of Directors. There are no family relationships among any of our directors or executive officers. The following is a summary of the background of each executive officer.

**Bradley R. Mason.** Mr. Mason was appointed as the Company’s President and Chief Executive Officer in March 2013 and became a Director in June of 2013. He had previously served as the Company’s Group President, North America from June 2008 through October 2009, and as a Strategic Advisor from November 2009 through October 2010, when he had originally retired from the Company. Prior to being appointed as Group President, North America, he had served as a Vice President of the Company since December 2003, when the Company acquired Breg, Inc. Prior to its acquisition by Orthofix, Mr. Mason had served as President and Chairman of Breg, a company he principally founded in 1989 with five other shareholders. Mr. Mason has over 30 years of experience in the medical device industry, some of which were spent with dj Orthopedics (formally DonJoy) where he held the position of Executive Vice President. After his original retirement from Orthofix in 2010, he served in a variety of part-time consulting and advisory roles, including as a consultant to Orthofix from October 2012 to March 2013. Mr. Mason is the named inventor on 38 issued patents in the orthopedic product arena. He graduated Summa Cum Laude with an Associate of Arts and Associate of Science degree from MiraCosta College

**Doug Rice.** Mr. Rice became the Company’s Chief Financial Officer in April 2015. He joined Orthofix as Chief Accounting Officer on September 4, 2014 and was appointed to the position of Interim Chief Financial Officer as of September 27, 2014. Mr. Rice joined the Company from Vision Source, an international optometric network provider, where he had served since 2012 as Senior Vice President and Chief Financial Officer. Mr. Rice served as the Vice President Finance, Treasurer of McAfee, a security technology company, from 2007 to 2012, when it was acquired by Intel. From 2000 to 2007, he served as the Senior Vice President, Corporate Controller of Concentra, Inc., a national healthcare service provider. Mr. Rice’s over 25 years of finance experience also included finance leadership positions with la Madelieine, Allied Marketing Group as well as PricewaterhouseCoopers (formerly Coopers & Lybrand) He is a certified public accountant, and holds an MBA and BBA, with honors, from Southern Methodist University.

**Davide Bianchi.** Mr. Bianchi joined Orthofix International N.V. as President, International Extremity Fixation in July 2013 and was named as the Company’s President, Global Extremity Fixation in December 2013. From February 2009 through June 2013, Mr. Bianchi served as President of the Heart Valve Global Business Unit at Sorin Group. Earlier in his career, he spent ten years with Edwards Lifesciences, where he served as the European Marketing Manager; the Business Director, Emerging Markets; the Managing Director, Germany; the VP, Sales; and, most recently, the VP, Marketing, EMEA. Mr. Bianchi received his Master in Business Management from ISTUD Milano.

**Michael M. Finegan.** Mr. Finegan joined Orthofix International N.V. in June 2006 as Vice President of Corporate Development, and became the President, Biologics in March 2009. In October 2011, he was promoted to Senior Vice President, Business Development, and President, Biologics, and in June 2013, to his current position as Chief Strategy Officer. Prior to joining Orthofix, Mr. Finegan spent sixteen years as an executive with Boston Scientific in a number of different operating and strategic roles, most recently as Vice President of Corporate Sales. Earlier in his career, Mr. Finegan held sales and marketing roles with Marion Laboratories and spent three years in banking with First Union Corporation (Wachovia). Mr. Finegan earned a BA in Economics from Wake Forest University.

**Jeffrey M. Schumm.** Mr. Schumm joined Orthofix International N.V. as Assistant General Counsel in January 2007, was promoted to Senior Vice President, General Counsel and Corporate Secretary in October 2010 and, in June 2013, was named as the Company’s Chief Administrative Officer, General Counsel, and Corporate Secretary. From 2004 to 2006, Mr. Schumm served as Vice President and General Counsel for Regeneration Technologies, Inc. Earlier in his career, he served as an Assistant Attorney General for the State of Florida, as an associate at Holland & Knight LLP and as a Staff Attorney at the Supreme Court of Florida. Mr. Schumm received his Bachelors of Science in Electrical Engineering and Masters in Business Administration from Lehigh University, and he is a magna cum laude graduate of the Florida State University College of Law.

**Item 4. Mine Safety Disclosure**

Not applicable.

## PART II

### **Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

#### **Market for Our Common Stock**

Our common stock is traded on the Nasdaq® Global Select Market under the symbol "OFIX." The following table shows the quarterly range of high and low sales prices for our common stock as reported by Nasdaq® for each of the two most recent fiscal years ended December 31, 2014. As of April 23, 2015 we had 326 holders of record of our common stock. The closing price of our common stock on April 23, 2015 was \$36.36.

	High	Low
<u>2013</u>		
First Quarter .....	\$ 39.94	\$ 35.87
Second Quarter .....	35.76	26.19
Third Quarter .....	28.58	20.77
Fourth Quarter.....	22.90	19.64
<u>2014</u>		
First Quarter .....	\$ 30.38	\$ 20.50
Second Quarter .....	36.25	29.68
Third Quarter .....	36.63	20.50
Fourth Quarter.....	31.01	27.91

#### **Dividend Policy**

We have not paid dividends to holders of our common stock in the past. We currently intend to retain all of our consolidated earnings to finance credit agreement obligations and to finance the continued growth of our business. Certain subsidiaries of the Company have restrictions on their ability to pay dividends in certain circumstances pursuant to the Credit Agreement. We have no present intention to pay dividends in the foreseeable future.

In the event that we decide to pay a dividend to holders of our common stock in the future with dividends received from our subsidiaries, we may, based on prevailing rates of taxation, be required to pay additional withholding and income tax on such amounts received from our subsidiaries.

#### **Recent Sales of Unregistered Securities**

There were no securities sold by us during 2014 that were not registered under the Securities Act.

#### **Exchange Controls**

Although there are Curaçao laws that may impose foreign exchange controls on us and that may affect the payment of dividends, interest or other payments to nonresident holders of our securities, including the shares of common stock, we have been granted an exemption from such foreign exchange control regulations by the Central Bank of Curaçao and St. Maarten. Other jurisdictions in which we conduct operations may have various currency or exchange controls. In addition, we are subject to the risk of changes in political conditions or economic policies that could result in new or additional currency or exchange controls or other restrictions being imposed on our operations. As to our securities, Curaçao law and our Articles of Association impose no limitations on the rights of persons who are not residents in or citizens of the Curaçao to hold or vote such securities.

#### **Taxation**

Orthofix International N.V. was organized under the laws of the Netherlands Antilles and is headquartered in Curaçao. On October 10, 2010, the Netherlands Antilles ceased to exist and Curaçao became a separate and autonomous country. As of October 10, 2010, the laws as they existed under the Netherlands Antilles automatically became the laws of the country of Curaçao. Our tax rulings and agreements as they existed under the Netherlands Antilles remain in effect. Under the laws of the country of Curaçao as currently in effect, a holder of shares of common stock who is not a resident of, and during the taxable year has not engaged in trade or business through a permanent establishment in Curaçao will not be subject to Curaçao income tax on dividends paid with respect to the shares of common stock or on gains realized during that year on sale or disposal of such shares; Curaçao does not impose a withholding tax on dividends paid by us. There are no gift or inheritance taxes levied by Curaçao when, at the time of such gift or at the time of death, the relevant holder of common shares was not domiciled in Curaçao. No reciprocal tax treaty presently exists between Curaçao and the U.S.

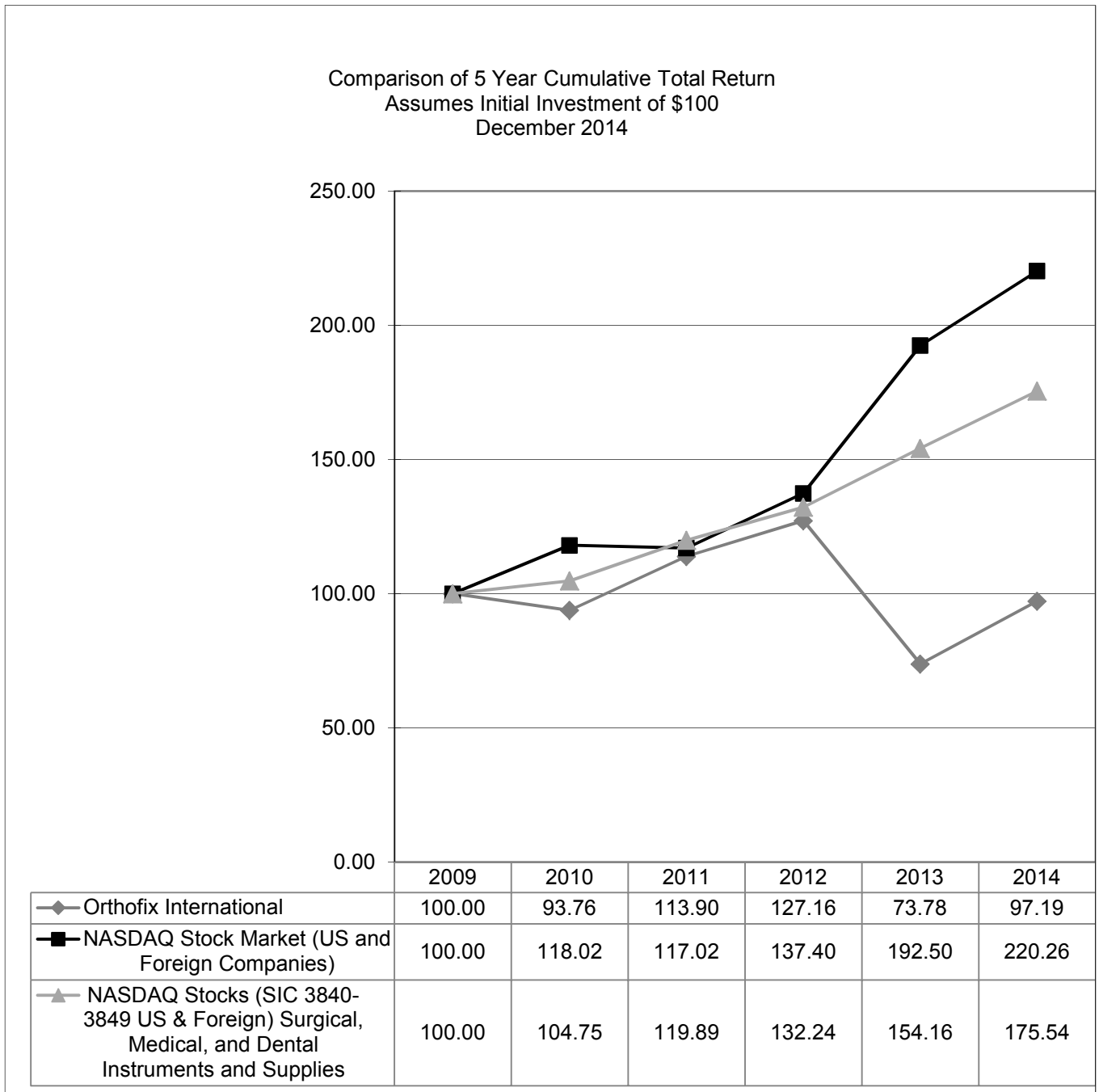


## Performance Graph

The following performance graph in this Item 5 of this Annual Report on Form 10-K is not deemed to be “soliciting material” or to be “filed” with the SEC or subject to Regulation 14A or 14C under the Securities Exchange Act of 1934 or to the liabilities of Section 18 of the Securities Exchange Act of 1934, and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent we specifically incorporate it by reference into such a filing.

The graph below compares the five-year total return to shareholders for Orthofix common stock with comparable return of two indexes: the Nasdaq Stock Market and Nasdaq stocks for surgical, medical, and dental instruments and supplies.

The graph assumes that you invested \$100 in Orthofix Common Stock and in each of the indexes on December 31, 2009. Points on the graph represent the performance as of the last business day of each of the years indicated.



## Item 6. Selected Financial Data

The following selected consolidated financial data for the years ended December 31, 2014, 2013, 2012 and 2011, have been derived from our audited consolidated financial statements. The financial data as of December 31, 2014 and 2013 and for the years ended December 31, 2014, 2013 and 2012 should be read in conjunction with, and are qualified in their entirety by, reference to Item 7 under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and notes thereto included elsewhere in this Form 10-K. Our consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”).

	Year ended December 31,				
	2014	2013	2012	2011	2010
	(Unaudited)				
	(U.S. Dollars in thousands, except margin and per share data)				
<b>Consolidated operating results</b>					
Net sales .....	\$ 402,277	\$ 397,611	\$ 440,189	\$ 435,519	\$ 461,919
Gross profit .....	303,365	290,699	339,463	339,104	367,324
Gross profit margin .....	75%	73%	77%	78%	80%
Total operating income (loss) (3) .....	17,136	(11,192)	74,872	6,611	67,626
Net (loss) income from continuing operations .....	(3,744)	(18,205)	45,121	(15,806)	31,058
Net (loss) income from discontinued operations .....	(4,793)	(10,607)	(2,269)	(1,892)	13,299
Net (loss) income (1) (2) (3) .....	<u>\$ (8,537)</u>	<u>\$ (28,812)</u>	<u>\$ 42,852</u>	<u>\$ (17,698)</u>	<u>\$ 44,357</u>
<b>Net income (loss) per share of common stock:</b>					
<b>Basic:</b>					
Net (loss) income from continuing operations .....	\$ (0.20)	\$ (0.97)	\$ 2.38	\$ (0.87)	\$ 1.76
Net (loss) income from discontinued operations .....	(0.26)	(0.57)	(0.12)	(0.10)	0.76
Net (loss) income .....	<u>\$ (0.46)</u>	<u>\$ (1.54)</u>	<u>\$ 2.26</u>	<u>\$ (0.97)</u>	<u>\$ 2.52</u>
<b>Net income (loss) per share of common stock:</b>					
<b>Diluted:</b>					
Net (loss) income from continuing operations .....	\$ (0.20)	\$ (0.97)	\$ 2.33	\$ (0.87)	\$ 1.73
Net (loss) income from discontinued operations .....	(0.26)	(0.57)	(0.12)	(0.10)	0.74
Net (loss) income .....	<u>\$ (0.46)</u>	<u>\$ (1.54)</u>	<u>\$ 2.21</u>	<u>\$ (0.97)</u>	<u>\$ 2.47</u>

- (1) The Company has not paid any dividends in any of the years presented.
- (2) Includes the gain on sale of vascular operations of \$8.5 million for the year ended December 31, 2010.
- (3) Operating income includes charges related to U.S. Government resolutions of \$1.3 million and \$57.1 million for the years ended December 31, 2012 and 2011, respectively. Operating income in 2014 and operating loss in 2013 include costs incurred of \$15.6 million and \$12.9 million, respectively, for legal and other professional services in connection with the Audit Committee’s independent review of certain accounting matters and the multi-year restatements of our consolidated financial statements that we filed in March 2014 and March 2015, respectively. Operating loss in 2013 also includes an impairment of goodwill of \$19.2 million.

(at year-end)	As of December 31,				
	2014	2013	2012	2011	2010
	(Unaudited)				
	(U.S. Dollars in thousands, except share data)				
<b>Consolidated financial position</b>					
Total assets .....	\$ 393,185	\$ 411,975	\$ 464,546	\$ 676,160	\$ 596,352
Total long-term debt .....	—	20,000	20,016	210,013	220,007
Shareholders’ equity .....	299,627	295,863	356,439	280,304	281,354
Weighted average number of shares of common shares outstanding (basic) .....	18,459,054	18,697,228	18,977,263	18,219,343	17,601,956
Weighted average number of shares of common shares outstanding (diluted) .....	18,459,054	18,697,228	19,390,413	18,219,343	17,913,545

## **Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion and analysis addresses the results of our operations based upon the consolidated financial statements included herein, which have been prepared in accordance with U.S. GAAP. This discussion should be read in conjunction with “Forward-Looking Statements” and our consolidated financial statements and notes thereto appearing elsewhere in this Form 10-K. This discussion and analysis also addresses our liquidity and financial condition and other matters.

### **General**

We are a diversified, global medical device company focused on improving patients’ lives by providing superior reconstructive and regenerative orthopedic and spine solutions to physicians worldwide. Headquartered in Lewisville, TX, the Company has four strategic business units that include BioStim, Biologics, Extremity Fixation and Spine Fixation. Orthofix products are widely distributed via the Company’s sales representatives, distributors and its subsidiaries. In addition, Orthofix is collaborating on research and development activities with leading clinical organizations such as the Musculoskeletal Transplant Foundation and the Texas Scottish Rite Hospital for Children.

We have administrative and training facilities in the U.S., Italy, Brazil, the United Kingdom, France, Germany, and Puerto Rico and manufacturing facilities in the U.S. and Italy. We directly distribute products in the U.S., Italy, the United Kingdom, Germany, Switzerland, Austria, France, Brazil, Australia and Puerto Rico. In several of these and other markets, we also distribute our products through independent distributors.

Our consolidated financial statements include the financial results of our Company and our wholly owned and majority-owned subsidiaries and entities over which we have control. All intercompany accounts and transactions are eliminated in consolidation.

Our reporting currency is the U.S. Dollar. All balance sheet accounts, except shareholders’ equity, are translated at year-end exchange rates, and revenue and expense items are translated at weighted average rates of exchange prevailing during the year. Gains and (losses) resulting from foreign currency transactions, including those generated from intercompany operations, are included in other income and expense. Gains and (losses) resulting from the translation of foreign currency financial statements are recorded in the accumulated other comprehensive income component of shareholders’ equity.

Our financial condition, results of operations and cash flows are not significantly impacted by seasonality trends. However, sales associated with products for elective procedures appear to be influenced by the somewhat lower level of such procedures performed in the late summer. In addition, we do not believe our operations will be significantly affected by inflation. However, in the ordinary course of business, we are exposed to the impact of changes in interest rates and foreign currency fluctuations. Our objective is to limit the impact of such movements on earnings and cash flows. In order to achieve this objective, we seek to balance non-dollar denominated income and expenditures. During the year, we have used derivative instruments to hedge foreign currency fluctuation exposures. See Item 7A—“Quantitative and Qualitative Disclosures About Market Risk.”

### **Selected 2014 Financial Highlights**

Our 2014 results and financial condition include the following items of significance:

- Compared to prior year, BioStim revenues increased \$9.6 million to \$154.7 million, or 6.6%, Extremity Fixation revenues increased \$6.3 million or 6.1%, Biologics increased \$2.1 million or 4.0% and Spine Implants decreased \$13.4 million, or 14.0%.
- An increase in gross profit margin from 73.1% in 2013 to 75.4% in 2014 was primarily due to lower inventory reserve charges in 2014.
- The decrease in operating expenses in 2014 compared to 2013 was primarily a result of an impairment of goodwill of \$19.2 million in 2013, which did not recur in 2014. Within operating expenses, general and administrative and costs related to the accounting review and restatement expenses increased, which were mostly offset by a decrease in sales and marketing expense.

### **2014 Operational Achievements**

We had a number of operational accomplishments in 2014, led by the addition of experienced and talented people to both our Board of Directors and management team. We also introduced a number of new product lines in our fixation businesses. In our Extremity Fixation business in Europe we introduced; TrueLok Hex, our next generation ring fixation system; and Galaxy Unyco, a novel monocortical external fixation screw. In our Spine Fixation business we launched; Centurion, our state-of-the-art posterior

cervical system; LoneStar cervical stand-alone interbody; Samba Screw SI joint fixation system; and we did a limited market release of SkyHawk, our new lateral fusion and interbody system with its innovative retractor. Additionally, we increased our investment in pre-clinical and clinical research and expanded our sales channels worldwide. Lastly, we initiated project “Bluecore,” a multi-year, company-wide process and systems improvement initiative. See “*Discussion of Infrastructure Initiative*” below for additional information on Bluecore.

## 2015 Outlook

For fiscal year 2015, the Company expects:

- Net sales in the range of \$385 million to \$390 million, representing a decline of (0.7%) to growth of 0.6% on a constant currency basis and a decline of 4.3% to 3.1% on a reported basis.
- Adjusted EBITDA to be between \$55 million and \$58 million.

## Critical Accounting Policies and Estimates

Our discussion of operating results is based upon the consolidated financial statements and accompanying notes to the consolidated financial statements prepared in conformity with U.S. GAAP. The preparation of these statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. These estimates and assumptions form the basis for the carrying values of assets and liabilities. On an ongoing basis, we evaluate these estimates, which are based on historical experience and various other assumptions that management believe to be reasonable under the circumstances at that certain point in time. Actual results may differ, significantly at times, from these estimates. We have reviewed our critical accounting policies with the Audit Committee of the Board of Directors.

We believe the following critical accounting policies and estimates affect the significant estimates and judgments we use in preparation of our consolidated financial statements.

### *Revenue Recognition*

Commercial revenue is related to the sale of our implant products, generally representing hospital customers. Revenues are recognized when these products have been utilized and a confirming purchase order has been received from the hospital.

Revenue is also derived from third-party payors, including commercial insurance carriers, health maintenance organizations, preferred provider organizations and governmental payors such as Medicare, in connection with the sale of our stimulation products. Revenue is recognized when the stimulation product is placed on or implanted in and accepted by the patient and all perfunctory documents that are required by the third-party payor have been obtained. Amounts paid by these third-party payors are generally based on fixed or allowable reimbursement rates. These revenues are recorded at the expected or preauthorized reimbursement rates, net of any contractual allowances or adjustments. Certain billings are subject to review by the third-party payors and may be subject to adjustment.

For all distributor revenue, which is primarily related to implant products, we recognize revenue on the sell-through basis, effective April 1, 2013. Prior to this date, we recognized revenue either on a sell-in or sell-through basis, depending on the specific circumstances of the distributor. In some cases we recognized distributor revenue as title and risk of loss passes at either shipment from our facilities or receipt at the distributor’s facility, assuming all other revenue recognition criteria had been achieved (the “sell-in method”). In some cases the revenue recognition criteria for distributor sales were not satisfied at the time of shipment or receipt; specifically, the existence of extra-contractual terms or arrangements caused us not to meet the fixed or determinable criteria for revenue recognition in some cases, and in others collectability had not been established. In situations where we are unable to satisfy the requirements to recognize revenue on the sell-in method, we recognize revenue relating to distributor arrangements once the product is delivered to the end customer (the “sell-through method”). Because we do not have reliable information about when our distributors sell the product through to end customers, we use cash collection from distributors as a basis for revenue recognition under the sell-through method. Although in many cases we are legally entitled to the accounts receivable at the time of shipment, we have not recognized accounts receivables or any corresponding deferred revenues associated with distributor transactions for which revenue is recognized on the sell-through method.

For distributors on the sell-in method prior to April 1, 2013, cost of sales were recognized upon shipment. For sell-through distributors, whose revenue is recognized upon cash receipt, we consider whether to match the related cost of sales expense with revenue or to recognize expense upon shipment. In making this assessment, we consider the financial viability of our distributors

based on their creditworthiness to determine if collectability of amounts sufficient to realize the costs of the products shipped is reasonably assured at the time of shipment to these distributors. In instances where the distributor is determined to be financially viable, we defer the costs of sales until the revenue is recognized.

Biologics revenue is primarily related to a collaborative arrangement with the Musculoskeletal Transplant Foundation (“MTF”). We have exclusive global marketing rights and receive marketing fees from MTF based on products distributed by MTF. MTF is considered the primary obligor in these arrangements and therefore we recognize these marketing service fees on a net basis upon shipment of the product to the customer.

Revenues exclude any value added or other local taxes, intercompany sales, and trade discounts. Shipping and handling costs are included in cost of sales.

#### *Allowance for Doubtful Accounts and Contractual Allowances*

The process for estimating the ultimate collection of accounts receivable involves significant assumptions and judgments. Historical collection and payor reimbursement experience is an integral part of the estimation process related to reserves for doubtful accounts and the establishment of contractual allowances. Accounts receivable are analyzed on a quarterly basis to assess the adequacy of both reserves for doubtful accounts and contractual allowances. Revisions in allowances for doubtful accounts estimates are recorded as an adjustment to bad debt expense within sales and marketing expenses. Revisions to contractual allowances are recorded as an adjustment to net sales. Our estimates are periodically tested against actual collection experience.

#### *Inventory Allowances*

Inventory, net of an allowance for excess and obsolescence, is stated at the lower of cost or market. Reserves for excess, slow moving, and obsolete inventory are calculated as the difference between the cost of inventory and market, and are based on product life cycle, forecasted demand, and market conditions. Reserves for excess and obsolescence provisions are recorded as adjustments to cost of sales. As set forth in Accounting Standards Codification (“ASC”) Topic 330, Inventory (specifically ASC 330-10-35-14), a write-down of inventory to the lower-of-cost-or-market value at the close of a fiscal year creates a new cost basis that subsequently should not be marked up based on changes in underlying circumstances. Our inventory allowance is a “critical accounting estimate” because changes in the assumptions used to develop the estimate could materially affect key financial measures, including gross profit, net income, and inventory balances. We regularly evaluate our exposure for inventory write-downs. If conditions or assumptions used in determining the market value change, additional inventory adjustments in the future may be necessary.

#### *Goodwill and Other Intangible Assets*

In accordance with ASC Topic 360—*Property, Plant and Equipment*, intangible assets with finite lives are tested for impairment if any adverse conditions exist or change in circumstances has occurred that would indicate impairment or a change in the remaining useful life. If an impairment indicator exists, we test the intangible asset for recoverability. For purposes of the recoverability test, we group our intangible assets with other assets and liabilities at the lowest level of identifiable cash flows if the intangible asset does not generate cash flows independent of other assets and liabilities. If the carrying value of the intangible asset (asset group) exceeds the undiscounted cash flows expected to result from the use and eventual disposition of the intangible asset (asset group), we will write the carrying value down to the fair value in the period identified.

We generally calculate fair value of intangible assets as the present value of estimated future cash flows that we expect to generate from the asset using a risk-adjusted discount rate. In determining the estimated future cash flows associated with intangible assets, we use estimates and assumptions about future revenue contributions, cost structures and remaining useful lives of the asset (asset group). The use of alternative assumptions, including estimated cash flows, discount rates, and alternative estimated remaining useful lives could result in different calculations of impairment.

We test goodwill at least annually for impairment, and between annual tests if indicators of potential impairment exist. These indicators include, among others, declines in sales, earnings or cash flows, or the development of a material adverse change in the business climate. We assess goodwill for impairment at the reporting unit level, which is defined as an operating segment or one level below an operating segment, referred to as a reporting unit. We have identified four reporting units, which are consistent with our reporting segments; BioStim, Biologics, Extremity Fixation, and Spine Fixation.

In order to calculate the respective carrying values, we initially recorded goodwill based on the purchase price allocation performed at the time of acquisition. Corporate assets and liabilities that directly relate to a reporting unit’s operations are ascribed directly to that reporting unit. Corporate assets and liabilities that are not directly related to a specific reporting unit, but from which the reporting unit benefits, are allocated based on the respective contribution measure of each reporting unit. Effective July 1, 2013,

we re-aligned the Company's reporting structure and consequently reallocated the carrying value of goodwill from its previous reporting units to its new reporting units based on the relative fair value of each new reporting unit to total enterprise value at July 1, 2013.

As a result of our change in reporting structure, we allocated goodwill to each reporting unit, and subsequently evaluated the Extremity Fixation and Spine Fixation reporting units for the possible impairment of goodwill, as there were indicators of impairment when completing a qualitative analysis. The result of this step two analysis was a full impairment of the goodwill allocated to our Extremity Fixation, and Spine Fixation reporting units, totaling \$19.2 million. There continue to be no indicators of impairment in our remaining reporting units, which were reevaluated at year end using a qualitative assessment.

#### *Litigation and Contingent Liabilities*

From time to time, we are parties to or targets of lawsuits, investigations and proceedings, including product liability, personal injury, patent and intellectual property, health and safety and employment and healthcare regulatory matters, which are handled and defended in the ordinary course of business. These lawsuits, investigations or proceedings could involve a substantial number of claims and could also have an adverse impact on our reputation and customer base. Although we maintain various liability insurance programs for liabilities that could result from such lawsuits, investigations or proceedings, we are self-insured for a significant portion of such liabilities. We accrue for such claims when it is probable that a liability has been incurred and the amount can be reasonably estimated. The process of analyzing, assessing and establishing reserve estimates for these types of claims involves judgment. Changes in the facts and circumstances associated with a claim could have a material impact on our results of operations and cash flows in the period that reserve estimates are revised. We believe our insurance coverage and reserves are sufficient to cover currently estimated exposures, but we cannot give any assurance that we will not incur liabilities in excess of recorded reserves or our present insurance coverage.

#### *Tax Matters*

We and each of our subsidiaries are taxed at the rates applicable within each of their respective jurisdictions. The composite income tax rate, tax provisions, deferred tax assets and deferred tax liabilities will vary according to the jurisdiction in which profits arise. Further, certain of our subsidiaries sell products directly to our other subsidiaries or provide administrative, marketing and support services to our other subsidiaries. These intercompany sales and support services involve subsidiaries operating in jurisdictions with differing tax rates. The tax authorities in such jurisdictions may challenge our treatments under residency criteria, transfer pricing provisions, or other aspects of their respective tax laws, which could affect our composite tax rate and provisions.

We account for uncertain tax positions in accordance with ASC Topic 740—*Income Taxes*, which contains a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. We re-evaluate our income tax positions periodically to consider factors such as changes in facts or circumstances, changes in or interpretations of tax law, effectively settled issues under audit and new audit activity. Such a change in recognition or measurement would result in recognition of a tax benefit or an additional charge to the tax provision.

We include interest related to tax issues as part of income tax expense in our consolidated financial statements. We record any applicable penalties related to tax issues within the income tax provision.

#### *Share-based compensation*

The fair value of service-based stock options are determined using the Black-Scholes valuation model. Such value is recognized as expense over the service period net of estimated forfeitures.

The fair value of market-based stock options are determined at the date of the grant using the Monte Carlo valuation methodology. Such value is recognized as expense over the requisite service period adjusted for estimated forfeitures for each separately vesting tranche of the award. The Monte Carlo methodology that we use to estimate the fair value of market-based options incorporates into the valuation the possibility that the market condition may not be satisfied.

The expected term of options granted is estimated based on a number of factors, including the vesting and expiration terms of the award, historical employee exercise behavior for both options that are currently outstanding and options that have been exercised or are expired, the historical volatility of the Company's common stock and an employee's average length of service. The risk-free interest rate is determined based upon a constant U.S. Treasury security rate with a contractual life that approximates the expected

term of the option award. Management estimates expected volatility based on the historical volatility of the Company's stock. The compensation expense recognized for all equity-based awards is net of estimated forfeitures. Forfeitures are estimated based on an analysis of actual option forfeitures.

On June 30, 2014, we granted performance based restricted share awards to executive employees, which vesting is based on achieving earnings targets in two consecutive rolling four quarter periods. The fair value of performance-based restricted stock awards are recognized, net of estimated forfeitures, over the derived requisite vesting period beginning in the period in which they are deemed probable to vest.

## Results of Operations

The following table presents certain items in our consolidated statements of operations as a percent of net sales for the periods indicated:

	Year ended December 31,		
	2014 (%)	2013 (%)	2012 (%)
Net sales.....	100	100	100
Cost of sales.....	25	27	23
Gross profit.....	75	73	77
Operating expenses			
Sales and marketing.....	41	44	41
General and administrative.....	19	16	12
Research and development.....	6	7	6
Amortization of intangible assets.....	1	1	1
Costs related to the accounting review and restatement.....	4	3	—
Impairment of goodwill.....	—	5	—
Total operating income (loss).....	4	(3)	17
Net (loss) income from continuing operations.....	(1)	(5)	11
Net loss from discontinued operations.....	(1)	(2)	(1)
Net (loss) income.....	(2)	(7)	10

Our segment information is prepared on the same basis that management reviews the financial information for operational decision-making purposes. We manage our business by our four strategic business units (“SBUs”), which are comprised of BioStim, Biologics, Extremity Fixation, Spine Fixation, and supported by Corporate activities. These SBUs represent the segments for which our Chief Executive Officer, who is our Chief Operating Decision Maker (the “CODM”), reviews financial information and makes resource allocation decisions among business units. Accordingly, our segment information has been prepared based on our four SBU’s reporting segments. These four segments are discussed below.

### *BioStim*

The BioStim SBU manufactures, distributes, and provides support services of market leading devices that enhance bone fusion. These Class III medical devices are indicated as an adjunctive, noninvasive treatment to improve fusion success rates in cervical and lumbar spine as well as a therapeutic treatment for non-spine fractures that have not healed (non-unions). These devices utilize Orthofix’s patented pulsed electromagnetic field (“PEMF”) technology, which is supported by strong basic mechanism of action data in the scientific literature and as well as strong level one randomized controlled clinical trials in the medical literature. Current research and clinical studies are also underway to identify potential new clinical indications. This SBU uses both distributors and independent sales representatives to sell its devices to hospitals, doctors and other healthcare providers, primarily in the U.S.

### *Biologics*

The Biologics SBU provides a portfolio of regenerative products and tissue forms that allow physicians to successfully treat a variety of spinal and orthopedic conditions. This SBU specializes in the marketing of the Company’s regeneration tissue forms. Biologics markets its tissues through a network of distributors, independent sales representatives and affiliates to supply to hospitals, doctors, and other healthcare providers, primarily in the U.S. Our partnership with the Musculoskeletal Transplant Foundation

("MTF") allows us to exclusively market our Trinity Evolution® and Trinity ELITE® tissue forms for musculoskeletal defects to enhance bony fusion.

### *Extremity Fixation*

The Extremity Fixation SBU offers products and solutions that allow physicians to successfully treat a variety of orthopedic conditions unrelated to the spine. This SBU specializes in the design, development, and marketing of the Company's orthopedic products used in fracture repair, deformity correction and bone reconstruction procedures. Extremity Fixation distributes its products through a network of distributors, independent sales representatives and affiliates. This SBU uses both independent distributors and direct sales representatives to sell orthopedic products to hospitals, doctors, and other health providers, globally.

### *Spine Fixation*

The Spine Fixation SBU specializes in the design, development and marketing of a broad portfolio of implant products used in surgical procedures of the spine. Spine Fixation distributes its products through a network of distributors and affiliates. This SBU uses distributors and independent sales representatives to sell spine products to hospitals, doctors and other healthcare providers, globally.

### *Corporate*

Corporate activities are comprised of the operating expenses, including share-based compensation, of Orthofix International N.V. and its holding company subsidiaries, along with activities not necessarily identifiable within the four SBUs.

### **Net Sales by SBU:**

The table below presents net sales for continuing operations by SBU reporting segment. Net sales include product sales and marketing service fees.

(U.S. Dollars in thousands)	Net Sales by SBU Year ended December 31,					
	2014		2013		2012	
	Net Sales	Percent of Total Net Sales	Net Sales	Percent of Total Net Sales	Net Sales	Percent of Total Net Sales
BioStim .....	\$ 154,676	38%	\$ 145,085	36%	\$ 174,562	40%
Biologics .....	55,881	14%	53,746	14%	53,731	12%
Extremity Fixation .....	109,678	27%	103,359	26%	112,011	25%
Spine Fixation .....	82,042	21%	95,421	24%	99,885	23%
Total Net Sales.....	<u>\$ 402,277</u>	<u>100%</u>	<u>\$ 397,611</u>	<u>100%</u>	<u>\$ 440,189</u>	<u>100%</u>

### **2014 Compared to 2013**

#### *Net Sales*

Net sales increased 1.2% or \$4.7 million, to \$402.3 million in 2014 compared to \$397.6 million in 2013. The impact of foreign currency decreased sales by \$0.3 million in 2014 when compared to 2013. Net sales include product sales and marketing service fees, which is comprised of biologic sales of Trinity Evolution® and Trinity ELITE®.

#### *Net Sales by SBU*

Net sales in our BioStim SBU increased 6.6% or \$9.6 million, to \$154.7 million in 2014 compared to \$145.1 million in 2013. The increase was due to enhancements to the sales organization, which included adding management and salespeople in underserved geographies as well as additional sales representatives exclusively dedicated to our Physio-Stim® product line, as well as the reduction in third-party payor revenue in 2013 driven by our transition to recognize revenue upon accumulation of the full billable package for third-party payors given the increased complexity in insurance billing requirements.

Net sales in our Biologics SBU increased 4.0% or \$2.1 million, to \$55.9 million in 2014 compared to \$53.7 million in 2013. The increase was mainly due to an expanded sales channel as well as continued conversion to our next generation cell-based bone growth tissue technology (Trinity ELITE®). These increases were offset slightly by a reduction in marketing fee percentages received for our Trinity products starting in April 2013.



Net sales in our Extremity Fixation SBU increased 6.1% or \$6.3 million, to \$109.7 million in 2014 compared to \$103.4 million in 2013. The increase was due to recently expanded product launches and improvement in international collections of cash basis sales. The increase was partially offset by declining revenue in Brazil, which has experienced significant disruption to the sales channel during 2014 as we rebuild our Brazil sales organization.

Net sales in our Spine Fixation SBU decreased 14.0% or \$13.4 million, to \$82.0 million in 2014 compared to \$95.4 million in 2013. The decrease was due to a loss of sales momentum resulting from our efforts to reorganize the sales force to improve profitability, which began in late 2013 and continued through the first half of 2014.

#### *Gross Profit*

Our gross profit increased 4.4% or \$12.7 million, to \$303.4 million in 2014 compared to \$290.7 million in 2013. Gross profit as a percent of net sales in 2014 was 75.4% compared to 73.1% in 2013. The increase in gross profit as a percent of net sales is primarily driven by higher inventory reserves in 2013.

#### *Sales and Marketing Expense*

Sales and marketing expense, which includes commissions and the bad debt provision decreased 5.1% or \$8.9 million, to \$166.5 million in 2014 compared to \$175.5 million in 2013. As a percent of net sales, sales and marketing expense was 41.4% in 2014 compared to 44.1% in 2013. The decrease was due to tighter cost controls of non-variable expenses, along with lower commission rates due to the reorganization of the Brazil and U.S. Spine Fixation sales forces, as well as a decrease in Spine Fixation sales.

#### *General and Administrative Expense*

General and administrative expense increased 18.4% or \$12.0 million, to \$76.8 million in 2014 compared to \$64.8 million in 2013. As a percent of net sales, general and administrative expense was 19.1% in 2014 compared to 16.3% in 2013. The increase is primarily due to our investment in the implementation of an internal audit function and focused efforts on key process and control improvements. In addition, we spent \$3.8 million in 2014 on Bluecore. Also in 2014, medical insurance payouts were higher than normal causing a large fluctuation from the prior year since the company is self-insured up to a stop loss threshold.

#### *Research and Development Expense*

Research and development expense decreased 6.6% or \$1.8 million in 2014 to \$25.0 million compared to \$26.8 million in 2013. As a percent of net sales, research and development expense declined slightly to 6.2% in 2014 compared to 6.7% for the same period last year. The decrease was primarily due to a \$2 million payment to Musculoskeletal Transplant Foundation (“MTF”) in the second quarter of 2013 for the development and commercialization of Trinity ELITE<sup>®</sup>, which was released in the first half of 2013.

#### *Amortization of Intangible Assets*

Amortization of intangible assets was \$2.3 and \$2.7 million for 2014 and 2013, respectively. Amortization expense was mainly due to the amortization associated with licensing new products, which began in the second half of 2013.

#### *Costs related to the accounting review and restatement*

As part of our accounting review and restatement of our consolidated financial statements, the Company incurred \$15.6 million and \$12.9 million for the years ended December 31, 2014 and 2013, respectively.

#### *Impairment of Goodwill*

As part of our change in reportable segments, we reallocated goodwill to each new reporting unit, and subsequently evaluated each reporting unit for impairment. As a result of this analysis, a full impairment of the goodwill allocated to our Spine Fixation and Extremity Fixation reporting units, of \$19.2 million, was recognized in 2013.

#### *Interest Expense, net*

Interest expense, net was \$1.8 million in both 2014 and 2013, primarily as the result of substantial repayments of long-term debt during 2013, resulting in a lower year over year outstanding debt balance, and to a lesser extent, lower interest rates, offset by increased fees associated with a larger unused revolver balance.

### *Other Income (Expense)*

Other expense, net was \$(2.9) million in 2014 compared to other income of \$2.4 million in 2013. Other income for 2013 was primarily due to our receipt of \$4.4 million related to the demutualization of a mutual insurance company in which we were an eligible member to share in such proceeds. In addition, 2014 was negatively impacted by foreign exchange rates. Several of our foreign subsidiaries hold trade payables or receivables in currencies (most notably the U.S. Dollar) other than their functional (local) currency, which results in foreign exchange gains or losses when there is relative movement between those currencies.

### *Income Tax Benefit (Expense)*

We recognized a \$16.2 million and \$7.6 million provision for income tax for 2014 and 2013, respectively. The income tax expense and effective tax rate for the year ended 2014 reflects a disproportionate ratio to the \$7.6 million of income tax expense and effective tax rate of (71.7%) for the year ended 2013. The principal factors affecting the Company's 2014 effective tax rate were the Company's mix of earnings amongst various tax jurisdictions, state taxes, changes in the valuation allowance, and changes in income tax reserves.

### *Discontinued operations*

Discontinued operations include losses of approximately \$4.8 million and \$10.6 million, net of income taxes, in 2014 and 2013, respectively. The losses were primarily from legal settlements and legal costs, which relate to certain specified product liability matters in relation to the Company's former subsidiary, Breg. Orthofix agreed to indemnify Breg and its purchaser with respect to such matters.

### *Net Income (Loss)*

Net loss in 2014 was \$(8.5) million, or \$(0.46) per basic and diluted share, compared to net loss of \$(28.8) million, or \$(1.54) per basic and diluted share for 2013.

## **2013 Compared to 2012**

### *Net Sales*

Net sales decreased 9.7% to \$397.6 million in 2013 compared to \$440.2 million in 2012. The impact of foreign currency decreased sales by \$1.1 million in 2013 when compared to 2012. Net sales include product sales and marketing service fees, which is comprised of sales of Trinity Evolution<sup>®</sup> and Trinity Elite<sup>™</sup>.

### *Net Sales by SBU*

Net sales in our BioStim SBU decreased 16.9% to \$145.1 million in 2013 compared to \$174.6 million in 2012. The decrease in BioStim revenue was primarily attributable to a decline in sales of our stimulation products for spine and cervical application caused by distribution turnover and changes in certain payor policies. The decrease for the year ended December 31, 2013 was also negatively impacted by a reduction in third-party payor revenue driven by our transition in third quarter of 2013 to recognize revenue upon accumulation of the full billable package for third-party payors given the increased complexity in insurance billing requirements.

Net sales in our Biologics SBU remained relatively constant at \$53.7 million in 2013 compared to the same in 2012. Net sales were positively impacted by an increase in our marketing service fee revenue from MTF related to the launch of our new tissue from Trinity ELITE<sup>®</sup>; however, this increase was primarily offset by a reduction in our marketing service fee from 70% to 65%, which became effective April 1, 2013.

Net sales in our Extremity Fixation SBU decreased 7.7% to \$103.4 million in 2013 compared to \$112.0 million for 2012, a decrease of \$8.6 million. This decrease is due primarily to two factors. The first was deterioration of sales in Brazil, which accounted for 2.7% of our total decline and the second was a prospective change from a sell-in to cash accounting methodology beginning April 1, 2013 to all non-Brazil distributors, which accounted for 4.8% of the decline in sales. Historically, for most distributor transactions within our Extremity Fixation SBU, we recorded revenue on the sell-in accounting basis. However, as described more fully in Note 1 to the Consolidated Financial Statements, we have reassessed our application of distributor revenue recognition and have applied sell-through accounting for all distributor transactions within the Extremity Fixation SBU on a prospective basis beginning on April 1, 2013, which caused the majority of the decrease in net sales.

Net sales in our Spine Fixation SBU decreased to \$95.4 million in 2013 compared to \$99.9 million for 2012, a decrease of 4.5%. This decrease was due to a 6% drop in average selling price (ASP) due to discounting, which was somewhat offset by double-digit growth in our international business.

#### *Gross Profit*

Our gross profit decreased 14.4% to \$290.7 million for 2013 compared to \$339.5 million for 2012. Gross profit as a percent of net sales in 2013 was 73.1% compared to 77.1% in 2012. This decrease was primarily due to the decrease of sales in our BioStim SBU, which carries a higher gross margin compared to our other products as well as increased costs that do not have a strong correlation to net sales, primarily associated with inventory reserves and salaries.

#### *Sales and Marketing Expense*

Sales and marketing expense, which includes commissions and the bad debt provision, generally increases and decreases in relation to sales. Sales and marketing expense decreased \$3.3 million, or 1.8%, to \$175.5 million in 2013 compared to \$178.8 million in 2012. In 2013 the decrease in sales and marketing expense was primarily due to a decrease in commission expenses due to lower sales. As a percent of net sales, sales and marketing expense was 44.1% and 40.9% for 2013 and 2012, respectively.

#### *General and Administrative Expense*

General and administrative expense increased \$11.1 million, or 20.7%, in 2013 to \$64.8 million compared to \$53.7 million in 2012. General and administrative expense as a percent of net sales was 16.3% in 2013 compared to 12.2% in 2012. The 2013 increase in general and administrative expense was primarily attributable to investments in people and processes to improve business structure and internal controls. These investments were primarily related to the departments of accounting and finance and information systems. The 2013 increase was also related to increased incentive compensation expense and medical device tax in 2013. General and administrative expense in 2012 included the impact of approximately \$1.9 million in legal expenses associated with the bone growth stimulation investigation, and other costs incurred in connection with our internal investigation into the compliance with the Foreign Corrupt Practices Act with our former orthopedic distribution entity in Mexico.

#### *Research and Development Expense*

Research and development expense decreased \$1.8 million in 2013 to \$26.8 million compared to \$28.6 million in 2012. As a percent of net sales, research and development expense remained relatively flat at 6.7% in 2013 compared to 6.5% for the same period last year.

#### *Amortization of Intangible Assets*

Amortization of intangible assets was \$2.7 and \$2.3 million for 2013 and 2012, respectively.

#### *Costs related to the accounting review and restatement*

As previously discussed, our Audit Committee conducted an Independent Review, with the assistance of outside professionals, of certain accounting matters. As a result of this review and the restatement of certain of our previously filed consolidated financial statements, the Company incurred legal, accounting and other professional fees of approximately \$12.9 million through the year ended December 31, 2013.

#### *Impairment of Goodwill*

As part of our change in reportable segments, we reallocated goodwill to each new reporting unit, and subsequently evaluated each reporting unit for impairment. As a result of this analysis, a full impairment of the goodwill allocated to our Spine Fixation and Extremity Fixation reporting units, of \$19.2 million, was recognized.

#### *Charges Related to U.S. Government Resolutions*

During 2012, we recorded a charge of \$1.3 million representing imputed interest accrued from the respective settlement in principle dates in 2011 and 2012 through the payment dates in the fourth quarter of 2012 on the previously disclosed settlements in principle of the U.S. government investigations and related qui tam complaints related to our regenerative stimulation business and Blackstone Medical, Inc., respectively.

### *Interest Expense, net*

Interest expense, net decreased to \$1.8 million in 2013 compared to \$4.2 million in 2012, primarily as the result of substantial repayments of long-term debt during 2012, resulting in a lower year over year outstanding debt balance, and to a lesser extent, lower interest rates.

### *Other Income (Expense)*

Other income, net was \$2.4 million in 2013 compared to other expense of \$(1.6) million in 2012. The increase in other income can be mainly attributed to a gain recorded related to our receipt of \$4.4 million cash related to the demutualization of a mutual insurance company in which we were an eligible member to share in such proceeds. This increase was partially offset by the negative effect of foreign exchange during 2013. Several of our foreign subsidiaries hold trade payables or receivables in currencies (most notably the U.S. Dollar) other than their functional (local) currency, which results in foreign exchange gains or losses when there is relative movement between those currencies.

### *Income Tax Benefit (Expense)*

We recognized a \$7.6 million and \$23.9 million provision for income tax for 2013 and 2012, respectively. The income tax expense and effective tax rate for the year ended 2013 reflects a disproportionate ratio to the \$23.9 million of income tax expense and effective tax rate of 34.7% for the year ended 2012. The principal factors affecting the Company's 2013 effective tax rate were the Company's mix of earnings amongst various tax jurisdictions, state taxes, changes in the valuation allowance, and the impairment of non-deductible goodwill. For the year ended 2012, the Company did not record a tax benefit on certain expenses associated with the Company's estimate of the charges related to U.S. Government resolutions.

### *Discontinued operations*

Discontinued operations in 2013 included approximately \$10.6 million of legal settlements and legal costs, net of income taxes, related to certain specified product liability matters related to its former subsidiary, Breg. We agreed to indemnify Breg and its purchaser with respect to such matters. Discontinued operations in 2012 included the gain on the sale of Breg of \$1.3 million and the results of our Sports Medicine SBU through May 24, 2012 (the closing date of the sale of Breg), net of income taxes. Subsequent to December 31, 2012, the Company won an arbitration award against an insurance carrier relating to its denial of coverage under excess products liability policies with total limits of \$30 million. As a result of the binding arbitration award, the carrier is obligated to reimburse the Company for defense expenses, settlements, and judgments associated with the underlying products liability claims at issue. The Company was entitled to reimbursement of approximately \$13 million for past losses incurred, which was partially offset by legal costs, and is included in discontinued operations in 2012.

### *Net Income (Loss)*

Net loss in 2013 was \$(28.8) million, or \$(1.54) per basic share and diluted share, compared to net income of \$42.9 million, or \$2.26 per basic and \$2.21 per diluted share for 2012.

## **Liquidity and Capital Resources**

### *Discussion of Cash Flow*

Cash, cash equivalents and restricted cash at December 31, 2014 were \$71.2 million, of which \$34.4 million is subject to certain restrictions under the senior secured credit agreement described below. This compares to cash, cash equivalents and restricted cash of \$52.7 million at December 31, 2013, of which \$23.8 million was subject to certain restrictions under the senior secured credit agreement described below. The increase in cash and cash equivalents was primarily due to a reduction of cash used in investing and financing activities, partially offset by a reduction in cash provided by operating activities.

<u>(U.S. Dollars, in thousands)</u>	<u>Year Ended December, 31,</u>		<u>Year over Year</u>
	<u>2014</u>	<u>2013</u>	<u>Change</u>
Net cash provided by operating activities .....	\$ 50,958	\$ 67,042	\$ (16,084)
Net cash used in investing activities .....	(19,950)	(31,052)	11,102
Net cash used in financing activities .....	(19,994)	(38,353)	18,359
Effect of exchange rate changes on cash .....	(3,123)	520	(3,643)
Net increase (decrease) in cash and cash equivalents .....	<u>\$ 7,891</u>	<u>\$ (1,843)</u>	<u>\$ 9,734</u>

Net cash provided by operating activities was \$51.0 million in 2014 compared to \$67.0 million in 2013, a decrease of \$16.0 million. Net cash provided by operating activities is comprised of net income, non-cash items (including depreciation and amortization, provision for doubtful accounts, share-based compensation, impairment of goodwill, deferred taxes, and the net gain on sale of Breg, Inc. and changes in working capital. Net income increased \$20.3 million to a net loss of \$(8.5) million in 2014 compared to net loss of \$(28.8) million in 2013. Non-cash items for 2014 decreased \$35.7 million to \$26.7 million compared to \$62.4 million in 2013. The change in working capital accounts is primarily attributable to improved accounts receivable collections. Overall performance indicators for our two primary working capital accounts, accounts receivable and inventory, reflect day's sales in receivables of 56 days at December 31, 2014 compared to 62 days at December 31, 2013 and inventory turns of 1.7 and 1.5 times as of December 31, 2014 and December 31, 2013, respectively.

Net cash used in investing activities was \$20.0 million in 2014 compared to \$31.1 million in 2013 primarily driven by the net proceeds on the sale of Breg, Inc. in 2012. During 2014 and 2013, we invested \$18.5 million and \$29.7 million in capital expenditures, respectively.

Net cash used in financing activities was \$20.0 million for 2014 compared to \$38.4 million for 2013. Our restricted cash balance increased to \$34.5 million due to an increase in cash held by subsidiaries that are party to the senior secured credit agreement, and is therefore restricted for use in the U.S. During the year ended December 31, 2014, we received proceeds of \$10.5 million compared to \$3.5 million during 2013 from the issuance of shares of our common stock related to stock purchase plan issuances and stock option exercises. In 2013, we used \$39.5 million in connection with the stock repurchase program.

#### *Option Agreement*

On March 4, 2015, the Company entered into an Option Agreement (the "Option Agreement") with eNeura, Inc. ("eNeura"), a privately held medical technology company that is developing devices for the treatment of migraines. The Option Agreement provides the Company with an exclusive option to acquire eNeura (the "Option") during the 18-month period following the grant of the Option. In consideration for the Option, (i) the Company paid a non-refundable \$250 thousand fee to eNeura, and (ii) eNeura issued a Convertible Promissory Note (the "eNeura Note") to the Company. The principal amount of the eNeura Note is \$15.0 million and interest will accrue at 8.0%. The eNeura Note will mature on the earlier of (i) March 4, 2019, or (ii) consummation of the acquisition (as described below), unless converted or prepaid at an earlier date. The Company will be entitled to designate one representative for appointment to the board of directors of eNeura during the 18-month option period. Pursuant to an Agreement and Plan of Merger between the Company, eNeura and certain other parties, if the Company exercises the Option to acquire eNeura, the Company will pay to former eNeura shareholders \$65.0 million (subject to certain positive or negative adjustments based on the assets and liabilities of eNeura). In addition, during the 4-year period following the closing of such acquisition, the Company may be required to pay additional cash consideration to eNeura shareholders upon the satisfaction of certain milestones.

#### *Discussion of Infrastructure Initiative*

In 2014, we initiated project "Bluecore," a multi-year, company-wide process and systems improvement initiative to rebuild certain components of our infrastructure that is expected to conclude in the middle of 2017. Bluecore has numerous work streams primarily focused around re-implementing our Oracle ERP system worldwide, improving our financial controls and reporting, streamlining our order to cash processes and collections, and optimizing our supply chain for cost reductions and field inventory visibility, among other upgrades. The total budget, including operating and capital expenditures, for this project is approximately \$30 million, of which \$5 million was spent in 2014 and \$19 million is budgeted for 2015. We expect approximately 50% of this investment will be capitalized.

The strategic objective of Bluecore is to improve the reliability and efficiency of our systems, processes and reporting as well as drive down our overhead expenses as we complete each phase of the work. We expect to improve supply chain management, simplify finance and accounting procedures and move to less manual processes with fewer redundancies throughout the Company.

#### *Discussion of Credit Facilities*

On August 30, 2010, the Company's wholly owned U.S. holding company, Orthofix Holdings, Inc. ("Orthofix Holdings") entered into a Credit Agreement (the "Credit Agreement") with certain domestic direct and indirect subsidiaries of the Company (the "Guarantors"), JPMorgan Chase Bank, N.A., as Administrative Agent, RBS Citizens, N.A., as Syndication Agent, and certain lender parties thereto. The Credit Agreement provides for a five-year, \$200.0 million secured revolving credit facility (the "Revolving Credit Facility"), and a five-year, \$100.0 million secured term loan facility (the "Term Loan Facility", and together with the Revolving Credit Facility, the "Credit Facilities"). On January 15, 2015, at the Company's request, the lenders agreed to reduce the available capacity under the Revolving Credit Facility to \$100 million.

As of December 31, 2014, we had no outstanding borrowings or outstanding principal due under the Credit Agreement.

At December 31, 2014, we had no outstanding borrowings and unused available lines of credit of approximately €5.8 million (\$8.0 million) under a separate line of credit established in Italy to finance the working capital of our Italian operations. The terms of this line of credit give us the option to borrow amounts in Italy at rates determined at the time of borrowing.

Outstanding principal on the Revolving Credit Facility is due on August 30, 2015. As such, to retain the currently available borrowing capacity (or to increase it further), we will need either to amend the existing agreement with the current lenders, or enter into a new credit agreement with the current or different group of lenders. However, there can be no assurance that the current lenders, or a different group of lenders, will be willing to provide us financing on terms as favorable as those contained in the current agreement, or at all (including in the event that current favorable conditions in U.S. and international credit markets were to deteriorate). This might impair our ability to obtain sufficient funds for working capital, capital expenditures, acquisitions, research and development and other corporate purposes. In addition, borrowings under an amended or new credit agreement could be subject to interest rate terms that are less favorable than those that have been available to the Company under the current agreement.

The Credit Agreement, as amended, requires Orthofix Holdings and the Company to comply with coverage ratios on a consolidated basis and contains affirmative and negative covenants, including limitations on additional debt, liens, investments and acquisitions.

The Credit Agreement, as amended, also includes events of default customary for facilities of this type. Upon the occurrence of an event of default, all outstanding loans may be accelerated and/or the lenders' commitments terminated. Giving effect to certain limited waivers obtained by the Company from the lenders in connection with the Company's then-pending restatement of financial statements and delay in filing its Quarterly Reports on Form 10-Q for the fiscal quarters ended June 30, 2014 and September 30, 2014, respectively, the Company was in compliance with the affirmative and negative covenants at December 31, 2014 and there were no events of default.

Certain subsidiaries of the Company have restrictions on their ability to pay dividends or make intercompany loan advances pursuant to the Company's Credit Facilities. The net assets of Orthofix Holdings and its subsidiaries are restricted for distributions to the parent company. Domestic subsidiaries of the Company, as parties to the credit agreement, have access to these net assets for operational purposes.

Borrowings under the Revolving Credit Facility, which may be made in the future, may be used for working capital, capital expenditures and other general corporate purposes of Orthofix Holdings and its subsidiaries. The Guarantors have guaranteed repayment of Orthofix Holdings' obligations under the Credit Agreement. The obligations of Orthofix Holdings and each of the Guarantors with respect to the Credit Facilities are secured by a pledge of substantially all of the assets of Orthofix Holdings and each of the Guarantors.

#### *Other*

We have incurred substantial expenses for legal and other professional services in connection with the multi-year restatements of our consolidated financial statements that we filed in March 2014 and March 2015, respectively. These expenses were in excess of \$34 million from July 2013 through March 2015.

The Company's current intention is to indefinitely reinvest the total amount of its unremitted foreign earnings (residing outside Curaçao) in the local jurisdiction; to the extent they are generated and available. As an entity incorporated in Curaçao, "foreign subsidiaries" refer to both U.S. and non-U.S. subsidiaries. Furthermore, only income sourced in the U.S. is subject to U.S. income tax. Unremitted foreign earnings increased from \$292.6 million at December 31, 2012 to \$342.4 million at December 31, 2013. The \$342.4 million includes \$354.1 million in U.S. subsidiaries. It is not practicable to determine the amounts of net additional income tax that may be payable if such earnings were repatriated.

### Contractual Obligations

The following chart sets forth our contractual obligations as of December 31, 2014:

Contractual Obligations (U.S. Dollars in thousands)	Payments Due by Period				
	Total	2015	2016-2018	2019	2020 and thereafter
Operating leases .....	18,165	3,885	9,095	2,444	2,741
Inventory purchase obligations (1).....	2,492	2,492	-	-	-
Total.....	<u>\$ 20,657</u>	<u>\$ 6,377</u>	<u>\$ 9,095</u>	<u>\$ 2,444</u>	<u>\$ 2,741</u>

- (1) The Company has inventory purchase commitments with third-party manufactures. Due to the uncertainty of our future purchasing requirements, obligations under these agreements are included in the preceding table at the amount committed through December 31, 2014 all of which are due in 2015.

We may be required to make cash outlays related to our unrecognized tax positions. However, due to the uncertainty of the timing of future cash flows associated with our unrecognized tax benefits, we are unable to make reasonably reliable estimates of the period of cash settlement, if any, with the respective taxing authorities. Accordingly, unrecognized tax benefits, inclusive of interest and penalties, of \$16.1 million as of December 31, 2014 have been excluded from the contractual obligations table above. For further information on unrecognized tax benefits, see Item 8 – “Financial Statements and Supplementary Data” - Note 13, included in this report.

### Off-balance Sheet Arrangements

As of December 31, 2014, we did not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, cash flows, liquidity, capital expenditures or capital resources that are material to investors.

## **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to certain market risks as part of our ongoing business operations. Primary exposures include changes in interest rates and foreign currency fluctuations. These exposures can vary sales, cost of sales, costs of operations and the cost of financing and yields on cash and short-term investments. We use derivative financial instruments, where appropriate, to manage these risks. However, our risk management policy does not allow us to hedge positions we do not hold nor do we enter into derivative or other financial investments for trading or speculative purposes. As of December 31, 2014, we had a currency swap in place to minimize foreign currency exchange risk related to a €28.7 million (\$34.7 million translated at the December 31, 2014 foreign exchange rate) intercompany note. As of December 31, 2014 the fair value of the currency swap was approximately \$2.1 million and is recorded in other long-term assets.

We are exposed to interest rate risk in connection with our Revolving Credit Facility, which bear interest at floating rates based on LIBOR plus an applicable borrowing margin or at a base rate (as defined in the Credit Agreement) plus an applicable borrowing margin. Therefore, interest rate changes generally do not affect the fair market value of the debt, but do impact future earnings and cash flows, assuming other factors are held constant.

The Company believes that a concentration of credit risk related to its accounts receivable is limited because its customers are geographically dispersed and the end users are diversified across several industries. It is reasonably possible that changes in global economic conditions and/or local operating and economic conditions in the regions these distributors operate, or other factors, could affect the future realization of these accounts receivable balances.

Our foreign currency exposure results from fluctuating currency exchange rates, primarily the U.S. Dollar against the Euro, Great Britain Pound and Brazilian Real. We are subject to cost of sales currency exposure when we produce products in foreign currencies such as the Euro or Great Britain Pound and sell those products in U.S. Dollars. We are subject to transactional currency exposures when our subsidiaries (or the Company itself) enter into transactions denominated in a currency other than their functional currency. As of December 31, 2014, we had an un-hedged intercompany receivable denominated in Euro of approximately €23.2 million (\$28.1 million). We recorded a foreign currency gain during the year ended December 31, 2014 of \$0.1 million related to this un-hedged long-term intercompany balance included in accumulated other comprehensive income during 2014, which resulted from the weakening of the Euro against the U.S. dollar during the period. For the year ended December 31, 2014, we recorded a foreign currency loss of \$1.6 million on the statement of operations resulting from gains and losses in foreign currency transactions.

We also are subject to currency exposure from translating the results of our global operations into the U.S. dollar at exchange rates that fluctuate during the period. The U.S. dollar equivalent of international sales denominated in foreign currencies was unfavorably impacted during the year ended December 31, 2014 by monthly foreign currency exchange rate fluctuations of the U.S. dollar against all of the foreign functional currencies for our international operations during 2014 versus the same periods in 2013. The U.S. dollar equivalent of international sales denominated in foreign currencies was unfavorably impacted during the year ended December 31, 2013 by monthly foreign currency exchange rate fluctuations of the U.S. dollar against the local foreign currency versus the same periods in 2012. As we continue to distribute and manufacture our products in selected foreign countries, we expect that future sales and costs associated with our activities in these markets will continue to be denominated in the applicable foreign currencies, which could cause currency fluctuations to materially impact our operating results.

## **Item 8. Financial Statements and Supplementary Data**

See “Index to Consolidated Financial Statements” on page F-1 of this Form 10-K.

## **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

## **Item 9A. Controls and Procedures**

### **Background of Restatements**

In July 2013, the Audit Committee (“Audit Committee”) of our Board of Directors began conducting an independent review, with the assistance of outside professionals, of certain accounting matters (the “Independent Review”). The Independent Review was prompted by members of the Company’s senior management bringing certain information to the attention of the chair of the Audit Committee that raised questions regarding whether the Company had properly recognized revenue under U.S. GAAP in connection with revenue from distributor sales that had been recorded in 2012 and 2011, including a significant return processed in the second quarter of 2013 relating to revenue recognized in 2012. The Independent Review focused on the periods between January 1, 2010 and March 31,



2013 and focused primarily on revenue recognition related to distributor arrangements and inventory reserve adjustments. The Independent Review ultimately resulted in a restatement of our previously filed consolidated financial statements for the fiscal years ended December 31, 2012, 2011 and 2010 and the fiscal quarter ended March 31, 2013, as well as the restatement of certain financial information for the fiscal years ended December 31, 2009, 2008 and 2007. This restatement, which we completed and filed in March 2014, is referred to herein as the “Original Restatement.”

In connection with the Company’s preparation of its consolidated interim quarterly financial statements for the fiscal quarter ended June 30, 2014, the Company determined that certain entries with respect to the previously filed financial statements were not properly accounted for under U.S. GAAP. As a result, the Company determined in August 2014 to restate its previously filed consolidated financial statements for the fiscal years ended December 31, 2013, 2012 and 2011 and quarterly reporting periods contained within the fiscal years ended December 31, 2013 and 2012, as well as the fiscal quarter ended March 31, 2014. This restatement, which we completed in March 2015, is referred to herein as the “Further Restatement.”

The Original Restatement and the Further Restatement resulted in the identification of material weaknesses as included in “Management’s Report on Internal Control over Financial Reporting,” below.

### **Evaluation of Disclosure Controls and Procedures**

At the end of the period covered by this Report, under the supervision and with the participation of our management, including our President and Chief Executive Officer and our Chief Financial Officer, we performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. As described below, management has identified material weaknesses in our internal control over financial reporting, which is an integral component of our disclosure controls and procedures. As a result of those material weaknesses, our President and Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were not effective as of December 31, 2014.

### **Management’s Report on Internal Control over Financial Reporting**

The Company’s management is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Exchange Act Rule 13a-15(f)). The Company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the financial statements.

Internal control over financial reporting is designed to provide reasonable assurance to the Company’s management and board of directors regarding the preparation of reliable financial statements for external purposes in accordance with U.S. GAAP. Because of the inherent limitations in any internal control, no matter how well designed, misstatements may occur and not be prevented or detected. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Further, the evaluation of the effectiveness of internal control over financial reporting was made as of a specific date, and continued effectiveness in future periods is subject to the risks that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies and procedures may decline.

In connection with the preparation and filing of this Form 10-K, the Company’s management, including our President and Chief Executive Officer and our Chief Financial Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2014 based on the framework set forth in “Internal Control—Integrated Framework (September 1992)” issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Based on its evaluation, the Company’s management concluded that, because of the material weaknesses described below, the Company’s internal control over financial reporting was not effective as of December 31, 2014.

A “material weakness” is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. In connection with our management’s evaluation of our internal control over financial reporting described above, our management has identified the following deficiencies that it believes constituted individually, and in the aggregate, material weaknesses in our internal control over financial reporting as of December 31, 2014:

- *Revenue recognition practices for sales with distributors.* In connection with the Original Restatement, we concluded that we recognized revenue in certain instances in advance of all revenue recognition criteria being met, and that our controls were not effective to reasonably ensure accurate recognition of revenue in accordance with U.S. GAAP for certain distributor sales transactions previously recorded by the Company’s domestic and international business units. In general, we did not establish and maintain procedures throughout the Company to reasonably ensure proper communication to, and assessment by, the Company’s finance and accounting department of deviations from contractually established terms, which included written or unwritten arrangements made with, or extra-contractual terms provided to, Company distributors at the onset of the sale regarding extended payment terms, product return or exchange rights, and similar concessions agreed to subsequent to the initial sale (which were not memorialized by any formal contractual amendment). Such additional terms were not evaluated, or not evaluated correctly, and were not maintained or reflected in Company customer sales files. In addition, Company personnel were not adequately trained with respect to certain revenue recognition principles applicable under U.S. GAAP that may have led to appropriate consideration of the additional terms entered into outside of the written contractual terms.
- *Accounts receivable reserves.* In connection with our Further Restatement, we expanded our procedures of analyzing collections of accounts receivable to ensure accounts receivable included an appropriate reserve for estimated uncollectible amounts. We concluded the Company had incorrectly considered certain deferred revenue amounts when calculating the estimated reserves. Specifically, the computation of the contractual allowances and bad debt allowances, which serves to adjust accounts receivable to the estimated collectible amount, assumed that some percentage of deferred amounts would be collected, rather than deferring the entire amount. In connection with these additional procedures, we believe the errors identified indicate that the controls relating to the accounts receivable reserve process and calculations were insufficiently designed to detect a material misstatement.
- *Inventory reserves.* In connection with the Original Restatement, we concluded that errors occurred in establishing the Company’s inventory reserves due to a design deficiency in our controls over the computation and recording of such reserves. Our method of calculating inventory reserves resulted in the misapplication of U.S. GAAP, which caused us to make adjustments in the restated consolidated financial statements. Specifically, our controls were not designed to detect that increases in our forecasted demand for products, which resulted in reductions in subsequent fiscal years to reserves previously recorded. ASC Topic 330 Inventory (specifically ASC 330-10-35-14) states that a write-down of inventory to the lower-of-cost-or-market value at the close of a fiscal year creates a new cost basis that subsequently should not be marked up based on changes in underlying circumstances, and our controls were not designed to prevent such mark ups due to increases in forecasted demand for products. Additionally, in the Further Restatement, we concluded our controls were not adequately designed to ensure that we were accurately calculating excess inventory reserves based on the consideration of overall demand assumptions and for components of “kit” inventory, which is primarily held by our independent sales representatives. Additionally, our controls were not appropriately designed to ensure that when determining needed inventory reserves, we considered inventory held by third parties under inventory purchase obligations.
- *Foreign subsidiary oversight.* In connection with the Original Restatement, we concluded that our oversight of certain foreign subsidiaries was insufficiently designed to detect material misstatements of financial information. Specifically, while these entities were included in oversight activities similar to our other locations, we believe the design of our controls did not adequately address the additional risks associated with certain entities. These additional risks include: sales comprised of higher risk distributor revenues; no specific requirements for statutory audits that may detect inadequacies in the Company’s customer and business records; and a business culture where oral agreements were more common, resulting in contract terms that were less likely to be formally documented.
- *Manual journal entry control procedures.* In connection with the completion of the audit for the fiscal year ended December 31, 2013, we determined that our controls over manual journal entries were not operating effectively. Specifically, we determined that some manual journal entries were not supported with sufficient documentation and were not adequately or timely reviewed and approved; nor were controls adequately designed to ensure entries recorded to a subsidiary at the corporate level in consolidation were recorded in the appropriate periods once subsequently recognized on the local subsidiary ledgers.

Some of the material weaknesses described above resulted in material misstatements in our annual and interim consolidated financial statements, which were corrected in the Original Restatement and the Further Restatement, respectively. Because of the foregoing matters, our management has concluded that we did not maintain effective internal control over financial reporting as of December 31, 2014.

Ernst & Young has issued an audit report on the effectiveness of our internal control over financial reporting, which follows this report.

### **Plans for Remediation**

Our management has worked, and continues to work, to strengthen our disclosure controls and procedures and internal control over financial reporting in connection with the material weaknesses that have been described above. We intend to continue taking measures, including engaging outside professionals, as may be necessary and advisable, to assist us as we continue to address and rectify the foregoing material weaknesses. Since filing the Original Restatement, the Company has better aligned its current finance department staff, both domestically and internationally, to enhance the review and oversight of the accounting and finance functions. The Company has also added several key positions in its finance department, including director level roles in corporate accounting, U.S. accounting, and technical accounting. The Company continues to implement the remediation plans described herein. These remediation efforts are being undertaken under the supervision of the Audit Committee.

We are committed to maintaining an effective control environment and making changes necessary to enhance effectiveness. This commitment has been, and will continue to be, communicated to and reinforced throughout our organization. As part of this commitment, we are implementing an internal audit program that takes into account the nature of our business and the geographies in which we conduct it. We have also updated our code of conduct, and all our employees are required to annually acknowledge their commitment to adhering to its provisions. We have also informed all new employees and regularly remind all existing employees of the availability of our compliance hotline, through which employees at all levels can anonymously submit information or express concerns regarding accounting, financial reporting and other irregularities they may have become aware of or observed.

We are in the process of implementing and continuing to refine the plan for remediation of the ineffective internal control over financial reporting described above. In addition, we have designed and are implementing the specific remediation initiatives described below:

#### *Management's remediation plan with respect to controls over revenue recognition practices relating to the Company's distributors:*

- We have enhanced our revenue recognition training materials for all sales personnel;
- We have conducted training of sales personnel (including senior-level management) pursuant to our updated revenue recognition training materials;
- We have created and implemented an improved sales certification process to identify any sales with deviations from written sales contracts;
- We have added key personnel within our finance department, which we believe will bring additional revenue recognition expertise to address our more complex revenue transactions to help ensure that our revenue recognition policies are correctly applied; and
- We are working to improve procedures with respect to the proper communication, approval, documentation and accounting review of deviations from written sales contracts.

#### *Management's remediation plan with respect to controls over the calculation of the Company's accounts receivable reserves:*

- We have enhanced the calculation and review of our accounts receivable reserves, including enhancing our model to incorporate separate consideration of deferred revenue for co-pay when calculating estimated reserves;
- We have enhanced the account reporting structure within our general ledger system to provide increased transparency of deferred revenue versus contractual allowances; and
- We have added key personnel within our finance department, which we believe will bring additional deferred revenue co-pay and accounts receivable reserves expertise.

*Management's remediation plan with respect to controls over the computation and recording of the Company's inventory reserves:*

- We have enhanced controls over our model for determining inventory reserves to ensure that, once reserves are established in a fiscal year, subsequent write-ups based on demand are not recognized;
- We have enhanced the calculation and review of our inventory reserve analysis, including enhancing our model to capture demand considerations at the component level rather than the aggregated "kit" level, and increasing the involvement of both finance and operational personnel, which we expect to provide better controls to assess excess and obsolete inventory based on the current inventory on hand in relation to the demand forecast and related reserves; and
- We have implemented new procedures and controls to determine and verify for each period the amounts of inventory purchase obligations with third parties to assess if such amounts are considered excess amounts warranting reserve.

*Management's remediation plan with respect to controls over foreign subsidiary oversight:*

- We have changed our structure so that all of our foreign subsidiaries' accounting functions now report to the VP of International Accounting, who then, along with our domestic subsidiaries' accounting functions, report to the VP, Controller within the corporate accounting function, which enhances the review of, and provides additional corporate-level oversight of, their activities;
- We have established and hired a Director of Controls and Process Improvement position, whose primary duties are the design and implementation of processes and procedures to strengthen internal control over financial reporting;
- We have engaged a professional firm to perform testing and evaluation of the Company's internal controls, and to assist the Company in designing and implementing additional financial reporting controls and financial reporting control enhancements; and
- We are evaluating our accounting systems to determine appropriate enhancements, and a plan is being executed that includes upgrading accounting systems at foreign locations.

*Management's remediation plan with respect to controls over manual journal entries:*

- We have implemented a new accounting policy setting forth specific requirements regarding supporting documentation standards and review and approval procedures for manual journal entries, including specifying the types and levels of review to be performed based on specifically defined criteria associated with the nature and magnitude of manual journal entries; and
- We have designed and conducted training for the accounting group regarding manual journal entry preparation, documentation and timely review and approval procedures, along with enhancing procedures over subsequently recording journal entries made at the corporate level into the Company's subsidiary general ledgers to ensure such amounts are recorded within the appropriate periods.

We believe the remediation steps outlined above, which in some cases have already been implemented, have improved and will continue to improve the effectiveness of our internal control over financial reporting. However, we have not completed all of the corrective processes and procedures identified above. Accordingly, as we continue to monitor the effectiveness of our internal control over financial reporting in the areas affected by the material weaknesses described above, we will perform additional procedures prescribed by management, including the use of manual mitigating control procedures, and will employ any additional tools and resources deemed necessary to provide assurance that our financial statements continue to be fairly stated in all material respects. As our management continues to evaluate and work to improve our disclosure controls and procedures and internal control over financial reporting, we may determine to take additional measures to address these deficiencies or determine to modify certain of the remediation measures described above.

### **Changes in Internal Control over Financial Reporting**

Other than as described above, there have not been any changes in our internal control over financial reporting during the fourth quarter of 2014 that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

### The Board of Directors and Shareholders Orthofix International N.V.

We have audited Orthofix International N.V.'s (the Company) internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). Orthofix International N.V.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in management's assessment. Management has identified material weaknesses in controls related to (1) the prevention of revenue recognition in advance of all revenue recognition criteria being met for certain distributor sales transactions entered into by the Company's domestic and international business units, (2) estimating accounts receivable reserves, (3) the computation and recording of inventory reserves, (4) the oversight of certain foreign subsidiaries due to the particular risks associated with such subsidiaries, and (5) controls over the preparation and review of manual journal entries.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Orthofix International N.V. as of December 31, 2014 and 2013, and the related consolidated statements of operations and comprehensive income (loss), changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2014. These material weaknesses were considered in determining the nature, timing and extent of audit tests applied in our audits of these consolidated financial statements, and this report does not affect our report dated April 29, 2015, which expressed an unqualified opinion on those financial statements.

In our opinion, because of the effect of the material weaknesses described above on the achievement of the objectives of the control criteria, Orthofix International N.V. has not maintained effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

/s/ Ernst & Young LLP  
Dallas, Texas

April 29, 2015

**Item 9B. Other Information**

Not applicable.

**PART III**

Information required by Items 10, 11, 12, 13 and 14 of Form 10-K is omitted from this annual report and will be filed in a definitive proxy statement or by an amendment to this annual report not later than 120 days after the end of the fiscal year covered by this annual report.

**Item 10. Directors, Executive Officers and Corporate Governance**

We will provide information that is responsive to this Item 10 regarding executive compensation in our definitive proxy statement or in an amendment to this annual report not later than 120 days after the end of the fiscal year covered by this annual report, in either case under the caption “Information About Directors,” “Section 16 (a) Beneficial Ownership Reporting Compliance” and others possibly elsewhere therein. That information is incorporated in this Item 10 by reference.

**Item 11. Executive Compensation**

We will provide information that is responsive to this Item 11 regarding executive compensation in our definitive proxy statement or in an amendment to this annual report not later than 120 days after the end of the fiscal year covered by this annual report, in either case under the caption “Executive Compensation,” and possibly elsewhere therein. That information is incorporated in this Item 11 by reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

We will provide information that is responsive to this Item 12 regarding ownership of our securities by certain beneficial owners and our directors and executive officers, as well as information with respect to our equity compensation plans, in our definitive proxy statement or in an amendment to this annual report not later than 120 days after the end of the fiscal year covered by this annual report, in either case under the captions “Security Ownership of Certain Beneficial Owners and Management and Related Stockholders” and “Equity Compensation Plan Information,” and possibly elsewhere therein. That information is incorporated in this Item 12 by reference.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

We will provide information that is responsive to this Item 13 regarding transactions with related parties and director independence in our definitive proxy statement or in an amendment to this annual report not later than 120 days after the end of the fiscal year covered by this annual report, in either case under the caption “Certain Relationships and Related Transactions,” and possibly elsewhere therein. That information is incorporated in this Item 13 by reference.

**Item 14. Principal Accountant Fees and Services**

We will provide information that is responsive to this Item 14 regarding principal accountant fees and services in our definitive proxy statement or in an amendment to this annual report not later than 120 days after the end of the fiscal year covered by this annual report, in either case under the caption “Principal Accountant Fees and Services,” and possibly elsewhere therein. That information is incorporated in this Item 14 by reference.

## PART IV

### **Item 15. Exhibits, Financial Statement Schedules**

#### **(a) Documents filed as part of report on Form 10-K**

The following documents are filed as part of this report on Form 10-K:

1. Financial Statements  
See “Index to Consolidated Financial Statements” on page F-1 of this Form 10-K.
2. Financial Statement Schedules  
See “Index to Consolidated Financial Statements” on page F-1 of this Form 10-K.
3. Exhibits

<b>Exhibit Number</b>	<b>Description</b>
2.1	Asset Purchase Agreement, dated as of March 8, 2010, by and between Tyco Healthcare Group LP d/b/a Covidien, Covidien AG, Mallinckrodt do Brasil Ltda, Kendall de Mexico S.A. de C.V., Novamedix Limited, Novamedix Distribution Limited, Novamedix Services Limited, Promeca S.A. de C.V., Orthofix do Brasil, Orthofix S.r.l., Orthofix S.A., Intavent Orthofix Limited, Breg Mexico S. de R.I. de CV, and Implantes y Sistemas Medicos, Inc. (filed as an exhibit to the Company’s current report on Form 8-K filed March 9, 2010 and incorporated herein by reference).
2.2	Stock Purchase Agreement, dated as of April 23, 2012, by and among Breg, Inc., Orthofix Holdings, Inc. and Breg Acquisition Corp. (filed as an exhibit to the Company’s current report on Form 8-K filed April 24, 2012 and incorporated herein by reference).
3.1	Certificate of Incorporation of the Company (filed as an exhibit to the Company’s annual report on Form 20-F dated June 29, 2001 and incorporated herein by reference).
3.2	Articles of Association of the Company as amended (filed as an exhibit to the Company’s annual report on Form 10-K for the fiscal year ended December 31, 2011 and incorporated herein by reference).
10.1	Credit Agreement, dated as of August 30, 2010, among Orthofix Holdings, Inc., Orthofix International N.V. and certain domestic subsidiaries of Orthofix International N.V., the several banks and other financial institutions as may from time to time become parties thereunder, and JPMorgan Chase, N.A. (filed as an exhibit to the Company’s current report on Form 8-K filed August 31, 2010 and incorporated herein by reference).
10.2	First Amendment to Credit Agreement, dated May 4, 2011, among Orthofix Holdings, Inc., a Delaware corporation, Orthofix International N.V. (“Orthofix International”), a Netherlands Antilles corporation, certain domestic direct and indirect subsidiaries of Orthofix International, JPMorgan Chase Bank, N.A., as Administrative Agent, and certain lender parties thereto (filed as an exhibit to the Company’s current report on Form 8-K filed May 5, 2011 and incorporated herein by reference).
10.3	Limited Waiver, entered into on August 14, 2013, by and among Orthofix International N.V., Orthofix Holdings, Inc. and certain of its wholly owned subsidiaries, and certain lender parties thereto. (filed as an exhibit to the Company’s current report on Form 8-K filed August 19, 2013 and incorporated herein by reference).
10.4	Limited Waiver, entered into on August 14, 2014, by and among Orthofix International N.V., Orthofix Holdings, Inc. and certain of its wholly owned subsidiaries, and certain lender parties thereto (filed as an exhibit to the Company’s current report on Form 8-K filed August 19, 2014 and incorporated herein by reference).
10.5	Limited Waiver, entered into on September 30, 2014, by and among Orthofix International N.V., Orthofix Holdings, Inc. and certain of its wholly owned subsidiaries, and certain lender parties thereto (filed as an exhibit to the Company’s current report on Form 8-K filed October 6, 2014 and incorporated herein by reference).
10.6	Commitment Reduction and Limited Waiver, dated as of January 15, 2015, by and among Orthofix International N.V., Orthofix Holdings, Inc. and certain of their wholly owned subsidiaries, and certain lender parties thereto (filed as an exhibit to the Company’s current report on Form 8-K filed January 16, 2015 and incorporated herein by reference).
10.7	Limited Waiver, dated as of February 26, 2015, by and among Orthofix International N.V., Orthofix Holdings, Inc. and certain of their wholly owned subsidiaries, and certain lender parties thereto (filed as an exhibit to the Company’s current report on Form 8-K filed February 27, 2015 and incorporated herein by reference).

Exhibit Number	Description
10.8†	Matrix Commercialization Collaboration Agreement, entered into July 24, 2008, by and between Orthofix Holdings, Inc. and Musculoskeletal Transplant Foundation (filed as an exhibit to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2009 and incorporated herein by reference).
10.9	Amendment No. 1 to Matrix Commercialization Collaboration Agreement, dated as of December 15, 2010, by and between Musculoskeletal Transplant Foundation, Inc. and Orthofix Holdings, Inc. (filed as an exhibit to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2010 and incorporated herein by reference).
10.10†	Amendment No. 2 to Matrix Commercialization Collaboration Agreement, dated as of January 9, 2012, by and between Musculoskeletal Transplant Foundation, Inc. and Orthofix Holdings, Inc. (filed as an exhibit to amendment no. 1 to the Company's annual report on Form 10-K/A for the year ended December 31, 2011 and incorporated herein by reference).
10.11†	Amendment No. 3 to Matrix Commercialization Collaboration Agreement, entered into on July 1, 2013 and effective as of June 25, 2013, by and between Musculoskeletal Transplant Foundation, Inc. and Orthofix Holdings, Inc. (filed as an exhibit to the Company's current report on Form 8-K filed July 8, 2013 and incorporated herein by reference).
10.12	Amendment No. 4 to Matrix Commercialization Collaboration Agreement, entered into on April 1, 2014, by and between Musculoskeletal Transplant Foundation, Inc. and Orthofix Holdings, Inc. (filed as an exhibit to the Company's current report on Form 8-K filed April 7, 2014 and incorporated herein by reference).
10.13	Orthofix International N.V. Amended and Restated Stock Purchase Plan, as amended (filed as an exhibit to the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2011 and incorporated herein by reference).
10.14	Orthofix International N.V. 2012 Long-Term Incentive Plan (filed as an exhibit to the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2012 and incorporated herein by reference)
10.15	Amended and Restated Orthofix Deferred Compensation Plan (filed as an exhibit to the Company's current report on Form 8-K filed January 7, 2009, and incorporated herein by reference).
10.16	Form of Employee Non-Qualified Stock Option Agreement under the Orthofix International N.V. 2012 Long-Term Incentive Plan – July 2014-Present Grants (Time-Based Vesting) (filed as an exhibit to the Company's quarterly report on Form 10-Q for the quarter ended September 30, 2014 and incorporated herein by reference).
10.17	Form of Employee Restricted Stock Grant Agreement under the Orthofix International N.V. 2012 Long-Term Incentive Plan – July 2014-Present Grants (Time-Based Vesting) (filed as an exhibit to the Company's quarterly report on Form 10-Q for the quarter ended September 30, 2014 and incorporated herein by reference).
10.18	Form of Employee Performance Vesting Restricted Stock Grant Agreement under the Orthofix International N.V. 2012 Long-Term Incentive Plan – July 2014 Grants (filed as an exhibit to the Company's quarterly report on Form 10-Q for the quarter ended September 30, 2014 and incorporated herein by reference).
10.19	Form of Non-Employee Director Restricted Stock Grant Agreement under the Orthofix International N.V. 2012 Long-Term Incentive Plan – July 2014-Present Grants (Time-Based Vesting) (filed as an exhibit to the Company's quarterly report on Form 10-Q for the quarter ended September 30, 2014 and incorporated herein by reference).
10.20	Form of Employee Non-Qualified Stock Option Agreement under the Orthofix International N.V. 2012 Long-Term Incentive Plan (pre-2014 grants) (filed as an exhibit to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2012 and incorporated herein by reference).
10.21	Form of Non-Employee Director Non-Qualified Stock Option Agreement under the Orthofix International N.V. 2012 Long Term Incentive Plan. (filed as an exhibit to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2012 and incorporated herein by reference).
10.22	Form of Employee Restricted Stock Grant Agreement under the Orthofix International N.V. 2012 Long Term Incentive Plan (pre-2014 grants) (filed as an exhibit to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2012 and incorporated herein by reference).
10.23	Form of Non-Employee Director Restricted Stock Grant Agreement under the Orthofix International N.V. 2012 Long Term Incentive Plan (pre-2014 grants) (filed as an exhibit to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2012 and incorporated herein by reference).



Exhibit Number	Description
10.24	Form of Employee Non-Qualified Stock Option Agreement under the Orthofix International N.V. Amended and Restated 2004 Long-Term Incentive Plan (post-2008 grants) (filed as an exhibit to the Company's current report on Form 8-K filed July 7, 2009 and incorporated herein by reference).
10.25	Form of Non-Employee Director Non-Qualified Stock Option Agreement under the Orthofix International N.V. Amended and Restated 2004 Long-Term Incentive Plan (post-2008 grants) (filed as an exhibit to the Company's current report on Form 8-K filed July 7, 2009 and incorporated herein by reference).
10.26	Form of Nonqualified Stock Option Agreement under the Orthofix International N.V. Amended and Restated 2004 Long Term Incentive Plan (pre-2009 grants—vesting over 3 years) (filed as an exhibit to the Company's current report on Form 8-K filed June 20, 2008 and incorporated herein by reference).
10.27	Form of Nonqualified Stock Option Agreement under the Orthofix International N.V. Amended and Restated 2004 Long Term Incentive Plan (pre-2009 grants— year cliff vesting) (filed as an exhibit to the Company's current report on Form 8-K filed June 20, 2008 and incorporated herein by reference).
10.28	Form of Restricted Stock Grant Agreement under the Orthofix International N.V. Amended and Restated 2004 Long Term Incentive Plan (pre-2011 grants—vesting over 3 years) (filed as an exhibit to the Company's current report on Form 8-K filed June 20, 2008 and incorporated herein by reference).
10.29	Form of Restricted Stock Grant Agreement under the Orthofix International N.V. Amended and Restated 2004 Long Term Incentive Plan (post-2010 grants—vesting over 3 years) (filed as an exhibit to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2010 and incorporated herein by reference).
10.30	Form of Restricted Stock Grant Agreement under the Orthofix International N.V. Amended and Restated 2004 Long Term Incentive Plan (3 year cliff vesting) (filed as an exhibit to the Company's current report on Form 8-K filed June 20, 2008 and incorporated herein by reference).
10.31	Form of Indemnity Agreement (filed as an exhibit to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2008 and incorporated herein by reference).
10.32	Amended and Restated Employment Agreement, entered into and effective as of July 1, 2009, by and between Orthofix Inc. and Michael M. Finegan (filed as an exhibit to the Company's current report on Form 8-K filed July 7, 2009 and incorporated herein by reference).
10.33	Amendment No. 1 to Amended and Restated Employment Agreement, dated August 4, 2009, by and between Orthofix Inc. and Michael M. Finegan (filed as an exhibit to the Company's quarterly report on Form 10-Q for the quarter ended September 30, 2009 and incorporated herein by reference).
10.34	Amendment No. 2 to Amended and Restated Employment Agreement, dated as of October 1, 2011, by and between Orthofix Inc. and Michael M. Finegan (filed as an exhibit to the Company's current report on Form 8-K filed October 4, 2011 and incorporated herein by reference).
10.35	Amendment No. 3 to Amended and Restated Employment Agreement, dated as of August 29, 2012, by and between Orthofix Inc. and Michael Finegan (filed as an exhibit to the Company's current report on Form 8-K filed August 31, 2012 and incorporated herein by reference).
10.36	Employment Agreement, entered into on December 9, 2010, by and between Orthofix Inc. and Jeffrey M. Schumm (filed as an exhibit to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2010 and incorporated herein by reference).
10.37	Employment Agreement, entered into as of January 7, 2013, by and between Orthofix Inc. and Emily Buxton (filed as an exhibit to the Company's current report on Form 8-K filed January 11, 2013 and incorporated herein by reference).
10.38	Amendment #1 to Employment Agreement, dated as of February 27, 2014, between Orthofix and Emily Buxton (filed as an exhibit to the Company's current report on Form 8-K filed March 4, 2014 and incorporated herein by reference).
10.39	Form of Amendment to Stock Option Agreements (for Robert S. Vaters and Michael M. Finegan) (filed as an exhibit to the Company's current report on Form 8-K filed July 7, 2009 and incorporated herein by reference).
10.40	Employment Agreement, effective as of March 13, 2013, by and between Orthofix Inc. and Bradley R. Mason (filed as an exhibit to the Company's current report on Form 8-K filed March 13, 2013 and incorporated herein by reference).

Exhibit Number	Description
10.41	Inducement Grant Non-Qualified Stock Option Agreement, dated March 13, 2013, between Orthofix International N.V. and Bradley R. Mason (filed as an exhibit to the Company's current report on Form 8-K filed March 13, 2013 and incorporated herein by reference).
10.42	Restricted Stock Grant Agreement under the Orthofix International N.V. 2012 Long-Term Incentive Plan, dated March 13, 2013, between Orthofix International N.V. and Bradley R. Mason (filed as an exhibit to the Company's current report on Form 8-K filed March 13, 2013 and incorporated herein by reference).
10.43	Letter Agreement, dated May 9, 2013, between Orthofix Inc. and Vicente Trelles (filed as an exhibit to the Company's current report on Form 8-K filed May 14, 2013 and incorporated herein by reference).
10.44	Letter Agreement, entered into on June 18, 2013, between Orthofix Inc. and Brian McCollum (filed as an exhibit to the Company's current report on Form 8-K filed June 20, 2013 and incorporated herein by reference).
10.45	Consulting Letter Agreement, dated as of November 5, 2013, between Orthofix International N.V. and James F. Gero (filed as an exhibit to the Company's current report on Form 8-K filed November 6, 2013 and incorporated herein by reference).
10.46	Employment Agreement, dated November 26, 2013, by and between Orthofix AG and Davide Bianchi (filed as an exhibit to the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2014 and incorporated herein by reference).
10.47	Amended and Restated Employment Agreement, effective as of November 20, 2014, by and between Orthofix International N.V., Davide Bianchi and, solely for purposes of certain specified provisions, Orthofix AG (filed as an exhibit to the Company's current report on Form 8-K filed November 28, 2014 and incorporated herein by reference).
10.48	Employment Agreement, entered into and effective as of May 5, 2014, by and between Orthofix Inc. and Mark A. Heggstad (filed as an exhibit to the Company's current report on Form 8-K filed May 8, 2014 and incorporated herein by reference).
10.49	Inducement Grant Non-Qualified Stock Option Agreement, dated May 5, 2014, between Orthofix International N.V. and Mark A. Heggstad (filed as an exhibit to the Company's current report on Form 8-K filed May 8, 2014 and incorporated herein by reference).
10.50	Inducement Grant Restricted Stock Agreement, dated May 8, 2014, between Orthofix International N.V. and Mark A. Heggstad (filed as an exhibit to the Company's current report on Form 8-K filed May 8, 2014 and incorporated herein by reference).
10.51	Employment Agreement, entered into and effective as of September 4, 2014, between Orthofix Inc. and Doug Rice (filed as an exhibit to the Company's current report on Form 8-K filed September 8, 2014 and incorporated herein by reference).
10.52	Amendment No. 1 to Employment Agreement, entered into and effective as of October 3, 2014, between Orthofix Inc. and Doug Rice (filed as an exhibit to the Company's current report on Form 8-K filed October 6, 2014 and incorporated herein by reference).
10.53	Settlement Agreement, entered into on June 6, 2012, among the United States of America, acting through the United States Department of Justice and on behalf of the Office of Inspector General of the Department of Health and Human Services, the TRICARE Management Activity, through its General Counsel, the Office of Personnel Management, in its capacity as administrator of the Federal Employees Health Benefits Program, the United States Department of Veteran Affairs, Orthofix International N.V. and relator Jeffrey J. Bierman (filed as an exhibit to the Company's current report on Form 8-K/A filed June 7, 2012 and incorporated herein by reference).
10.54	Amended Plea Agreement entered into on December 14, 2012, among the United States Attorney for the District of Massachusetts, the Department of Justice and Orthofix Inc. (filed as an exhibit to the Company's current report on Form 8-K filed December 19, 2012 and incorporated herein by reference).
10.55	Corporate Integrity Agreement, entered into on June 6, 2012, between the Office of Inspector General of the Department of Health and Human Services and Orthofix International N.V. (filed as an exhibit to the Company's current report on Form 8-K/A filed June 7, 2012 and incorporated herein by reference).
21.1*	List of Subsidiaries
23.1*	Consent of Independent Registered Public Accounting Firm
31.1*	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.

Exhibit Number	Description
31.2*	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
32.1*	Section 1350 Certification of Chief Executive Officer and Certification of Chief Financial Officer
101	The following financial statements from Orthofix International N.V. on Form 10-K for the year ended December 31, 2014 filed on April 29, 2015, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations and Comprehensive Income (Loss), (iii) Consolidated Statements of Changes in Shareholders' Equity, (iv) Consolidated Statements of Cash Flows, and (v) the Notes to the Consolidated Financial Statements.
*	Filed with this Form 10-K.
†	Certain confidential portions of this exhibit were omitted by means of redacting a portion of the text. This exhibit has been filed separately with the Secretary of the Commission without redactions pursuant to our Application Requesting Confidential Treatment under the Securities Exchange Act of 1934.



## **ORTHOFIX INTERNATIONAL N.V.**

### **Statement of Management's Responsibility for Financial Statements**

To the Shareholders of Orthofix International N.V.:

Management is responsible for the preparation of the consolidated financial statements and related information that are presented in this report. The consolidated financial statements, which include amounts based on management's estimates and judgments, have been prepared in conformity with accounting principles generally accepted in the United States. Other financial information in the report to shareholders is consistent with that in the consolidated financial statements.

The Company maintains accounting and internal control systems to provide reasonable assurance at a reasonable cost that assets are safeguarded against loss from unauthorized use or disposition, and that the financial records are reliable for preparing financial statements and maintaining accountability for assets. These systems are augmented by written policies, an organizational structure providing division of responsibilities and careful selection and training of qualified personnel.

The Company engaged Ernst & Young LLP independent registered public accountants to audit and render an opinion on the consolidated financial statements in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). These standards include an assessment of the systems of internal controls and test of transactions to the extent considered necessary by them to support their opinion.

The Board of Directors, through its Audit Committee consisting solely of outside directors of the Company, meets periodically with management and our independent registered public accountants to ensure that each is meeting its responsibilities and to discuss matters concerning internal controls and financial reporting. Ernst & Young LLP has full and free access to the Audit Committee.

**James F. Hinrichs**

Chairman of the Audit Committee

**Bradley R. Mason**

President and Chief Executive Officer, Director

**Doug Rice**

Chief Financial Officer



**ORTHOFIX INTERNATIONAL N.V.**

**Index to Consolidated Financial Statements**

	<u>Page</u>
Index to Consolidated Financial Statements .....	F-1
Report of Independent Registered Public Accounting Firm .....	F-2
Consolidated Balance Sheets as of December 31, 2014 and 2013 .....	F-3
Consolidated Statements of Operations and Comprehensive Income (Loss) for the years ended December 31, 2014, 2013 and 2012 .....	F-4
Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2014, 2013 and 2012 .....	F-5
Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012 .....	F-6
Notes to the Consolidated Financial Statements .....	F-7
Schedule 1—Condensed Financial Information of Registrant Orthofix International N.V. ....	S-1
Schedule 2—Valuation and Qualifying Accounts .....	S-5

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders  
Orthofix International N.V.

We have audited the accompanying consolidated balance sheets of Orthofix International N.V. (“the Company”) as of December 31, 2014 and 2013, and the related consolidated statements of operations and comprehensive income (loss), changes in shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2014. Our audits also included the financial statement schedule listed in the index at Item 15(a). These financial statements and schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and schedule 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Orthofix International N.V. at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Orthofix International N.V.’s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated April 29, 2015 expressed an adverse opinion thereon.

/s/ Ernst & Young LLP

Dallas, Texas  
April 29, 2015



**ORTHOFIX INTERNATIONAL N.V.**

**Consolidated Balance Sheets as of December 31, 2014 and 2013**

(U.S. Dollars, in thousands except share and per share data)	2014	2013
<b>Assets</b>		
Current assets:		
Cash and cash equivalents .....	\$ 36,815	\$ 28,924
Restricted cash .....	34,424	23,761
Trade accounts receivable, less allowances of \$7,285 and \$9,111 at December 31, 2014 and 2013, respectively .....	61,358	70,811
Inventories .....	59,846	72,678
Deferred income taxes .....	37,413	39,999
Prepaid expenses and other current assets .....	26,552	28,933
Total current assets .....	256,408	265,106
Property, plant and equipment, net .....	48,549	54,372
Patents and other intangible assets, net .....	7,152	9,046
Goodwill .....	53,565	53,565
Deferred income taxes .....	18,541	22,394
Other long-term assets .....	8,970	7,492
Total assets .....	<u>\$ 393,185</u>	<u>\$ 411,975</u>
<b>Liabilities and shareholders' equity</b>		
Current liabilities:		
Trade accounts payable .....	13,223	20,674
Other current liabilities .....	53,220	49,676
Total current liabilities .....	66,443	70,350
Long-term debt .....	—	20,000
Deferred income taxes .....	229	13,026
Other long-term liabilities .....	26,886	12,736
Total liabilities .....	93,558	116,112
Contingencies (Note 17)		
Shareholders' equity		
Common shares \$0.10 par value; 50,000,000 shares authorized; 18,611,495 and 18,102,335 issued and outstanding as of December 31, 2014 and 2013, respectively .....	1,861	1,810
Additional paid-in capital .....	232,788	216,653
Retained earnings .....	65,360	73,897
Accumulated other comprehensive (loss) income .....	(382)	3,503
Total shareholders' equity .....	<u>299,627</u>	<u>295,863</u>
Total liabilities and shareholders' equity .....	<u>\$ 393,185</u>	<u>\$ 411,975</u>

*The accompanying notes form an integral part of these consolidated financial statements.*

**ORTHOFIX INTERNATIONAL N.V.**

**Consolidated Statements of Operations and Comprehensive Income (Loss)  
For the years ended December 31, 2014, 2013 and 2012**

(U.S. Dollars, in thousands, except share and per share data)	2014	2013	2012
Product sales .....	\$ 351,525	\$ 349,552	\$ 393,647
Marketing service fees .....	50,752	48,059	46,542
Net sales .....	402,277	397,611	440,189
Cost of sales .....	98,912	106,912	100,726
Gross profit .....	303,365	290,699	339,463
Operating expenses			
Sales and marketing .....	166,547	175,468	178,771
General and administrative .....	76,790	64,830	53,650
Research and development .....	24,994	26,768	28,577
Amortization of intangible assets .....	2,284	2,687	2,298
Costs related to the accounting review and restatement .....	15,614	12,945	—
Impairment of Goodwill .....	—	19,193	—
Charges related to U.S. Government resolutions (Note 17) .....	—	—	1,295
	<u>286,229</u>	<u>301,891</u>	<u>264,591</u>
Operating income (loss) .....	17,136	(11,192)	74,872
Other income and (expense)			
Interest expense, net .....	(1,785)	(1,827)	(4,161)
Other (expense) income .....	(2,895)	2,416	(1,646)
	<u>(4,680)</u>	<u>589</u>	<u>(5,807)</u>
Income (loss) before income taxes .....	12,456	(10,603)	69,065
Income tax expense .....	(16,200)	(7,602)	(23,944)
Net (loss) income from continuing operations .....	<u>(3,744)</u>	<u>(18,205)</u>	<u>45,121</u>
Discontinued operations (Note 16)			
Gain on sale of Breg, Inc., net of tax .....	—	—	1,345
Loss from discontinued operations .....	(7,157)	(15,510)	(3,494)
Income tax benefit (expense) .....	2,364	4,903	(120)
Net loss from discontinued operations .....	<u>(4,793)</u>	<u>(10,607)</u>	<u>(2,269)</u>
Net (loss) income .....	<u>\$ (8,537)</u>	<u>\$ (28,812)</u>	<u>\$ 42,852</u>
Net income (loss) per common share—basic:			
Net (loss) income from continuing operations .....	\$ (0.20)	\$ (0.97)	\$ 2.38
Net loss from discontinued operations .....	(0.26)	(0.57)	(0.12)
Net (loss) income per common share—basic .....	<u>\$ (0.46)</u>	<u>\$ (1.54)</u>	<u>\$ 2.26</u>
Net income (loss) per common share—diluted:			
Net (loss) income from continuing operations .....	\$ (0.20)	\$ (0.97)	\$ 2.33
Net loss from discontinued operations .....	(0.26)	(0.57)	(0.12)
Net (loss) income per common share—diluted .....	<u>\$ (0.46)</u>	<u>\$ (1.54)</u>	<u>\$ 2.21</u>
Weighted average number of common shares:			
Basic .....	18,459,054	18,697,228	18,977,263
Diluted .....	18,459,054	18,697,228	19,390,413
Other comprehensive income (loss), before tax:			
Translation adjustment .....	\$ (4,133)	\$ (1,708)	\$ 1,131
Unrealized gain (loss) on derivative instrument .....	307	(443)	416
Other comprehensive (loss) income, before tax .....	<u>(3,826)</u>	<u>(2,151)</u>	<u>1,547</u>
Income tax related to components of other comprehensive income .....	(59)	164	(153)
Other comprehensive (loss) income, net of tax .....	<u>(3,885)</u>	<u>(1,987)</u>	<u>1,394</u>
Comprehensive (loss) income .....	<u>\$ (12,422)</u>	<u>\$ (30,799)</u>	<u>\$ 44,246</u>

*The accompanying notes form an integral part of these consolidated financial statements.*

**ORTHOFIX INTERNATIONAL N.V.**

**Consolidated Statements of Changes in Shareholders' Equity  
For the years ended December 31, 2014, 2013 and 2012**

<u>(U.S. Dollars, in thousands, except share data)</u>	<u>Number of Common Shares Outstanding</u>	<u>Common Shares</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive (Loss) Income</u>	<u>Total Shareholders' Equity</u>
At December 31, 2011 .....	18,465,444	\$ 1,846	\$ 214,505	\$ 59,857	\$ 4,096	\$ 280,304
Net income .....	—	—	—	42,852	—	42,852
Unrealized gain on derivative instrument (net of tax expense of \$153) .....	—	—	—	—	263	263
Translation adjustment .....	—	—	—	—	1,131	1,131
Share-based compensation expense .....	—	—	6,303	—	—	6,303
Common shares issued .....	873,885	88	25,498	—	—	25,586
At December 31, 2012 .....	<u>19,339,329</u>	<u>\$ 1,934</u>	<u>\$ 246,306</u>	<u>\$ 102,709</u>	<u>\$ 5,490</u>	<u>\$ 356,439</u>
Net loss .....	—	—	—	(28,812)	—	(28,812)
Unrealized loss on derivative instrument (net of tax benefit of \$164) .....	—	—	—	—	(279)	(279)
Translation adjustment .....	—	—	—	—	(1,708)	(1,708)
Share-based compensation expense .....	—	—	6,267	—	—	6,267
Common shares issued .....	200,584	20	3,430	—	—	3,450
Retirement of repurchased common stock .....	<u>(1,437,578)</u>	<u>(144)</u>	<u>(39,350)</u>	—	—	<u>(39,494)</u>
At December 31, 2013 .....	<u>18,102,335</u>	<u>\$ 1,810</u>	<u>\$ 216,653</u>	<u>\$ 73,897</u>	<u>\$ 3,503</u>	<u>\$ 295,863</u>
Net loss .....	—	—	—	(8,537)	—	(8,537)
Unrealized gain on derivative instrument (net of tax expense of \$59) .....	—	—	—	—	248	248
Translation adjustment .....	—	—	—	—	(4,133)	(4,133)
Share-based compensation expense .....	—	—	5,724	—	—	5,724
Common shares issued .....	509,160	51	10,411	—	—	10,462
At December 31, 2014 .....	<u>18,611,495</u>	<u>\$ 1,861</u>	<u>\$ 232,788</u>	<u>\$ 65,360</u>	<u>\$ (382)</u>	<u>\$ 299,627</u>

*The accompanying notes form an integral part of these consolidated financial statements.*

**ORTHOFIX INTERNATIONAL N.V.**

**Consolidated Statements of Cash Flows**

**For the years ended December 31, 2014, 2013 and 2012**

(U.S. Dollars, in thousands)	2014	2013	2012
Cash flows from operating activities:			
Net (loss) income.....	\$ (8,537)	\$ (28,812)	\$ 42,852
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization.....	22,878	22,822	20,732
Amortization of debt costs.....	726	720	1,737
Amortization of exclusivity agreements.....	1,929	1,546	1,289
Provision for doubtful accounts.....	938	4,590	2,212
Deferred income taxes.....	(7,053)	2,829	3,771
Share-based compensation.....	5,724	6,267	6,303
Impairment of goodwill and certain assets.....	966	19,193	—
Gain on sale of Breg, Inc., net of tax.....	—	—	(1,345)
Excess income tax benefit on employee stock-based awards.....	(206)	(82)	(1,020)
Other.....	821	4,536	4,798
Changes in operating assets and liabilities, net of effect of dispositions:			
Trade accounts receivable.....	6,138	28,562	(11,128)
Inventories.....	8,109	(3,213)	(384)
Escrow receivable.....	—	—	41,537
Prepaid expenses and other current assets.....	5,100	8,764	(14,575)
Trade accounts payable.....	(6,451)	(2,280)	4,575
Charges related to U.S. Government resolutions.....	—	—	(83,178)
Other current liabilities.....	5,456	6,969	(5,239)
Other long-term assets.....	(734)	(5,329)	(3,391)
Other long-term liabilities.....	15,154	(40)	616
Net cash provided by operating activities.....	<u>50,958</u>	<u>67,042</u>	<u>10,162</u>
Cash flows from investing activities:			
Capital expenditures for property, plant and equipment.....	(18,069)	(24,787)	(27,994)
Capital expenditures for intangible assets.....	(456)	(4,891)	(780)
Purchase of other investments.....	(1,457)	(1,374)	(714)
Proceeds from sale of other investments.....	32	—	878
Net proceeds from sale of Breg, Inc.....	—	—	153,773
Net cash (used in) provided by investing activities.....	<u>(19,950)</u>	<u>(31,052)</u>	<u>125,163</u>
Cash flows from financing activities:			
Net proceeds from issuance of common shares.....	10,462	3,450	25,586
Repayments of long-term debt.....	(20,000)	(16)	(188,695)
Repayment of bank borrowings, net.....	—	—	(1,297)
Changes in restricted cash.....	(10,662)	(2,375)	25,799
Purchase of common stock.....	—	(39,494)	—
Excess income tax benefit on employee stock-based awards.....	206	82	1,020
Net cash used in financing activities.....	<u>(19,994)</u>	<u>(38,353)</u>	<u>(137,587)</u>
Effect of exchange rate changes on cash.....	(3,123)	520	286
Net increase (decrease) in cash and cash equivalents.....	7,891	(1,843)	(1,976)
Cash and cash equivalents at the beginning of the year.....	28,924	30,767	32,743
Cash and cash equivalents at the end of the year.....	<u>\$ 36,815</u>	<u>\$ 28,924</u>	<u>\$ 30,767</u>
<b>Supplemental disclosure of cash flow information:</b>			
Cash paid during the year for:			
Interest.....	<u>\$ 1,315</u>	<u>\$ 2,046</u>	<u>\$ 4,569</u>
Income taxes.....	<u>\$ 2,222</u>	<u>\$ 8,773</u>	<u>\$ 18,268</u>

*The accompanying notes form an integral part of these consolidated financial statements.*

## **ORTHOFIX INTERNATIONAL N.V.**

### **Notes to the Consolidated Financial Statements**

#### **Description of business**

Orthofix International N.V. is a diversified, global medical device company focused on improving patients' lives by providing superior reconstructive and regenerative orthopedic and spine solutions to physicians worldwide. Headquartered in Lewisville, TX., the Company has four strategic business units that include BioStim, Biologics, Extremity Fixation and Spine Fixation. Orthofix products are widely distributed via the Company's sales representatives, distributors and its subsidiaries. In addition, Orthofix is collaborating on research and development activities with leading clinical organizations such as the Musculoskeletal Transplant Foundation and the Texas Scottish Rite Hospital for Children.

#### **1. Summary of significant accounting policies**

##### **(a) Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its wholly owned and majority-owned subsidiaries and entities over which the Company has control. All intercompany accounts and transactions are eliminated in consolidation.

##### **(b) Use of estimates in preparation of financial statements**

The preparation of financial statements in conformity with United States generally accepted accounting principles ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, we evaluate these estimates, including those related to contractual allowances, doubtful accounts, inventories, potential intangible assets and goodwill impairment, income taxes, and share-based compensation. We base our estimates on historical experience, future expectations and on other relevant assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

##### **(c) Foreign currency translation**

The financial statements for operations outside the United States are generally maintained in their local currency. All foreign currency denominated balance sheet accounts, except shareholders' equity, are translated to U.S. dollars at year end exchange rates and revenue and expense items are translated at weighted average rates of exchange prevailing during the year. Gains and losses resulting from the translation of foreign currency are recorded in the accumulated other comprehensive income component of shareholders' equity. Transactional foreign currency gains and (losses), including those generated from intercompany operations, are included in other expense, net and were \$2.4 million loss, \$0.5 million loss and \$0.4 million loss for the years ended December 31, 2014, 2013 and 2012, respectively.

##### **(d) Cash and cash equivalents**

The Company considers all highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents.

##### **(e) Restricted cash**

Restricted cash consists of cash held at certain subsidiaries, the distribution or transfer of which to Orthofix International N.V. (the "Parent") or other subsidiaries that are not parties to the credit facility described in Note 7 is restricted. The senior secured credit facility restricts the Parent and subsidiaries that are not parties to the facility from access to cash held by Orthofix Holdings, Inc. and its subsidiaries. All credit party subsidiaries have access to this cash for operational and debt repayment purposes.

##### **(f) Market risk**

In the ordinary course of business, the Company is exposed to the impact of changes in interest rates and foreign currency fluctuations. The Company's objective is to limit the impact of such movements on earnings and cash flows. In order to achieve this objective, the Company seeks to balance its non-U.S. dollar denominated income and expenditures. During 2014, 2013 and 2012, the Company made use of a foreign currency swap agreement to manage cash flow exposure generated from foreign currency fluctuations.

The Company generally does not require collateral on trade receivables.

**(g) Inventories**

Inventories are valued at the lower of cost or estimated net realizable value, after provision for excess, obsolete or impaired items, which is reviewed and updated on a periodic basis by management. For inventory procured or produced, whether internally or through contract manufacturing arrangements, at our manufacturing facility in Italy, cost is determined on a weighted-average basis, which approximates the first-in, first-out (“FIFO”) method. For inventory procured or produced, whether internally or through contract manufacturing arrangements, at our manufacturing facility in Texas, standard costs, which approximates actual cost on the FIFO method, is used to value inventory. Standard costs are reviewed annually by management, or more often in the event circumstances indicate a change in cost has occurred. The valuation of work-in-process, finished products, field inventory and consignment inventory includes the cost of materials, labor and other production costs. Field inventory represents immediately saleable finished products inventory that is in the possession of the Company’s independent sales representatives. Consignment inventory represents immediately saleable finished products located at third party customers, such as distributors and hospitals.

The Company adjusts the value of its inventory to the extent management determines that the cost cannot be recovered due to obsolescence or other factors. In order to make these determinations, management uses estimates of future demand and sales prices for each product to determine the appropriate inventory reserves and to make corresponding adjustments to the carrying value of these inventories to reflect the lower of cost or market value. In the event of a decrease in demand for the Company’s products, or a higher incidence of inventory obsolescence, the Company could be required to increase its inventory reserves, which would increase cost of sales and decrease gross profit.

Work-in-process, finished products, field inventory and consignment inventory include material, labor and production overhead costs. Deferred cost of sales result from transactions where the Company has shipped product or performed services for which all revenue recognition criteria have not yet been met. Once all revenue recognition criteria have been met, revenue previously recorded as deferred and associated cost of sales are recognized.

**(h) Long-lived assets, including intangibles**

Property, plant and equipment is stated at cost less accumulated depreciation. Costs include all expenditures necessary to place the asset in service, including freight and sales and use taxes. Plant equipment also includes instrumentation held by customers and is generally used to facilitate the implantation of the Company’s products, the associated cost and accumulated depreciation as of December 31, 2014 was \$62.0 million and (\$46.2 million), respectively. Depreciation is computed on a straight-line basis over the useful lives of the assets. Depreciation of leasehold improvements is computed over the shorter of the lease term or the useful life of the asset. The useful lives are as follows:

	<u>Years</u>
Buildings .....	25 to 33
Plant equipment and instrumentation .....	2 to 10
Furniture and fixtures .....	4 to 8

Expenditures for maintenance and repairs and minor renewals and improvements, which do not extend the lives of the respective assets, are expensed as incurred. All other expenditures for renewals and improvements are capitalized. The assets and related accumulated depreciation are adjusted for property retirements and disposals, with the resulting gain or loss included in earnings. Fully depreciated assets remain in the accounts until retired from service.

Patents and other intangible assets are recorded at cost, or when acquired as a part of a business combination at estimated fair value. These assets primarily include patents and other technology agreements, and trademarks. Identifiable intangible assets, which are considered definite lived, are amortized over their useful lives using a method of amortization that reflects the pattern in which the economic benefit of the intangible assets is consumed. The Company’s weighted average amortization period for developed technologies is 11 years.

Intangible and long-lived assets with finite lives, such as patents and other technology agreements, are tested for impairment whenever events or changes in circumstances have occurred that would indicate impairment or a change in the remaining useful life. If an impairment indicator exists, the Company tests the asset for recoverability. For purposes of the recoverability test, the Company groups its long-lived or intangible assets with other assets and liabilities at the lowest level of identifiable cash flows if the asset does not generate cash flows independent of other assets and liabilities. If the carrying value of the asset (asset group) exceeds the

undiscounted cash flows expected to result from the use and eventual disposition of the asset (asset group), the Company will write the carrying value down to the fair value in the period identified.

The Company generally calculates fair value of long-lived and intangible assets as the present value of estimated future cash flows. In determining the estimated future cash flows associated with the assets, the Company uses estimates and assumptions about future revenue contributions, cost structures and remaining useful lives of the asset (asset group). The use of alternative assumptions, including estimated cash flows, discount rates, and alternative estimated remaining useful lives could result in different calculations of impairment.

**(i) Goodwill**

The Company tests goodwill at least annually for impairment. The Company tests more frequently if indicators are present or changes in circumstances suggest that impairment may exist. These indicators include, among others, declines in sales, earnings or cash flows, or the development of a material adverse change in the business climate. The Company assesses goodwill for impairment at the reporting unit level, which is defined as an operating segment or one level below an operating segment, referred to as a reporting unit. The Company has identified four reporting units, which are consistent with the Company's reporting segments: BioStim, Biologics, Extremity Fixation, and Spine Fixation.

In order to calculate the respective carrying values, the Company initially records goodwill based on the purchase price allocation performed at the time of acquisition. Corporate assets and liabilities that directly relate to a reporting unit's operations are ascribed directly to that reporting unit. Corporate assets and liabilities that are not directly related to a specific reporting unit, but from which the reporting unit benefits, are allocated based on the respective contribution measure of each reporting unit. Effective July 1, 2013, the Company re-aligned its reporting structure and consequently reallocated the carrying value of goodwill from its previous reporting units to its new reporting units based on the relative fair value of each new reporting unit to total enterprise value at July 1, 2013.

As a result of the Company's change in reporting structure on July 1, 2013, the Company re-allocated goodwill to each reporting unit. We estimated the fair value of each reporting unit using a weighting of fair values derived from an income approach, a cost approach, and a market approach (all Level 3 fair value measurements). Under the income approach, we calculated the fair value of each reporting unit based on the present value of its estimated future cash flows. Cash flow projections are based on our estimates of revenue growth rates and operating margins, taking into consideration industry and market conditions. The discount rate used was based on the weighted average cost of capital adjusted for the risks associated with the reporting unit and the projected cash flows. The cost approach involves methods of determining a Company's value by analyzing the market value of a Company's assets. The market approach estimates fair value based on market multiples of revenue and earnings of comparable publicly traded companies that have similar operating and investment characteristics as our reporting units.

Upon estimating the fair value of the reporting units, we determined it was less than its carrying value for two of our reporting units, Extremity Fixation and Spine Fixation. As a result, we performed step two of the impairment analysis and allocated the fair value of these reporting units to the estimated fair values of each of the assets and liabilities of the reporting units (including identifiable intangible assets) with the excess fair value being the implied goodwill. Estimating the fair value of certain assets and liabilities requires significant judgment about future cash flows. The implied fair value of the reporting unit's goodwill was less than its carrying value, which we recorded as a full impairment loss of goodwill for our Spine Fixation and Extremity Fixation reporting units, totaling \$19.2 million, during the third quarter of 2013.

The Company's annual goodwill impairment analysis, which was performed qualitatively during the fourth quarter of 2014, did not result in any additional impairment charge for either the BioStim or Biologics reporting units, the reporting units with remaining goodwill. This qualitative analysis, which is referred to as step zero, considered all relevant factors specific to the reporting units, including macroeconomic conditions, industry and market considerations, overall financial performance and relevant entity-specific events.

**(j) Derivative instruments**

The Company manages its exposure to fluctuating cash flows resulting from changes in interest rates and foreign exchange within the consolidated financial statements according to its hedging policy. Under the policy, the Company may engage in non-leveraged transactions involving various financial derivative instruments to manage exposed positions. The policy requires the Company to formally document the relationship between the hedging instrument and hedged item, as well as its risk-management objective and strategy for undertaking the hedge transaction. For instruments designated as a cash flow hedge, the Company formally assesses (both at the hedge's inception and on an ongoing basis) whether the derivative that is used in the hedging transaction has been effective in offsetting changes in the cash flows of the hedged item and whether such derivative may be expected to remain effective

in future periods. If it is determined that a derivative is not (or has ceased to be) effective as a hedge, the Company will discontinue the related hedge accounting prospectively. Such a determination would be made when (1) the derivative is no longer effective in offsetting changes in the cash flows of the hedged item; (2) the derivative expires or is sold, terminated or exercised; or (3) management determines that designating the derivative as a hedging instrument is no longer appropriate. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings.

The Company records all derivatives as either assets or liabilities on the balance sheet at their respective fair values. For a cash flow hedge, the effective portion of the derivative's change in fair value (i.e., gains or losses) is initially reported as a component of other comprehensive income, net of related taxes, and subsequently reclassified into net earnings in the period the hedged transaction affects earnings.

The Company utilizes a cross currency swap to manage its foreign currency exposure related to a portion of the Company's intercompany receivable of a U.S. dollar functional currency subsidiary that is denominated in Euro. The cross currency swap has been accounted for as a cash flow hedge in accordance with ASC Topic 815, *Derivatives and Hedging*.

**(k) Accumulated other comprehensive income (loss)**

Accumulated other comprehensive income (loss) is comprised of foreign currency translation adjustments and the effective portion of the gain (loss) on the Company's cross-currency swap, which is designated and accounted for as a cash flow hedge (see Note 9) and the unrealized gain (loss) on warrants. The components of and changes in accumulated other comprehensive income (loss) are as follows:

<u>(U.S. Dollars in thousands)</u>	<u>Foreign Currency Translation Adjustments</u>	<u>Change in Fair Value</u>	<u>Accumulated Other Comprehensive (Loss) Income</u>
Balance at December 31, 2012 (Restated).....	5,359	131	5,490
Unrealized loss on derivative instruments, net of tax benefit of \$164.....	—	(279)	(279)
Foreign currency translation adjustment (1).....	(1,708)	—	(1,708)
Balance at December 31, 2013 (Restated).....	\$ 3,651	\$ (148)	\$ 3,503
Unrealized gain on cross-currency swaps, net of tax expense of \$59.....	—	248	248
Foreign currency translation adjustment (1).....	(4,133)	—	(4,133)
Balance at December 31, 2014.....	<u>\$ (482)</u>	<u>\$ 100</u>	<u>\$ (382)</u>

(1) As the cash generally remains indefinitely reinvested in the non U.S. dollar denominated foreign subsidiaries, no deferred taxes are recognized on the related foreign currency translation adjustment.

**(l) Revenue recognition and accounts receivable**

Commercial revenue is related to the sale of our implant products, generally representing hospital customers. Revenues are recognized when these products have been utilized and a confirming purchase order has been received from the hospital.

Revenue is also derived from third-party payors, including commercial insurance carriers, health maintenance organizations, preferred provider organizations and governmental payors such as Medicare, in connection with the sale of our stimulation products. Revenue is recognized when the stimulation product is placed on or implanted in and accepted by the patient. Amounts paid by these third-party payors are generally based on fixed or allowable reimbursement rates. These revenues are recorded at the expected or preauthorized reimbursement rates, net of any contractual allowances or adjustments. Certain billings are subject to review by the third-party payors and may be subject to adjustment.

For all distributor revenue, which is primarily related to implant products, we recognize revenue on the sell-through basis, effective April 1, 2013. Prior to this date, we recognized revenue either on a sell-in or sell-through basis, depending on the specific circumstances of the distributor. In some cases we recognized distributor revenue as title and risk of loss passes at either shipment from our facilities or receipt at the distributor's facility, assuming all other revenue recognition criteria had been achieved (the "sell-in method"). In some cases the revenue recognition criteria for distributor sales were not satisfied at the time of shipment or receipt; specifically, the existence of extra-contractual terms or arrangements caused us not to meet the fixed or determinable criteria for revenue recognition in some cases, and in others collectability had not been established. In situations where we are unable to satisfy the requirements to recognize revenue on the sell-in method, we recognize revenue relating to distributor arrangements once the product is delivered to the end customer (the "sell-through method"). Because we do not have reliable information about when our



distributors sell the product through to end customers, we use cash collection from distributors as a basis for revenue recognition under the sell-through method. Although in many cases we are legally entitled to the accounts receivable at the time of shipment, we have not recognized accounts receivables or any corresponding deferred revenues associated with distributor transactions for which revenue is recognized on the sell-through method.

For distributors on the sell-in method prior to April 1, 2013, cost of sales were recognized upon shipment. For sell-through distributors, whose revenue is recognized upon cash receipt, we consider whether to match the related cost of sales expense with revenue or to recognize expense upon shipment. In making this assessment, we consider the financial viability of our distributors based on their creditworthiness to determine if collectability of amounts sufficient to realize the costs of the products shipped is reasonably assured at the time of shipment to these distributors. In instances where the distributor is determined to be financially viable, we defer the costs of sales until the revenue is recognized.

Biologics revenue is primarily related to a collaborative arrangement with MTF. In 2008, the Company entered into a collaborative arrangement with MTF to develop and commercialize Trinity Evolution<sup>®</sup>, a stem cell-based bone growth biologic matrix. With the development process completed in 2009, the Company and MTF operated under the terms of a separate commercialization agreement. Under the terms of the 10-year agreement, MTF sourced the tissue, processed it to create the bone growth matrix, packaged and delivered it to the customer in accordance with orders received from the Company. The Company has exclusive global marketing rights for Trinity Evolution<sup>®</sup> as well as non-exclusive marketing rights for other products, and receives marketing fees from MTF based on total sales. MTF is considered the primary obligor in these arrangements and therefore the Company recognizes these marketing service fees on a net basis within net sales upon shipment of the product to the customer. These marketing fees were \$50.4 million, \$47.7 million and \$46.5 million in 2014, 2013 and 2012, respectively. On January 10, 2012, the Company announced that it had reached an agreement with MTF to both co-develop and commercialize a new technology for use in bone grafting applications and to expand MTF's Trinity Evolution<sup>®</sup> processing capacity. The amendment amends the term of the existing agreement until the later of (i) 15 years after the date that certain development milestones were achieved under the existing agreement (which occurred during 2010) or (ii) the date that certain licensing arrangements between the Company and NuVasive, Inc. expire.

Revenues exclude any value added or other local taxes, intercompany sales and trade discounts. Shipping and handling costs are included in cost of sales.

The process for estimating the ultimate collection of accounts receivable involves significant assumptions and judgments. Historical collection and payor reimbursement experience is an integral part of the estimation process related to reserves for doubtful accounts and the establishment of contractual allowances. Accounts receivable are analyzed on a quarterly basis to assess the adequacy of both reserves for doubtful accounts and contractual allowances. Revisions in allowances for doubtful accounts estimates are recorded as an adjustment to bad debt expense within sales and marketing expenses. Revisions to contractual allowances are recorded as an adjustment to net sales. Our estimates are periodically tested against actual collection experience.

#### **(m) Sale of accounts receivable**

The Company will generally sell receivables from certain Italian hospitals each year. The estimated related fee for 2014, 2013 and 2012 was \$0.4 million, \$0.8 million and \$0.6 million, respectively, which is recorded as interest expense. Trade accounts receivables sold without recourse are removed from the balance sheet at the time of sale.

#### **(n) Share-based compensation**

The fair value of service-based stock options is determined using the Black-Scholes valuation model. Such value is recognized as expense over the service period net of estimated forfeitures.

The fair value of market-based stock options is determined at the date of the grant using the Monte Carlo valuation methodology. Such value is recognized as expense over the requisite service period adjusted for estimated forfeitures for each separately vesting tranche of the award. The Monte Carlo methodology that we use to estimate the fair value of market-based options incorporates into the valuation the possibility that the market condition may not be satisfied.

The expected term of options granted is estimated based on a number of factors, including the vesting and expiration terms of the award, historical employee exercise behavior for both options that are currently outstanding and options that have been exercised or are expired, the historical volatility of the Company's common stock and an employee's average length of service. The risk-free interest rate is determined based upon a constant U.S. Treasury security rate with a contractual life that approximates the expected term of the option award. Management estimates expected volatility based on the historical volatility of the Company's stock. The

compensation expense recognized for all equity-based awards is net of estimated forfeitures. Forfeitures are estimated based on an analysis of actual option forfeitures.

On June 30, 2014, the Company granted performance based restricted share awards to executive employees, which vesting is based on achieving earnings targets in two consecutive rolling four quarter periods. The fair value of performance-based restricted stock awards are recognized, net of estimated forfeitures, over the derived requisite vesting period beginning in the period in which they are deemed probable to vest.

**(o) Shipping and handling costs**

Shipping and handling costs for products shipped to customers are included in cost of sales, and were \$2.3 million, \$2.8 million and \$2.9 million for the years ended December 31, 2014, 2013 and 2012, respectively.

**(p) Advertising costs**

The Company expenses all advertising costs as incurred. Advertising expenses are included in sales and marketing expense, and were insignificant for the years ended December 31, 2014, 2013 and 2012.

**(q) Research and development costs**

Expenditures related to the collaborative arrangement with MTF are expensed based on the terms of the related agreement. Payments made to MTF in 2014, 2013 and 2012 totaled \$0.3 million, \$2.5 million and \$3.0 million, respectively. Expenditures for other research and development are expensed as incurred.

**(r) Income taxes**

The Company is subject to income taxes in both the U.S. and foreign jurisdictions, and uses estimates in determining the provision for income taxes. The Company accounts for income taxes using the asset and liability method for accounting and reporting for income taxes. Under this method, deferred tax assets and liabilities are recognized based on temporary differences between the financial reporting and income tax basis of assets and liabilities using statutory rates. This process requires that the Company project the current tax liability and estimate the deferred tax assets and liabilities, including net operating loss and tax credit carry forwards. In assessing the need for a valuation allowance, the Company considers its recent operating results, availability of taxable income in carryback years, future reversals of taxable temporary differences, future taxable income projections (exclusive of reversing temporary differences) and all prudent and feasible tax planning strategies.

The Company accounts for uncertain tax positions in accordance with ASC Topic 740, *Income Taxes*, which contains a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. The Company reevaluates income tax positions periodically to consider factors such as changes in facts or circumstances, changes in or interpretations of tax law, effectively settled issues under audit, and new audit activity. Such a change in recognition or measurement would result in recognition of a tax benefit or an additional charge to the tax provision.

The Company includes imputed interest and any applicable penalties related to tax issues as part of income tax expense in its consolidated financial statements.

**(s) Net income (loss) per common share**

Net income (loss) per common share—basic is computed using the weighted average number of common shares outstanding during each of the respective years. Net income (loss) per common share—diluted is computed using the weighted average number of common and common equivalent shares outstanding during each of the respective years using the “treasury stock” method, if dilutive. Common equivalent shares represent the dilutive effect of the assumed exercise of outstanding share options (see Note 18). The only differences between basic and diluted shares result from the assumed exercise of certain outstanding share options.

**(t) Financial instruments and concentration of credit risk**

Financial instruments that could subject the Company to a concentration of credit risk consist primarily of cash and cash equivalents and accounts receivable. Generally, the cash is held at large financial institutions and our cash equivalents consist of highly liquid money market funds. The Company performs ongoing credit evaluations of the customers, generally does not require collateral and maintain a reserve for potential credit losses. The Company believes that a concentration of credit risk related to the accounts receivable is limited because the customers are geographically dispersed and the end users are diversified across several industries.

Net sales to our customers based in Europe were approximately \$59 million in 2014, which results in a substantial portion of our trade accounts receivable balance as of December 31, 2014. It is at least reasonably possible that changes in global economic conditions and/or local operating and economic conditions in the regions these distributors operate, or other factors, could affect the future realization of these accounts receivable balances.

**(u) Recently issued accounting standards**

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 supersedes the revenue recognition requirements in Revenue Recognition (Topic 605), and requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 is effective for the Company in the fiscal year beginning on January 1, 2017, including interim periods within that reporting period and is to be applied retrospectively, with early application not permitted. On April 1, 2015, the FASB proposed deferring the effective date by one year to December 15, 2017 for annual reporting periods beginning after that date. The FASB also proposed permitting early adoption of the standard, but not before the original effective date of December 15, 2016. The Company is currently evaluating the effect that adopting this new accounting guidance will have on consolidated results of operations, cash flows and financial position.

In April 2014, the FASB issued ASU 2014-08, *Reporting Discontinued Operations and Disclosures of Components of an Entity*. The ASU amends the definition of a discontinued operation and also provides new disclosure requirements for disposals meeting the definition, and for those that do not meet the definition, of a discontinued operation. Under the new guidance, a discontinued operation may include a component or a group of components of an entity, or a business or nonprofit activity that has been disposed of or is classified as held for sale, and represents a strategic shift that has or will have a major effect on an entity's operations and financial results. The ASU also expands the scope to include the disposals of equity method investments and acquired businesses held for sale. The guidance will be effective prospectively for interim and annual periods beginning on or after December 15, 2014, with early adoption permitted. The adoption of the guidance by the Company is not expected to have a material impact on its consolidated financial statements.

**2. Inventories**

(U.S. Dollars in thousands)	December 31,	
	2014	2013
Raw materials .....	\$ 3,879	\$ 6,515
Work-in-process.....	4,830	6,606
Finished products .....	24,953	28,291
Field inventory.....	18,003	21,312
Consignment inventory.....	2,656	2,388
Deferred cost of sales.....	5,525	7,566
	<u>\$ 59,846</u>	<u>\$ 72,678</u>

Field inventory represents immediately saleable finished products that are in the possession of the Company’s direct sales representatives. Consignment inventory represents immediately saleable finished products located at third party customers, such as distributors and hospitals. Work-in-process, finished products, field inventory and consignment inventory include material, labor and production overhead costs. Deferred cost of sales result from transactions where the Company has shipped product or performed services for which all revenue recognition criteria have not yet been met. Once all revenue recognition criteria have been met, revenue previously recorded as deferred and associated cost of sales are recognized.

### 3. Property, plant and equipment

(U.S. Dollars in thousands)	December 31,	
	2014	2013
<b>Cost</b>		
Buildings.....	\$ 3,683	\$ 4,075
Plant, equipment and instrumentation.....	140,110	133,427
Furniture and fixtures.....	5,779	5,872
	<u>149,572</u>	<u>143,374</u>
Accumulated depreciation .....	(101,023)	(89,002)
	<u>\$ 48,549</u>	<u>\$ 54,372</u>

Included within plant, equipment and instrumentation is capitalized computer software of \$9.0 million and \$6.6 million net of accumulated amortization as of December 31, 2014 and 2013, respectively. Amortization of computer software for the years ended December 31, 2014, 2013 and 2012 was \$3.0 million, \$2.7 million and \$2.0 million, respectively.

Total depreciation expense, for the years ended December 31, 2014, 2013 and 2012 was \$20.6 million, \$20.0 million and \$15.8 million, respectively.

### 4. Patents and other intangible assets

(U.S. Dollars in thousands)	December 31,	
	2014	2013
<b>Cost</b>		
Patents .....	\$ 35,420	\$ 34,820
Trademarks—finite lived.....	596	620
License and other.....	7,248	7,748
	<u>43,264</u>	<u>43,188</u>
<b>Accumulated amortization</b>		
Patents .....	(33,319)	(31,739)
Trademarks—finite lived.....	(469)	(454)
License and other.....	(2,324)	(1,949)
	<u>(36,112)</u>	<u>(34,142)</u>
<b>Patents and other intangible assets, net</b> .....	<u>\$ 7,152</u>	<u>\$ 9,046</u>

Amortization expense for intangible assets was \$2.3 million, \$2.7 million and \$2.3 million for the periods ending December 31, 2014, 2013 and 2012, respectively, and is estimated to be approximately \$2.2 million, \$1.5 million, \$1.1 million, \$0.5 million, \$0.5 million and \$1.3 million for the periods ending December 31, 2015, 2016, 2017, 2018, 2019 and 2020 and thereafter, respectively.

### 5. Goodwill

The following table presents the changes in the net carrying value of goodwill by reportable segment as well as the reallocation as of July 1, 2013 in conjunction with our change in reporting structure. (See Note 1 “Summary of significant accounting policies”):

(U.S. Dollars in thousands)	Spine	Orthopedics	BioStim	Biologics	Extremity Fixation	Spine Fixation	Total
At December 31, 2012 .....	\$ 41,564	\$ 32,824	\$ —	\$ —	\$ —	\$ —	\$ 74,388
Foreign currency .....	(163)	(1,467)	—	—	—	—	(1,630)
At June 30, 2013 .....	41,401	31,357	—	—	—	—	72,758
Reallocation at July 1, 2013.....	(41,401)	(31,357)	42,678	10,887	9,825	9,368	—
Impairment.....	—	—	—	—	(9,825)	(9,368)	(19,193)
At December 31, 2013 and 2014.....	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 42,678</u>	<u>\$ 10,887</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 53,565</u>

## 6. Other current liabilities

(U.S. Dollars in thousands)	December 31,	
	2014	2013
Accrued expenses .....	\$ 23,298	\$ 18,903
Salaries, bonuses, commissions and related taxes payable .....	16,879	16,598
Accrued legal expenses .....	9,548	10,292
Other payables .....	3,495	3,883
	<u>\$ 53,220</u>	<u>\$ 49,676</u>

## 7. Long-term debt

On August 30, 2010, the Company's wholly owned U.S. holding company, Orthofix Holdings, Inc. ("Orthofix Holdings") entered into a Credit Agreement (the "Credit Agreement") with certain U.S. direct and indirect subsidiaries of the Company (the "Guarantors"), JPMorgan Chase Bank, N.A., as Administrative Agent, RBS Citizens, N.A., as Syndication Agent, and certain lender parties thereto.

The Credit Agreement provides for a five year, \$200 million secured revolving credit facility (the "Revolving Credit Facility"), and a five year, \$100 million secured term loan facility (the "Term Loan Facility", and together with the Revolving Credit Facility, the "Credit Facilities"). On January 15, 2015, at the Company's request, the lenders agreed to reduce the available capacity under the Revolving Credit Facility to \$100 million.

In May 2012, the Company used a portion of the proceeds from the sale of Breg, Inc. ("Breg") (see Note 14) to repay in full the remaining \$87.5 million balance on the Term Loan Facility and pay down \$57.5 million of amounts outstanding under the Revolving Credit Facility. This use of proceeds was required by the lenders' consent dated April 23, 2012 to the Credit Agreement. As a result of the sale of Breg, Breg ceased to be a subsidiary of the Company and, therefore, Breg was released as a credit party under the Credit Agreement. Additionally, the Company paid \$20 million in June and \$20 million in September 2012 to reduce amounts outstanding under the Revolving Credit Facility. As a result, at December 31, 2012, the Term Loan Facility had been repaid in full and there was \$20 million outstanding under the Revolving Credit Facility both at December 31, 2013 and 2012, which was paid in its entirety along with applicable interest at December 31, 2014. Borrowings under the Credit Facilities bear interest at a floating rate, which is, at Orthofix Holdings' option, either the London Inter-Bank Offered Rate ("LIBOR") plus an applicable margin or a base rate (as defined in the Credit Agreement) plus an applicable margin (in each case subject to adjustment based on financial ratios). Such applicable margin will be up to 3.25% for LIBOR borrowings and up to 2.25% for base rate borrowings depending upon a measurement of the consolidated leverage ratio with respect to the immediately preceding four fiscal quarters. As of December 31, 2013 and 2012, the entire Revolving Credit Facility was at the LIBOR rate plus a margin of 2.50%. The effective interest rate on the Credit Facilities as of December 31, 2014 and 2013 was 2.7%.

The Company has no annual contractual maturities of long-term debt as of December 31, 2014. Outstanding principal on the Revolving Credit Facility is due on August 30, 2015.

Borrowings under the Revolving Credit Facility, which may be made in the future, may be used for working capital, capital expenditures and other general corporate purposes of Orthofix Holdings and its subsidiaries. The Guarantors have guaranteed repayment of Orthofix Holdings' obligations under the Credit Agreement. The obligations of Orthofix Holdings and each of the Guarantors with respect to the Credit Facilities are secured by a pledge of substantially all of the assets of Orthofix Holdings and each of the Guarantors.

The Credit Agreement, as amended, requires Orthofix Holdings and the Company to comply with coverage ratios on a consolidated basis and contains affirmative and negative covenants, including limitations on additional debt, liens, investments and acquisitions. The Credit Agreement, as amended, also includes events of default customary for facilities of this type. Upon the occurrence of an event of default, all outstanding loans may be accelerated and/or the lenders' commitments terminated. The Company was in compliance with the affirmative and negative covenants at December 31, 2012 and there were no events of default.

On August 14, 2013, the Company and certain required lender parties to the Credit Agreement entered into a Limited Waiver (the "Original Limited Waiver"). Under the Original Limited Waiver, the lenders under the Credit Agreement (the "Lenders") collectively waived requirements under the Credit Agreement that the Company deliver quarterly financial statements with respect to the fiscal quarters ending on June 30, 2013 and September 30, 2013, and related financial covenant certificates, until the earlier of (i) March 31, 2014 or (ii) the date that is one day after such financial statements are publicly filed or released. In addition, the Original Limited Waiver provided that the restatement of the Company's financial statements for any period ending on or before March 31,

2013 would not constitute a default or event of default provided that within one business day after the public release or filing of such restated financial statements, the Company delivered corrected financial statements and compliance certificates with respect to such restated periods and immediately paid any additional interest and other fees that would have been owed had applicable interest and fees originally been calculated based on the restated financial statements.

On August 14, 2014 the Lenders and the Company entered into a subsequent Limited Waiver which was extended on September 30, 2014, January 15, 2015 and February 26, 2015 (the "Subsequent Limited Waivers"). Under the Subsequent Limited Waivers, the Lenders collectively waived requirements under the Credit Agreement that the Company deliver quarterly financial statements with respect to the fiscal quarters ended June 30, 2014 and September 30, 2014, and related financial covenant certificates, until the earlier of (i) March 31, 2015 or (ii) the date that is one day after such financial statements are publicly filed or released. The Subsequent Limited Waivers also extend the date by which the Company is required to provide certain 2014 fiscal year financial statements until the earlier of (i) one business day following the date that the Company files its Annual Report on Form 10-K for the fiscal year ended December 31, 2014 or (ii) April 30, 2015. In addition, the Subsequent Limited Waivers provided that the Further Restatement would not constitute a default or event of default provided that within one business day after the public release or filing of such restated financial statements, the Company delivered corrected financial statements and compliance certificates with respect to such restated periods and immediately paid any additional interest and other fees that would have been owed had applicable interest and fees originally been calculated based on the restated financial statements. The Company was in compliance with the affirmative and negative covenants at December 31, 2014 and there were no events of default.

Certain subsidiaries of the Company have restrictions on their ability to pay dividends or make intercompany loan advances pursuant to the Company's Credit Facilities. The net assets of Orthofix Holdings and its subsidiaries are restricted for distributions to the parent company. U.S. subsidiaries of the Company, as parties to the credit agreement, have access to these net assets for operational purposes.

The amount of restricted net assets of Orthofix Holdings and its subsidiaries as of December 31, 2014 and 2013 is \$181.8 million and \$168.5 million, respectively. In addition, the Credit Agreement restricts the Company and subsidiaries that are not parties to the Credit Facilities from access to cash held by Orthofix Holdings, Inc. and its subsidiaries. All of the Company's subsidiaries that are parties to the Credit Agreement have access to this cash for operational and debt repayment purposes. The amount of restricted cash of the Company as of December 31, 2014 and 2013 was \$34.4 million and \$23.8 million, respectively.

In conjunction with obtaining the Credit Facilities and the Credit Agreement, as amended, the Company incurred debt issuance costs of \$5 million, which includes \$0.8 million of costs related to the May 2011 amendment. These costs are being amortized using the effective interest method over the life of the Credit Facilities. In conjunction with the Term Loan Facility repayment in May 2012, the Company wrote off \$0.8 million of the related debt issuance costs. As of December 31, 2014 and 2013, debt issuance costs, net of accumulated amortization, related to the Credit Agreement were \$0.4 million and \$1.1 million, respectively.

The Company had an unused available line of credit of €5.8 million (\$7.0 million) and €5.8 million (\$8.0 million) at December 31, 2014 and 2013, respectively, in its Italian line of credit. This line of credit provides the Company the option to borrow amounts in Italy at rates, which are determined at the time of borrowing. This line of credit is unsecured.

## **8. Stockholders' equity**

The Company has not paid dividends to holders of its common stock in the past. The Company currently intends to retain all of its consolidated earnings to finance credit agreement obligations and to finance the continued growth of its business. Certain subsidiaries of the Company have restrictions on their ability to pay dividends in certain circumstances pursuant to the Credit Agreement. The Company does not have present intentions to pay dividends in the foreseeable future.

In the event that the Company decides to pay a dividend to holders of its common stock in the future with dividends received from its subsidiaries, the Company may, based on prevailing rates of taxation, be required to pay additional withholding and income tax on such amounts received from its subsidiaries.

## 9. Derivative instruments

The tables below disclose the types of derivative instruments the Company owns, the classifications and fair values of these instruments within the balance sheet, and the amount of gain (loss) recognized in other comprehensive income (loss) (“OCI”) or net income (loss).

<u>(U.S. Dollars, in thousands)</u>	<u>Fair value: favorable (unfavorable)</u>	<u>Balance sheet location</u>	
<b><u>As of December 31, 2014</u></b>			
Cross-currency swap .....	\$ 2,504	Other long-term assets	
Warrants .....	\$ 321	Other long-term assets	
<b><u>As of December 31, 2013</u></b>			
Cross-currency swap .....	\$ (1,036)	Other long-term liabilities	
Warrants .....	\$ 107	Other long-term assets	
<b>For the year ended December 31,</b>			
<u>(U.S. Dollars in thousands)</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Cross-currency swap gain (loss) recorded in other comprehensive income (loss), net of taxes .....	\$ 251	\$ (278)	\$ 263
Warrants unrealized gain (loss) recorded in other comprehensive income (loss), net of taxes .....	\$ (3)	\$ (1)	\$ —

### *Cross-currency swap*

On September 30, 2010, the Company entered into a cross-currency swap agreement (the “replacement swap agreement”) with JPMorgan Chase Bank and Royal Bank of Scotland PLC (the “counterparties”) to manage its cash flows related to foreign currency exposure for a portion of the Company’s intercompany receivable of a U.S. dollar functional currency subsidiary that is denominated in Euro.

Under the terms of the swap agreement, the Company pays Euros based on a €28.7 million notional value and a fixed rate of 5.00% and receives U.S. dollars based on a notional value of \$35 million and a fixed rate of 4.635%. The expiration date is December 30, 2016, the date upon which the underlying intercompany debt, to which the swap agreement applies, matures. The swap agreement is designated as a cash flow hedge and therefore the Company recognized an unrealized gain (loss) on the change in fair value, net of tax, of which \$0.3 million was recognized in other comprehensive income (loss).

### *Warrants*

As of December 31, 2014, the Company purchased notes receivable from Bone Biologics, Inc. (“Bone Biologics”) totaling \$750 thousand, all of which were issued with detachable warrants to purchase common stock of Bone Biologics. As of December 31, 2014 the Company held warrants for 125 thousand shares of Bone Biologics, at an exercise price of \$1.00 per share.

Under the terms of the note and warrant purchase agreements, the warrants to purchase common stock in Bone Biologics are both detachable from the note, exercisable over a seven year period, and transferable by the holder to other parties.

## 10. Fair value measurements

Fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Non-financial assets and liabilities of the Company measured at fair value include any long-lived assets or equity method investments that are impaired in a currently reported period. The authoritative guidance also describes three levels of inputs that may be used to measure fair value:

- Level 1 — quoted prices in active markets for identical assets and liabilities
- Level 2 — observable inputs other than quoted prices in active markets for identical assets and liabilities
- Level 3 — unobservable inputs in which there is little or no market data available, which require the reporting entity to develop its own assumptions

The Company's financial instruments include cash equivalents, restricted cash, certificates of deposit, treasury securities, collective trust funds, trade accounts receivable, accounts payable, long-term secured debt, deferred compensation plan liabilities and derivative securities. The carrying value of restricted cash, accounts receivable and accounts payable approximate fair value due to the short-term maturities of these instruments. The Company's credit facilities carry a floating rate of interest, and therefore, the carrying value is considered to approximate the fair value.

The Company's collective trust funds, treasury securities, certificates of deposit, deferred compensation plan liabilities and derivative securities are the only financial instruments recorded at fair value on a recurring basis. The fair value of treasury securities and certificates of deposit are determined based on quoted prices in active markets for identical assets, therefore, the Company has categorized these instruments as Level 1 financial instruments. The cross-currency derivative instrument consists of an over-the-counter contract, which is not traded on a public exchange. The fair value of this derivative swap contract, the common stock warrants, the Company's collective trust funds and the Company's deferred compensation plan liabilities are determined based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets, therefore, the Company has categorized these instruments as Level 2 financial instruments. Changes in the fair value of collective trust funds and deferred compensation plan liabilities are recorded in Other income (expense). The Company also considers counterparty credit risk and its own credit risk in its determination of estimated fair values. The Company has consistently applied these valuation techniques in all periods presented.

The fair value of the Company's financial assets and liabilities on a recurring basis were as follows:

<b>(U.S. Dollars in thousands)</b>	<b>Balance December 31, 2014</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets</b>				
Collective trust funds .....	\$ 1,696	\$ —	\$ 1,696	\$ —
Treasury securities .....	586	586	—	—
Certificates of deposit .....	1,510	1,510	—	—
Derivative securities .....	2,825	—	2,825	—
<b>Total .....</b>	<b>\$ 6,617</b>	<b>\$ 2,096</b>	<b>\$ 4,521</b>	<b>\$ —</b>
<b>Liabilities</b>				
Deferred compensation plan .....	\$ (1,886)	\$ —	\$ (1,886)	\$ —
<b>Total .....</b>	<b>\$ (1,886)</b>	<b>\$ —</b>	<b>\$ (1,886)</b>	<b>\$ —</b>



<u>(U.S. Dollars in thousands)</u>	<u>Balance December 31, 2013</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Assets</b>				
Collective trust funds .....	\$ 1,667	\$ —	\$ 1,667	\$ —
Treasury securities .....	660	660	—	—
Certificates of deposit .....	1,562	1,562	—	—
Derivative securities .....	107	—	107	—
<b>Total .....</b>	<b><u>\$ 3,996</u></b>	<b><u>\$ 2,222</u></b>	<b><u>\$ 1,774</u></b>	<b><u>\$ —</u></b>
<b>Liabilities</b>				
Deferred compensation plan .....	\$ (2,506)	\$ —	\$ (2,506)	\$ —
Derivative securities .....	(1,036)	—	(1,036)	—
<b>Total .....</b>	<b><u>\$ (3,542)</u></b>	<b><u>\$ —</u></b>	<b><u>\$ (3,542)</u></b>	<b><u>\$ —</u></b>

## 11. Commitments

### *Leases*

The Company has entered into operating leases for facilities and equipment. These leases are non-cancellable and typically do not contain renewal options. Certain leases contain rent escalation clauses for which the Company recognizes the expense on a straight-line basis. Rent expense under the Company's operating leases for the years ended December 31, 2014, 2013 and 2012 was approximately \$3.4 million, \$3.4 million and \$4.1 million, respectively.

Future minimum lease payments under operating leases, net of amounts to be received under sub-leases, as of December 31, 2014 are as follows:

<u>(U.S. Dollars in thousands)</u>	
2015.....	\$ 3,885
2016.....	3,558
2017.....	2,866
2018.....	2,671
2019.....	2,444
Thereafter .....	2,741
<b>Total .....</b>	<b><u>\$ 18,165</u></b>

### *Inventory purchase commitments*

The Company has inventory purchase commitments with third-party manufactures for \$2.5 million, \$3.0 million and \$1.4 million as of December 31, 2014, 2013, and 2012, respectively.

## 12. Business segment information

On July 1, 2013, we began certain organizational and executive leadership changes to align with how our Chief Executive Officer, who is also our Chief Operating Decision Maker (the "CODM") reviews performance and makes decisions in managing the Company. We manage our business by our four strategic business units ("SBUs"), which are comprised of BioStim, Biologics, Extremity Fixation, and Spine Fixation supported by Corporate activities. These SBUs represent the segments for which our CODM reviews financial information and makes resource allocation decisions among business units. The primary metric used by the CODM in managing the Company is net margin, which is defined as gross profit less sales and marketing expense. The Company neither discretely allocates assets, other than goodwill, to its operating segments nor evaluates the operating segments using discrete asset information. Accordingly, our segment information has been prepared based on our four SBUs reporting segments. These four segments are discussed below.

### *BioStim*

The BioStim SBU manufactures, distributes, and provides support services of market leading devices that enhance bone fusion. These Class III medical devices are indicated as an adjunctive, noninvasive treatment to improve fusion success rates in cervical and lumbar spine as well as a therapeutic treatment for non-spine fractures that have not healed (non-unions). These devices utilize

Orthofix's patented pulsed electromagnetic field ("PEMF") technology, which is supported by strong basic mechanism of action data in the scientific literature and as well as strong level one randomized controlled clinical trials in the medical literature. Current research and clinical studies are also underway to identify potential new clinical indications. This SBU uses both distributors and independent sales representatives to sell its devices to hospitals, doctors and other healthcare providers, primarily in the U.S.

### *Biologics*

The Biologics SBU provides a portfolio of regenerative products and tissue forms that allow physicians to successfully treat a variety of spinal and orthopedic conditions. This SBU specializes in the marketing of the Company's regeneration tissue forms. Biologics markets its tissues through a network of distributors, independent sales representatives and affiliates to supply to hospitals, doctors, and other healthcare providers, primarily in the U.S. Our partnership with the Musculoskeletal Transplant Foundation ("MTF") allows us to exclusively market our Trinity Evolution® and Trinity ELITE® tissue forms for musculoskeletal defects to enhance bony fusion.

### *Extremity Fixation*

The Extremity Fixation SBU offers products and solutions that allow physicians to successfully treat a variety of orthopedic conditions unrelated to the spine. This SBU specializes in the design, development, and marketing of the Company's orthopedic products used in fracture repair, deformity correction and bone reconstruction procedures. Extremity Fixation distributes its products through a network of distributors, independent sales representatives and affiliates. This SBU uses both independent distributors and direct sales representatives to sell orthopedic products to hospitals, doctors, and other health providers, globally.

### *Spine Fixation*

The Spine Fixation SBU specializes in the design, development and marketing of a broad portfolio of implant products used in surgical procedures of the spine. Spine Fixation distributes its products through a network of distributors and affiliates. This SBU uses distributors and independent sales representatives to sell spine products to hospitals, doctors and other healthcare providers, globally.

### *Corporate*

Corporate activities are comprised of the operating expenses, including share-based compensation of Orthofix International N.V. and its holding company subsidiaries, along with activities not necessarily identifiable within the four SBUs.

### **Net Sales by SBU:**

The table below presents net sales for continuing operations by SBU reporting segment. Net sales include product sales and marketing service fees.

(U.S. Dollars in thousands)	Net Sales by SBU					
	Year ended December 31,					
	2014		2013		2012	
Net Sales	Percent of Total Net Sales	Net Sales	Percent of Total Net Sales	Net Sales	Percent of Total Net Sales	
BioStim .....	\$ 154,676	38%	\$ 145,085	36%	\$ 174,562	40%
Biologics .....	55,881	14%	53,746	14%	53,731	12%
Extremity Fixation .....	109,678	27%	103,359	26%	112,011	25%
Spine Fixation .....	82,042	21%	95,421	24%	99,885	23%
Total Net Sales .....	<u>\$ 402,277</u>	<u>100%</u>	<u>\$ 397,611</u>	<u>100%</u>	<u>\$ 440,189</u>	<u>100%</u>

The table below presents net margin, defined as gross profit less sales and marketing expenses from continuing operations by SBU reporting segment:

Net Margin by SBU (U.S. Dollars in thousands)	Year Ended December 31,		
	2014	2013	2012
Net Margin			
BioStim .....	\$ 66,096	\$ 63,847	\$ 88,788
Biologics .....	26,629	24,794	23,589
Extremity Fixation .....	31,586	23,704	34,554
Spine Fixation .....	14,243	4,329	15,256
Corporate.....	(1,736)	(1,443)	(1,495)
Total net margin.....	\$ 136,818	\$ 115,231	\$ 160,692
General & administrative.....	76,790	64,830	53,650
Research and development.....	24,994	26,768	28,577
Amortization of intangible assets .....	2,284	2,687	2,298
Costs related to the accounting review and restatement.....	15,614	12,945	—
Impairment of goodwill.....	—	19,193	—
Charges related to U.S. Government resolutions.....	—	—	1,295
Operating income (loss).....	\$ 17,136	\$ (11,192)	\$ 74,872

The following table presents depreciation and amortization for continuing operations by SBU reporting segment:

(U.S. Dollars in thousands)	Depreciation and amortization by SBU Year Ended December 31,		
	2014	2013	2012
BioStim.....	\$ 1,623	\$ 1,979	\$ 1,659
Biologics.....	1,161	648	567
Extremity Fixation.....	8,442	7,265	5,201
Spine Fixation.....	11,711	12,834	10,800
Corporate.....	(59)	96	70
Total.....	\$ 22,878	\$ 22,822	\$ 18,297

#### Geographical information

The following data includes net sales by geographic destination:

(U.S. Dollars in thousands)	2014	2013	2012
U.S. ....	\$ 294,682	\$ 293,032	\$ 327,228
Italy.....	19,573	16,755	18,742
U.K. ....	11,402	10,002	8,431
Brazil.....	19,633	26,786	31,166
Others .....	56,987	51,036	54,622
Total net sales.....	\$ 402,277	\$ 397,611	\$ 440,189

The following data includes property, plant and equipment by geographic area:

(U.S. Dollars in thousands)	2014	2013
U.S. ....	\$ 37,029	\$ 39,287
Italy.....	6,865	8,150
U.K.....	1,368	1,871
Brazil.....	1,308	3,210
Others.....	1,979	1,854
Total.....	\$ 48,549	\$ 54,372

### 13. Income taxes

Income from continuing operations before provision for income taxes consisted of:

(U.S. Dollars in thousands)	Year Ended December 31,		
	2014	2013	2012
U.S. ....	\$ 17,532	\$ (3,546)	\$ 56,210
Non-U.S. ....	(5,076)	(7,057)	12,855
Total income (loss) before taxes .....	<u>\$ 12,456</u>	<u>\$ (10,603)</u>	<u>\$ 69,065</u>

The provision for (benefit from) income taxes on continuing operations in the accompanying consolidated statements of operations consists of the following:

(U.S. Dollars in thousands)	Year Ended December 31,		
	2014	2013	2012
U.S.			
Current .....	\$ 5,067	\$ 2,465	\$ 16,982
Deferred .....	2,825	4,013	2,675
Total U.S. ....	7,892	6,478	19,657
Non-U.S.			
Current .....	18,186	2,308	3,191
Deferred .....	(9,878)	(1,184)	1,096
	8,308	1,124	4,287
Total tax expense .....	<u>\$ 16,200</u>	<u>\$ 7,602</u>	<u>\$ 23,944</u>

Deferred income taxes are provided primarily for net operating loss carryforwards and for temporary differences resulting from items that are recognized in different years for financial statement and income tax reporting purposes. The deferred tax assets and liabilities are as follows:

(U.S. Dollars in thousands)	2014	2013
Intangible assets and goodwill .....	\$ 4,067	\$ 4,798
Inventories and related reserves .....	19,525	20,769
Deferred revenue and cost of goods sold .....	10,826	11,577
Other accruals and reserves .....	5,371	4,778
Accrued compensation .....	5,004	3,942
Allowance for doubtful accounts .....	2,094	2,040
Accrued interest .....	17,555	18,063
Net operating loss carryforwards .....	34,514	34,979
Other, net .....	1,202	893
	100,158	101,839
Valuation allowance .....	(37,438)	(31,772)
Deferred tax asset .....	\$ 62,720	\$ 70,067
Withholding taxes .....	(229)	(13,026)
Property, plant and equipment .....	(6,766)	(7,674)
Deferred tax liability .....	(6,995)	(20,700)
Net deferred tax assets .....	<u>\$ 55,725</u>	<u>\$ 49,367</u>
<b>Reported as:</b>		
Current deferred tax assets .....	37,413	39,999
Non-current deferred tax assets .....	18,541	22,394
Current deferred tax liability .....	—	—
Non-current deferred tax liability .....	(229)	(13,026)
Net deferred tax assets .....	<u>\$ 55,725</u>	<u>\$ 49,367</u>

The valuation allowance as of December 31, 2014 and 2013 was \$37.4 million and \$31.8 million, respectively. The net increase in the valuation allowance of \$5.6 million during the year principally relates to certain current period foreign losses without benefit. The valuation allowance is attributable to net operating loss carryforwards and certain temporary differences in certain foreign jurisdictions, for which it is more likely than not some portion or all of the deferred tax asset will not be realized.

The Company has state net operating loss carryforwards of approximately \$14.0 million that will begin to expire in 2015. The Company has net operating losses in foreign taxing jurisdictions of approximately \$133.7 million, the majority of which relate to the Company's Netherlands operations and begin to expire in 2015. The Company has provided a valuation allowance against a significant portion of these net operating loss carryforwards since it does not believe that it is more likely than not that this deferred tax asset can be realized prior to expiration.

The rate reconciliation for continuing operations presented below is based on the U.S. federal income tax rate, rather than the parent company's country of domicile tax rate. Management believes, given the large proportion of taxable income earned in the United States, such disclosure is more meaningful.

(U.S. Dollars in thousands, except percentages)	2014		2013		2012	
	Amount	Percent	Amount	Percent	Amount	Percent
Statutory U.S. federal income tax rate .....	\$ 4,360	35.0%	\$ (3,711)	35.0%	\$ 24,179	35.0%
State taxes, net of federal benefit .....	1,439	11.6	2,039	(19.2)	2,536	3.7
Foreign rate differential, including withholding taxes.....	2,738	21.9	1,162	(11.0)	(10)	(0.0)
Valuation allowance.....	8,672	69.6	3,913	(36.9)	6,189	9.0
Italian subsidiary intangible asset .....	(2,546)	(20.4)	(2,288)	21.6	(2,214)	(3.2)
Goodwill impairment .....	—	—	6,452	(60.9)	—	—
Domestic manufacturing deduction .....	(377)	(3.0)	(233)	2.2	(1,567)	(2.3)
Settlement of U.S. Government resolutions.....	—	—	—	—	(1,260)	(1.8)
Italian audit settlement .....	1,048	8.4	—	—	—	—
Other, net.....	866	7.0	268	(2.5)	(3,909)	(5.7)
Income tax expense/effective rate .....	<u>\$ 16,200</u>	<u>130.1%</u>	<u>\$ 7,602</u>	<u>(71.7)%</u>	<u>\$ 23,944</u>	<u>34.7%</u>

On January 2, 2013 the American Taxpayer Relief Act of 2012 ("ACT") was enacted. The ACT provides tax relief for business by reinstating certain tax benefits and credits retroactively to January 1, 2012. There are several provisions of the Act that impact the Company, most notably the extension of the Research and Development credit. Income tax accounting rules require tax law changes to be recognized in the period of the enactment; as such the Company recognized a tax benefit of \$0.3 million in its provision for income taxes in the first quarter of 2013.

The Company's unrecognized tax benefit was \$15.6 million and \$0.7 million for the years ended December 31, 2014 and 2013, respectively. The Company recognizes potential accrued interest and penalties related to unrecognized tax benefits within its global operations in income tax expense. The Company had approximately \$0.5 million accrued for payment of interest and penalties as of December 31, 2014 and 2013.

The entire amount of unrecognized tax benefits, including interest, would favorably impact the Company's effective tax rate if recognized. As of December 31, 2014, the Company does not expect the amount of unrecognized tax benefits to change significantly over the next twelve months.

A reconciliation of the gross unrecognized tax benefits (excluding interest and penalties) for the years ended December 31, 2014 and December 31, 2013 follows:

(U.S. Dollars in thousands)	2014	2013
Balance as of January 1,.....	\$ 723	\$ 1,189
Additions for current year tax positions.....	14,794	183
Increases (decreases) for prior year tax positions .....	145	(12)
Settlements of prior year tax positions.....	—	(560)
Expiration of statutes .....	(65)	(77)
Balance as of December 31,.....	<u>\$ 15,597</u>	<u>\$ 723</u>

The Company files a consolidated income tax return in the U.S. federal jurisdiction, the U.K., Italy and numerous consolidated and separate income tax returns in many state and other foreign jurisdictions. The statute of limitations with respect to federal tax

authorities is closed for years prior to December 31, 2011. The statute of limitations for the various state tax filings is closed in most instances for the years prior to December 31, 2010. The statute of limitations with respect to the major foreign tax filing jurisdictions is closed for years prior to December 31, 2009.

The Company's current intention is to indefinitely reinvest the total amount of its unremitted foreign earnings (residing outside Curaçao) in the local jurisdiction to the extent they are generated and available. As an entity incorporated in Curaçao, "foreign subsidiaries" refers to both U.S. and non-U.S. subsidiaries. Furthermore, only income sourced in the U.S. is subject to U.S. income tax. Unremitted foreign earnings increased from \$329.7 million at December 31, 2013 to \$374.1 million at December 31, 2014. The \$374.1 million includes \$391.1 million in U.S. subsidiaries. It is not practicable to determine the amounts of net additional income tax that may be payable if such earnings were repatriated.

Total cash and cash equivalents at December 31, 2014 were \$71.2 million, of which \$34.4 million is restricted under the senior secured credit agreement for use in the U.S. and is therefore classified as restricted cash on the balance sheet. The Company's U.S. business generates sufficient cash flow and has borrowing capacity in the United States to fund its U.S. operations. Cash and cash equivalents of \$36.8 million at December 31, 2014 held by non-U.S. subsidiaries is indefinitely reinvested for use in non-U.S. operations.

#### **14. Sale of Breg and Disposition of Sports Medicine Business**

On April 23, 2012, the Company's subsidiary Orthofix Holdings and Breg entered into a stock purchase agreement (the "SPA") with Breg Acquisition Corp. ("Buyer"), a newly formed affiliate of Water Street Healthcare Partners II, L.P., pursuant to which Buyer agreed to acquire from Orthofix Holdings all the outstanding shares of Breg, subject to the terms and conditions contained therein (the "Transaction"). Under the terms of the SPA, upon closing of the sale, Orthofix Holdings and the Company agreed to indemnify Buyer with respect to certain specified matters, including the government investigation and product liability matters regarding a previously owned infusion pump product line, and pre-closing sales of cold therapy units and certain post-closing sales of cold therapy units. (See "Matters Related to the Company's former Breg Subsidiary and Possible Indemnification Obligations under Note 15.") On May 24, 2012 (the "Closing Date"), Orthofix Holdings completed the sale of all of the outstanding shares of Breg for \$157.5 million in cash. After adjustments for working capital and indebtedness in accordance with the terms of the SPA, Orthofix Holdings used \$145 million of the net proceeds to prepay outstanding Company indebtedness, as required by a lender consent received in connection with the Company's existing Credit Agreement. As a result of the closing of this Transaction, Breg ceased to be a subsidiary of the Company and, therefore, Breg was released as a credit party under the Credit Agreement. The Company also agreed to enter into certain transition arrangements at the closing, including a transition services agreement pursuant to which the Company agreed to continue to provide administrative operational support for a period of up to twelve months. As a result of the sale of Breg, the Company completed its exit from the Sports Medicine business.

The portion of indemnification related to post closing claims related to post-closing sales of cold therapy has created a guarantee under ASC 460—Guarantees and the fair value of the liability has been recorded under the initial recognition criteria in the amount of \$2 million at the Closing Date of the transaction. The Company amortizes the fair value of the liability ratably over the period of indemnification, which is three years. The Company's obligations under this guarantee were approximately \$0.3 million, \$0.9 million and \$1.6 million as of December 31, 2014, 2013 and 2012, respectively.

## Gain on Sale of Discontinued Operations

The following table presents the value of the asset disposition, proceeds received, net of various working capital adjustments and indebtedness and net gain on sale of Breg as shown in the condensed consolidated statement of operations for the year ended December 31, 2012.

(U.S. Dollars in thousands)	Total
Cash proceeds .....	\$ 157,500
Less:	
Working capital .....	(7,093)
Transaction related expenses .....	(4,276)
Fair value of indemnification.....	(2,000)
Tangible assets.....	(8,309)
Intangible assets.....	(28,164)
Goodwill.....	(106,200)
Gain on sale of Breg.....	1,458
Income tax expense .....	(113)
Gain on sale of Breg, net of taxes .....	<u>\$ 1,345</u>

The now discontinued Sports Medicine business contributed \$44 million of net sales in the years ended December 31, 2012. The Sports Medicine business had \$2.9 million of operating losses in the year ended December 31, 2012. The financial information above includes the financial results of Breg operations up to the date of sale.

The Company's consolidated financial statements and related footnote disclosures reflect the Sports Medicine business as discontinued operations. Income (loss) associated with the Sports Medicine business, net of applicable income taxes is shown as income (loss) from discontinued operations for all periods presented.

## 15. Contingencies

The Company is party to outstanding legal proceedings, investigations and claims as described below. The Company believes that it is unlikely that the outcome of each of these matters, including the matters discussed below, will have a material adverse effect on it and its subsidiaries as a whole, notwithstanding that the unfavorable resolution of any matter may have a material effect on the Company's net earnings (if any) in any particular quarter. However, the Company cannot predict with any certainty the final outcome of any legal proceedings, investigations (including any settlement discussions with the government seeking to resolve such investigations) or claims made against it as described in the paragraphs below, and there can be no assurance that the ultimate resolution of any such matter will not have a material adverse impact on the Company's consolidated financial position, results of operations, or cash flows.

The Company records accruals for certain outstanding legal proceedings, investigations or claims when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The Company evaluates, on a quarterly basis, developments in legal proceedings, investigations and claims that could affect the amount of any accrual, as well as any developments that would make a loss contingency both probable and reasonably estimable. When a loss contingency is not both probable and reasonably estimable, the Company does not accrue the loss. However, if the loss (or an additional loss in excess of the accrual) is at least a reasonable possibility and material, then the Company discloses a reasonable estimate of the possible loss or range of loss, if such reasonable estimate can be made. If the Company cannot make a reasonable estimate of the possible loss, or range of loss, then that is disclosed.

The assessments of whether a loss is probable or a reasonable possibility, and whether the loss or range of loss is reasonably estimable, often involve a series of complex judgments about future events. Among the factors that the Company considers in this assessment are the nature of existing legal proceedings, investigations and claims, the asserted or possible damages or loss contingency (if reasonably estimable), the progress of the matter, existing law and precedent, the opinions or views of legal counsel and other advisers, the involvement of the U.S. Government and its agencies in such proceedings, the Company's experience in similar matters and the experience of other companies, the facts available to the Company at the time of assessment, and how the Company intends to respond, or has responded, to the proceeding, investigation or claim. The Company's assessment of these factors may change over time as individual proceedings, investigations or claims progress. For matters where the Company is not currently able to reasonably estimate the range of reasonably possible loss, the factors that have contributed to this determination include the following: (i) the damages sought are indeterminate, or an investigation has not manifested itself in a filed civil or criminal complaint, (ii) the matters are in the early stages, (iii) the matters involve novel or unsettled legal theories or a large or uncertain number of actual

or potential cases or parties, and/or (iv) discussions with the government or other parties in matters that may be expected ultimately to be resolved through negotiation and settlement have not reached the point where the Company believes a reasonable estimate of loss, or range of loss, can be made. In such instances, the Company believes that there is considerable uncertainty regarding the timing or ultimate resolution of such matters, including a possible eventual loss, fine, penalty or business impact, if any.

In addition, the Company does not accrue for estimated legal fees and other directly related costs as they are expensed as incurred.

In addition to the matters described in the paragraphs below, in the normal course of its business, the Company is involved in various lawsuits from time to time and may be subject to certain other contingencies. To the extent losses related to these contingencies are both probable and reasonably estimable, the Company accrues appropriate amounts in the accompanying financial statements and provides disclosures as to the possible range of loss in excess of the amount accrued, if such range is reasonably estimable. The Company believes losses are individually and collectively immaterial as to a possible loss and range of loss.

## **Matters Related to the Audit Committee's Review and the Restatement of Certain of our Consolidated Financial Statements.**

### *Audit Committee Review*

In July 2013, the Audit Committee of our Board of Directors began conducting an independent review, with the assistance of outside professionals, of certain accounting matters. This review resulted in a restatement of our previously filed consolidated financial statements for the fiscal years ended December 31, 2012, 2011 and 2010 and the fiscal quarter ended March 31, 2013, as well as the restatement of certain financial information for the fiscal years ended December 31, 2009, 2008 and 2007. This restatement, which we completed and filed in March 2014, is referred to herein as the "Original Restatement."

In connection with the Company's preparation of its consolidated interim quarterly financial statements for the fiscal quarter ended June 30, 2014, the Company determined that certain entries with respect to the previously filed financial statements contained in the filings containing the Original Restatement were not properly accounted for under U.S. GAAP. As a result, the Company determined in August 2014 to restate its previously filed consolidated financial statements for the fiscal years ended December 31, 2013, 2012 and 2011 and quarterly reporting periods contained within the fiscal years ended December 31, 2013 and 2012, as well as the fiscal quarter ended March 31, 2014. This restatement, which we completed in March 2015, is referred to herein as the "Further Restatement."

### *SEC Investigation*

In connection with the initiation of the Audit Committee's independent review, we initiated contact with the staff of the Division of Enforcement of the SEC (the "SEC Enforcement Staff") in July 2013 to advise them of these matters. The Audit Committee and the Company, through respective counsel, have been in direct communication with the SEC Enforcement Staff regarding these matters. The SEC is conducting a formal investigation of these matters, and both the Company and the Audit Committee are cooperating fully with the SEC.

In connection with the above-referenced communications, the Company has received requests from the SEC for documents and other information concerning various accounting practices, internal controls and business practices, and other related matters. Such requests cover the years ended December 31, 2011 and 2012, and in some instances, prior periods. It is anticipated that we may receive additional requests from the SEC in the future, including with respect to the Further Restatement.

We have previously provided notice concerning our communications with the SEC to the Office of Inspector General of the U.S. Department of Health and Human Services ("HHS-OIG") pursuant to our corporate integrity agreement with HHS-OIG (which agreement is described below in this Item 3).

We cannot predict if, when or how this matter will be resolved or what, if any, actions we may be required to take as part of any resolution of these matters. Any action by the SEC, HHS-OIG or other governmental agency could result in civil or criminal sanctions against us and/or certain of our current and former officers, directors and employees. At this stage in the matter, we cannot reasonably estimate the possible loss, or range of loss, in connection with it.

### *Securities Class Action Complaint*

On August 14, 2013, a securities class action complaint against the Company, currently styled *Tejinder Singh v. Orthofix International N.V., et al.* (No.:1:13-cv-05696-JGK), was filed in the United States District Court for the Southern District of New



York arising out of the then anticipated restatement of our prior financial statements and the matters described above. Since the date of original filing, the complaint has been amended.

The lead plaintiff's complaint, as amended, purports to bring claims on behalf of persons who purchased the Company's common stock between March 2, 2010 and July 29, 2013. The complaint asserts that the Company and four of its former executive officers, Alan W. Milinazzo, Robert S. Vaters, Brian McCollum, and Emily V. Buxton (collectively, the "Individual Defendants"), violated Section 10(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Securities and Exchange Commission Rule 10b-5 ("Rule 10b-5") by making false or misleading statements in or relating to the Company's financial statements. The complaint further asserts that the Individual Defendants were liable as control persons under Section 20(a) of the Exchange Act for any violation by the Company of Section 10(b) of the Exchange Act or Rule 10b-5. As relief, the complaint requests compensatory damages on behalf of the proposed class and lead plaintiff's attorneys' fees and costs. On March 6, 2015, the court granted the defendants' motion to dismiss as to Mr. Milinazzo and denied it with respect to the Company and the other Individual Defendants. This matter remains at an early stage and, as of the date of this Form 10-K, we cannot reasonably estimate the possible loss, or range of loss, in connection with it.

### **Matters Related to Promeca**

On July 10, 2012, the Company entered into definitive agreements with the DOJ and the SEC agreeing to settle its self-initiated and self-reported internal investigation of our Mexican subsidiary, Promeca S.A. de C.V. ("Promeca"), regarding non-compliance by Promeca with the Foreign Corrupt Practices Act (the "FCPA"). Under the terms of these agreements, the Company voluntarily disgorged profits to the United States government in an amount of \$5.2 million, inclusive of pre-judgment interest, and agreed to pay a fine of \$2.2 million. The Company paid \$2.2 million in July 2012 and \$5.2 million in September 2012. As part of the settlement, the Company entered into a three-year deferred prosecution agreement ("DPA") with the DOJ and a consent to final judgment (the "Consent") with the SEC.

The DOJ has agreed not to pursue any criminal charges against the Company in connection with this matter if the Company complied with the terms of the DPA. The DPA takes note of the Company's self-reporting of this matter to DOJ and the SEC, and of remedial measures, including the implementation of an enhanced compliance program, previously undertaken by the Company. The DPA and the Consent collectively require, among other things, that with respect to anti-bribery compliance matters the Company shall continue to cooperate fully with the government in any future matters related to corrupt payments, false books and records or inadequate internal controls. In that regard, the Company has represented that it has implemented and will continue to implement a compliance and ethics program designed to prevent and detect violations of the FCPA and other applicable anti-corruption laws. The Company will periodically report to the government during the term of the DPA regarding such remediation and implementation of compliance measures. As part of the settlement, the Company also agreed pursuant to the Consent to certain reporting obligations to the SEC regarding the status of the Company's remediation and implementation of compliance measures. In the event that the Company fails to comply with these obligations, it could be subject to criminal prosecution by the DOJ for the FCPA-related matters we self-reported.

### **Review of Potential Improper Payments Involving Brazil Subsidiary**

In August 2013, the Company's internal legal department was notified of certain allegations involving potential improper payments with respect to its Brazilian subsidiary, Orthofix do Brasil. The Company engaged outside counsel to assist in the review of these matters, focusing on compliance with applicable anti-bribery laws, including the FCPA. This review remains ongoing. The FCPA and related provisions of law provide for potential criminal and civil sanctions in connection with anti-bribery violations, including criminal fines, civil penalties, disgorgement of past profits and other kinds of remedies. The Company currently cannot reasonably estimate a possible loss, or range of loss, in connection with this review.

Consistent with the provisions of the DPA and the Consent described above, the Company contacted the DOJ and the SEC in August 2013 to voluntarily self-report the Brazil-related allegations, and the Company and its counsel remain in contact with both agencies regarding the status of the review. In the event that the DOJ and the SEC find that the matters related to the Company's Brazilian subsidiary could give rise to a review of the Company's obligations under the terms of the DPA and/or the Consent, the Company currently cannot reasonably estimate a possible loss, or range of loss, in connection with that review, including any effects it may have with respect to the DPA and the Consent.

### **Corporate Integrity Agreement with HHS-OIG**

As previously disclosed, on June 6, 2012, the Company entered into a definitive settlement agreement with the United States of America, acting through the DOJ and on behalf of HHS-OIG; the TRICARE Management Activity, through its General Counsel; the Office of Personnel Management, in its capacity as administrator of the Federal Employees Health Benefits Program; the United States Department of Veteran Affairs; and the qui tam relator, pursuant to which the Company agreed to pay \$34.2 million (plus

interest at a rate of 3% from May 5, 2011 through the day before payment was made) to settle criminal and civil matters related to the promotion and marketing of the Company's regenerative stimulator devices (which the Company has also described in the past as its "bone growth stimulator devices"). In connection with such settlement agreement, Orthofix Inc., the Company's wholly owned subsidiary, also pled guilty to one felony count of obstruction of a June 2008 federal audit (§18 U.S.C. 1516) and paid a criminal fine of \$7.8 million and a mandatory special assessment of \$400. Also as previously disclosed, on October 29, 2012, the Company, through our subsidiary, Blackstone Medical, Inc., entered into a definitive settlement agreement with the U.S. government and the qui tam relator, pursuant to which the Company paid \$32 million to settle claims (covering a period prior to Blackstone's acquisition by the Company) concerning the compensation of physician consultants and related matters. All of the \$32 million we paid pursuant to such settlement was funded by proceeds the Company received from an escrow fund established in connection with its acquisition of Blackstone in 2006.

On June 6, 2012, in connection with these settlements, the Company also entered into a five-year corporate integrity agreement with HHS-OIG (the "CIA"). The CIA acknowledges the existence of the Company's current compliance program and requires that the Company continues to maintain during the term of the CIA a compliance program designed to promote compliance with federal healthcare and FDA requirements. The Company also is required to maintain several elements of its previously existing program during the term of the CIA, including maintaining a Chief Compliance Officer, a Compliance Committee, and a Code of Conduct. The CIA requires that we conduct certain additional compliance-related activities during the term of the CIA, including various training and monitoring procedures, and maintaining a disciplinary process for compliance obligations.

Pursuant to the CIA, the Company is required to notify the HHS-OIG in writing, among other things, of: (i) any ongoing government investigation or legal proceeding involving an allegation that the Company has committed a crime or has engaged in fraudulent activities; (ii) any other matter that a reasonable person would consider a probable violation of applicable criminal, civil, or administrative laws related to compliance with federal healthcare programs or FDA requirements; and (iii) any change in location, sale, closing, purchase, or establishment of a new business unit or location related to items or services that may be reimbursed by federal healthcare programs. The Company is also subject to periodic reporting and certification requirements attesting that the provisions of the CIA are being implemented and followed, as well as certain document and record retention mandates. The CIA provides that in the event of an uncured material breach of the CIA, the Company could be excluded from participation in federal healthcare programs and/or subject to monetary penalties.

### **Matters Related to the Company's Former Breg Subsidiary and Possible Indemnification Obligations**

On May 24, 2012, we sold Breg to an affiliate of Water Street Healthcare Partners II, L.P. ("Water Street") pursuant to a stock purchase agreement (the "Breg SPA"). Under the terms of the Breg SPA, upon closing of the sale, the Company and its subsidiary, Orthofix Holdings, Inc., agreed to indemnify Water Street and Breg with respect to certain specified matters, including the following:

- Breg was engaged in the manufacturing and sale of local infusion pumps for pain management from 1999 to 2008. Since 2008, numerous product liability cases have been filed in the United States alleging that the local anesthetic, when dispensed by such infusion pumps inside a joint, causes a rare arthritic condition called "chondrolysis." The Company incurred losses for settlements and judgments in connection with these matters during 2014, 2013 and 2012 of \$3.8 million, \$6.7 million and \$6.8 million, respectively. In addition, several cases remain outstanding for which the Company currently cannot reasonably estimate the possible loss, or range of loss.
- On or about August 2, 2010, Breg received a HIPAA subpoena issued by the DOJ. The subpoena sought documents from us and our subsidiaries for the period of January 1, 2000 through the date of the subpoena. We believe that this subpoena relates to an investigation by the DOJ into whether Breg's sale, marketing and labeling of local infusion pumps for pain management, prior to Breg's divestiture of this product line in 2008, complied with FDA regulations and federal law. We believe that document production in response to the subpoena was completed as of July 2012, and we currently do not expect any liability to result from this matter.
- At the time of its divestiture by us, Breg was currently and had been engaged in the manufacturing and sales of motorized cold therapy units used to reduce pain and swelling. Several domestic product liability cases have been filed in recent years, mostly in California state court, alleging the use of cold therapy causes skin and/or nerve injury and seeking damages on behalf of individual plaintiffs who were allegedly injured by such units or who would not have purchased the units had they known they could be injured. In September 2014, the Company entered into a master settlement agreement resolving all pending pre-close claims. Pursuant to the terms of the settlement agreement, the Company paid approximately \$ 1.3 million, and additional amounts owed under the settlement were paid directly by the Company's insurance providers. These amounts paid by the Company were recorded as an expense in discontinued operations during the fiscal quarter ended June 30, 2014. Remaining cold therapy claims include a putative consumer class of individuals who did not suffer physical harm following use of the devices, and an appeal of an adverse July 2012 California jury verdict and a post-close cold therapy claim pending in California state court. We have established an accrual of \$5.7 million for the July 2012

verdict and post-close cold therapy liabilities, however, actual liability could be higher or lower than the amount accrued. The putative class action is at an early stage and the Company currently cannot reasonably estimate the possible loss, or range of loss.

## **16. Pensions and deferred compensation**

Orthofix Inc. sponsors a defined contribution plan (the “Orthofix Inc. 401(k) Plan”) covering substantially all full time US employees. The Orthofix Inc. 401(k) Plan allows for participants to contribute up to 15% of their pre-tax compensation, subject to certain limitations, with the Company matching 100% of the first 2% of the employee’s base compensation and 50% of the next 4% of the employee’s base compensation if contributed to the Orthofix Inc. 401(k) Plan. During the years ended December 31, 2014, 2013 and 2012, expenses incurred relating to 401(k) Plans, including matching contributions, were approximately \$1.7 million, \$2.4 million and \$2.5 million, respectively.

The Company operates defined contribution pension plans for its other International employees not described above meeting minimum service requirements. The Company’s expenses for such pension contributions during each of the years ended 2014, 2013 and 2012 were \$0.8 million, \$0.7 million and \$0.7 million, respectively.

Under Italian Law, Orthofix S.r.l. accrues, on behalf of its employees, deferred compensation, which is paid on termination of employment. Each year’s provision for deferred compensation is based on a percentage of the employee’s current annual remuneration plus an annual charge. Deferred compensation is also accrued for the leaving indemnity payable to agents in case of dismissal, which is regulated by a national contract and is equal to approximately 3.5% of total commissions earned from the Company. Our relations with our Italian employees, who represent 17.6% of our total employees at December 31, 2014, are governed by the provisions of a National Collective Labor Agreement setting forth mandatory minimum standards for labor relations in the metal mechanic workers industry. We are not a party to any other collective bargaining agreement.

The Orthofix Deferred Compensation Plan (the “Plan”), administered by the Board of Directors of the Company, effective January 1, 2007, and as amended and restated effective January 1, 2009, is a plan intended to allow a select group of key management and highly compensated employees of the Company to defer the receipt of compensation that would otherwise be payable to them. The terms of this plan are intended to comply in all respects with the provisions of Code Section 409A and Code Section 457A. As of January 1, 2011 the Company disallowed further contributions into the plan and any new plan participants. Distributions are made in accordance with the requirements of Code Section 409A.

The Company’s expense for both deferred compensation plans described above during 2014, 2013 and 2012 was approximately \$0.1 million, \$0.3 million and \$0.4 million, respectively. Deferred compensation payments of \$0.3 million, \$0.1 million, and \$0.8 million were made in 2014, 2013, and 2012, respectively. The balance in other long-term liabilities as of December 31, 2014 and 2013 was \$1.9 and \$2.5 million and represents the amount which would be payable if all the employees and agents had terminated employment at that date.

## **17. Share-based compensation plans**

At December 31, 2014, the Company had stock option and award plans, and an employee stock purchase plan, which are described below.

### *2012 Long Term Incentive Plan*

The Board of Directors adopted the Orthofix International N.V. 2012 Long-Term Incentive Plan (the “2012 LTIP”) on April 13, 2012, subject to shareholder approval, which was subsequently provided by shareholder ratification. The 2012 LTIP provides for the grant of options to purchase shares of the Company’s common stock, stock awards (including restricted stock, unrestricted stock, and stock units), stock appreciation rights, performance-based awards and other equity-based awards. All of the Company’s employees and the employees of the Company’s subsidiaries and affiliates are eligible and may receive awards under the 2012 LTIP. In addition, the Company’s non-employee directors and consultants and advisors who perform services for the Company and the Company’s subsidiaries and affiliates may receive awards under the 2012 LTIP. Incentive share options, however, are only available to the Company’s employees. The Company reserves a total of 1,600,000 shares of common stock for issuance pursuant to the 2012 LTIP, subject to certain adjustments set forth in the 2012 LTIP. At December 31, 2014, there were 648,675 options outstanding under the 2012 LTIP Plan, of which 81,899 were exercisable; in addition, there were 460,976 shares of unvested restricted stock outstanding.

## 2004 Long Term Incentive Plan

The 2004 Long Term Incentive Plan (the “2004 LTIP Plan”) reserves 3.1 million shares for issuance (in addition to shares (i) available for future awards as of June 29, 2004 under prior plans or (ii) that become available for future issuance upon the expiration or forfeiture after June 29, 2004 of awards upon prior plans). Awards generally vest on years of service with all awards fully vesting within three years from the date of grant for employees and either three or five years from the date of grant for non-employee directors. Awards can be in the form of a stock option, restricted stock, restricted share unit, performance share unit, or other award form determined by the Board of Directors. Awards granted under the 2004 LTIP Plan expire no later than ten years after the date of the grant. The 2004 LTIP Plan provides an annual grant to non-employee directors of 5,000 shares and limits the future the number of shares that may be awarded under the plan as full value awards to 100,000 shares. At December 31, 2014, there were 879,161 options outstanding under the 2004 LTIP Plan, of which 854,662 were exercisable; in addition, there were no shares of unvested restricted stock outstanding.

## Stock Purchase Plan

The Orthofix International N.V. Amended and Restated Stock Purchase Plan (the “Stock Purchase Plan”) provides for the issuance of shares of the Company’s common stock to eligible employees and directors of the Company and its subsidiaries that elect to participate in the plan and acquire shares of common stock through payroll deductions (including executive officers).

During each purchase period, eligible employees may designate between 1% and 25% of their compensation to be deducted for the purchase of common stock under the plan (up to 25% for employees working in North America, South America and Asia, and up to 15% for employees working in Europe). For eligible directors, the designated percentage will be an amount equal to his or her annual or other director compensation paid in cash for the current plan year. The purchase price of the shares under the plan is equal to 85% of the fair market value on the first day of the plan year (which is a calendar year, running from January 1 to December 31) or, if lower, on the last day of the plan year.

Due to the compensatory nature of such plan, the Company has recorded the related share based compensation in the consolidated statement of operations. The aggregate number of shares reserved for issuance under the Employee Stock Purchase Plan is 1,850,000 shares. As of December 31, 2014, 1,517,313 shares had been issued under the Stock Purchase Plan.

## Share-Based Compensation:

As of December 31, 2014, the unamortized compensation expense relating to options granted and expected to be recognized was \$2.8 million. This amount is expected to be recognized through January 2018. The following tables show the detail of share-based compensation by line item in the consolidated statements of operations as well as by grant type, for the years ended December 31, 2014, 2013 and 2012 and the assumptions for each of these years in which grants were awarded:

<b>(U.S. Dollars in thousands, except assumptions)</b>	<b>Year Ended December 31, 2014</b>	<b>Year Ended December 31, 2013</b>	<b>Year Ended December 31, 2012</b>
Cost of sales.....	\$ 137	\$ 104	\$ 592
Sales and marketing.....	1,701	1,444	1,550
General and administrative.....	3,578	4,483	4,023
Research and development.....	308	236	138
Total.....	<u>\$ 5,724</u>	<u>\$ 6,267</u>	<u>\$ 6,303</u>

<b>(U.S. Dollars in thousands, except assumptions)</b>	<b>Year Ended December 31, 2014</b>	<b>Year Ended December 31, 2013</b>	<b>Year Ended December 31, 2012</b>
Stock options.....	\$ 1,391	\$ 2,753	\$ 3,429
Restricted stock awards.....	3,400	1,964	1,387
Stock purchase plan.....	933	1,550	1,487
Total.....	<u>\$ 5,724</u>	<u>\$ 6,267</u>	<u>\$ 6,303</u>

<b>Assumptions:</b>	<b>Year Ended December 31, 2014</b>	<b>Year Ended December 31, 2013</b>	<b>Year Ended December 31, 2012</b>
Expected term.....	5.00 years	5.00 years	4.50 years
Expected volatility.....	31.7% – 34.5%	32.1% – 50.8%	50.9% – 51.8%
Risk free interest rate.....	1.52% – 1.70%	0.58% – 1.52%	0.76% – 0.84%
Dividend rate.....	—	—	—
Weighted average fair value of options granted during the year.....	\$ 10.45	\$ 10.83	\$ 16.99

*Stock Option Activity:*

Summaries of the status of the Company's stock option plans as of December 31, 2014 and 2013 and changes during the year ended December 31, 2014 are presented below:

	<b>Options</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Term</b>
Outstanding at December 31, 2013.....	1,924,179	\$ 33.12	
Granted.....	286,750	\$ 33.20	
Exercised.....	(366,958)	\$ 26.05	
Forfeited.....	(316,135)	\$ 32.78	
Outstanding at December 31, 2014.....	<u>1,527,836</u>	\$ 34.91	4.48
Vested and expected to vest at December 31, 2014.....	<u>1,437,703</u>	\$ 35.23	4.22
Options exercisable at December 31, 2014.....	<u>936,561</u>	\$ 36.64	2.72

**Outstanding and exercisable by price range as of December 31, 2014**

<b>Range of Exercise Prices</b>	<b>Options Outstanding</b>			<b>Options Exercisable</b>	
	<b>Number Outstanding</b>	<b>Weighted Average Remaining Contractual Life</b>	<b>Weighted Average Exercise Price</b>	<b>Number Exercisable</b>	<b>Weighted Average Exercise Price</b>
\$10.42 – \$21.78.....	164,750	7.00	\$ 21.11	47,565	\$ 20.41
\$22.75 – \$27.97.....	141,333	5.97	\$ 24.87	81,333	\$ 24.64
\$27.98 – \$31.40.....	151,500	5.23	\$ 29.27	119,000	\$ 29.34
\$31.83 – \$36.25.....	238,425	8.24	\$ 34.25	44,000	\$ 31.83
\$37.36 – \$37.36.....	53,334	5.27	\$ 37.36	41,334	\$ 37.36
\$38.11 – \$38.11.....	142,075	1.22	\$ 38.11	142,075	\$ 38.11
\$38.82 – \$39.94.....	299,687	3.44	\$ 39.32	137,021	\$ 39.83
\$40.27 – \$41.37.....	157,500	1.82	\$ 41.18	145,001	\$ 41.16
\$43.04 – \$44.97.....	160,732	1.74	\$ 44.61	160,732	\$ 44.61
\$45.84 – \$50.99.....	18,500	1.92	\$ 48.43	18,500	\$ 48.43
\$10.42 – \$50.99.....	<u>1,527,836</u>	4.48	\$ 34.91	<u>936,561</u>	\$ 36.64

The weighted average remaining contractual life of exercisable options was 2.72 years at December 31, 2014. The total intrinsic value of options exercised was \$2.1 million, \$0.4 million and \$7.2 million for the years ended December 31, 2014, 2013 and 2012, respectively. The aggregate intrinsic value of options outstanding and options exercisable as of December 31, 2014 is calculated as the difference between the exercise price of the underlying options and the market price of the Company's common stock for the shares that had exercise prices that were lower than the \$30.06 closing price of the Company's stock on December 31, 2014. The aggregate intrinsic value of options outstanding was \$2.4 million, \$0.5 million and \$11.2 million for the years ended December 31, 2014, 2013, and 2012, respectively. The aggregate intrinsic value of options exercisable was \$1.0 million, \$0.2 million and \$9.8 million for the years ended December 31, 2014, 2013 and 2012, respectively.

*Restricted Stock:*

During the year ended December 31, 2014, the Company granted to employees and non-employee directors 358,450 shares of restricted stock, 99,600 of which are performance based, which vest at various dates through December 2018. During the year ended December 31, 2013, the Company granted to employees and non-employee directors 269,791 shares of restricted stock, which vest at various dates through October 2017. The compensation expense, which represents the fair value of the stock measured at the market price at the date of grant, less estimated forfeitures, is recognized on a straight-line basis over the vesting period. The aggregate fair value of restricted stock that vested during the years ended December 31, 2014, 2013 and 2012 was \$2.5 million, \$2.1 million and \$1.2 million, respectively. Unamortized compensation expense related to restricted stock amounted to \$11.4 million at December 31, 2014, of which \$3.1 million related to performance based restricted stock that are contingent upon meeting certain performance based vesting criteria, and is expected to be recognized over a weighted average period of approximately 2.3 years. The aggregate intrinsic value of restricted stock outstanding was \$31.9 million, \$6.5 million and \$6.3 million for the years ended December 31, 2014, 2013 and 2012, respectively.

A summary of the status of our restricted stock as of December 31, 2014 and 2013 and changes during the year ended December 31, 2013 are presented below:

	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Non-vested as of December 31, 2013 .....	286,704	\$ 28.01
Granted .....	358,450	\$ 33.56
Vested .....	(84,396)	\$ 29.25
Cancelled .....	(99,782)	\$ (30.39)
Non-vested as of December 31, 2014 .....	<u>460,976</u>	<u>\$ 31.55</u>

**18. Earnings per share**

For each of the three years ended December 31, 2014, there were no adjustments to net income (loss) for purposes of calculating basic and diluted net income (loss) available to common shareholders. The following is a reconciliation of the weighted average shares used in the basic and diluted net income (loss) per common share computations.

	<u>Year Ended December 31,</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Weighted average common shares-basic .....	18,459,054	18,697,228	18,977,263
Effect of diluted securities:			
Unexercised stock options net of treasury share repurchase .....	—	—	413,150
Weighted average common shares-diluted .....	<u>18,459,054</u>	<u>18,697,228</u>	<u>19,390,413</u>

No adjustment has been made in 2014 or 2013 for any common stock equivalents because their effects would be anti-dilutive. For 2013 potentially dilutive shares totaled 101,672.

Options to purchase shares of common stock with exercise prices in excess of the average market price of common shares are not included in the computation of diluted earnings per share. There were 1,062,198, 1,186,259 and 789,650 outstanding options not included in the diluted earnings per share computation for the fiscal year ended December 31, 2014, 2013 and 2012, respectively, because the inclusion of these options was anti-dilutive.

## 19. Quarterly financial data (unaudited)

### Condensed Consolidated Statement of Operations (U.S. Dollars, in thousands, except per share data)

(U.S. Dollars, in thousands, except share and per share data)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Year
<b>2014</b>					
Net sales .....	\$ 100,014	\$ 100,985	\$ 100,994	\$ 100,284	\$ 402,277
Cost of sales .....	26,773	25,414	25,268	21,457	98,912
Gross profit .....	73,241	75,571	75,726	78,827	303,365
Operating expense .....	73,270	68,867	69,218	74,874	286,229
Operating (loss) income .....	(29)	6,704	6,508	3,953	17,136
Net (loss) income from continuing operations .....	(1,948)	3,266	28	(5,090)	(3,744)
Net (loss) income .....	<u>\$ (2,508)</u>	<u>\$ (683)</u>	<u>\$ 452</u>	<u>\$ (5,798)</u>	<u>\$ (8,537)</u>
Net income (loss) per common share:					
Basic:					
Net (loss) income from continuing operations .....	<u>\$ (0.11)</u>	<u>\$ 0.18</u>	<u>\$ 0.00</u>	<u>\$ (0.27)</u>	<u>\$ (0.20)</u>
Net (loss) income .....	<u>\$ (0.14)</u>	<u>\$ (0.04)</u>	<u>\$ 0.02</u>	<u>\$ (0.31)</u>	<u>\$ (0.46)</u>
Diluted:					
Net (loss) income from continuing operations .....	<u>\$ (0.11)</u>	<u>\$ 0.18</u>	<u>\$ 0.00</u>	<u>\$ (0.27)</u>	<u>\$ (0.20)</u>
Net (loss) income .....	<u>\$ (0.14)</u>	<u>\$ (0.04)</u>	<u>\$ 0.02</u>	<u>\$ (0.31)</u>	<u>\$ (0.46)</u>
	<u>1st Quarter</u>	<u>2nd Quarter</u>	<u>3rd Quarter</u>	<u>4th Quarter</u>	<u>Year</u>
<b>2013</b>					
Net sales .....	\$ 102,279	\$ 97,640	\$ 91,806	\$ 105,886	\$ 397,611
Cost of sales .....	25,841	21,884	25,064	34,123	106,912
Gross profit .....	76,438	75,756	66,742	71,763	290,699
Operating expense .....	70,370	68,836	80,843	81,842	301,891
Operating income .....	6,068	6,920	(14,101)	(10,079)	(11,192)
Net income from continuing operations .....	5,926	2,012	(16,504)	(9,639)	(18,205)
Net income .....	<u>\$ 3,447</u>	<u>\$ (3,011)</u>	<u>\$ (18,836)</u>	<u>\$ (10,412)</u>	<u>\$ (28,812)</u>
Net income (loss) per common share:					
Basic:					
Net income from continuing operations .....	<u>\$ 0.31</u>	<u>\$ 0.11</u>	<u>\$ (0.91)</u>	<u>\$ (0.53)</u>	<u>\$ (0.97)</u>
Net income .....	<u>\$ 0.18</u>	<u>\$ (0.16)</u>	<u>\$ (1.04)</u>	<u>\$ (0.58)</u>	<u>\$ (1.54)</u>
Diluted:					
Net income from continuing operations .....	<u>\$ 0.30</u>	<u>\$ 0.10</u>	<u>\$ (0.91)</u>	<u>\$ (0.53)</u>	<u>\$ (0.97)</u>
Net income .....	<u>\$ 0.18</u>	<u>\$ (0.16)</u>	<u>\$ (1.04)</u>	<u>\$ (0.58)</u>	<u>\$ (1.54)</u>

## Condensed Consolidated Balance Sheets

(U.S. Dollars, in thousands, except share and per share data)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
<b>2014</b>				
Total assets.....	\$ 403,973	\$ 433,997	\$ 411,045	\$ 393,185
Total liabilities .....	103,410	128,786	106,029	93,558
Total shareholders' equity.....	300,563	305,211	305,016	299,627
Total liabilities and shareholders' equity .....	\$ 403,973	\$ 433,997	\$ 411,045	\$ 393,185
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
<b>2013</b>				
Total assets.....	\$ 464,153	\$ 446,321	\$ 415,524	\$ 411,975
Total liabilities .....	103,178	114,175	108,531	116,112
Total shareholders' equity.....	360,975	332,146	306,993	295,863
Total liabilities and shareholders' equity .....	\$ 464,153	\$ 446,321	\$ 415,524	\$ 411,975

### 20. Subsequent events

In January 2015, the Company completed the sale of its Tempus™ Cervical Plate product line, which was part of the Company's Spine Fixation SBU. The sale included the transfer of net assets of \$2.1 million, consisting of intellectual property and the associated inventory, in exchange for consideration of \$4.8 million in cash.

On March 4, 2015, the Company entered into an Option Agreement (the "Option Agreement") with eNeura, Inc. ("eNeura"), a privately held medical technology company that is developing devices for the treatment of migraines. The Option Agreement provides the Company with an exclusive option to acquire eNeura (the "Option") during the 18-month period following the grant of the Option. In consideration for the Option, (i) the Company paid a non-refundable \$250 thousand fee to eNeura, and (ii) eNeura issued a Convertible Promissory Note (the "eNeura Note") to the Company. The principal amount of the eNeura Note is \$15.0 million and interest will accrue at 8.0%. The eNeura Note will mature on the earlier of (i) March 4, 2019, or (ii) consummation of the acquisition (as described below), unless converted or prepaid at an earlier date. The Company will be entitled to designate one representative for appointment to the board of directors of eNeura during the 18-month option period. Pursuant to an Agreement and Plan of Merger between the Company, eNeura and certain other parties, if the Company exercises the Option to acquire eNeura, the Company will pay to former eNeura shareholders \$65 million (subject to certain positive or negative adjustments based on the assets and liabilities of eNeura). In addition, during the 4-year period following the closing of such acquisition, the Company may be required to pay additional cash consideration to eNeura shareholders upon the satisfaction of certain milestones.



**Orthofix International N.V.****Schedule 1—Condensed Financial Information of Registrant Orthofix International N.V.****Condensed Balance Sheets (unaudited)**

<b>(U.S. Dollars in thousands)</b>	<b>December 31, 2014</b>	<b>December 31, 2013</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents .....	\$ 5,162	\$ 1,426
Prepaid expenses and other current assets .....	270	670
Total current assets.....	5,432	2,096
Investments in and amounts due from subsidiaries and affiliates .....	306,105	308,173
Total assets.....	<u>\$ 311,537</u>	<u>\$ 310,269</u>
<b>Liabilities and shareholder's equity</b>		
Current liabilities .....	\$ 3,799	\$ 6,295
Long-term liabilities.....	8,111	8,111
Shareholder's equity:		
Common stock.....	1,861	1,810
Additional paid in capital.....	232,788	216,653
Accumulated earnings .....	65,360	73,897
Accumulated other comprehensive (loss) income .....	(382)	3,503
	<u>299,627</u>	<u>295,863</u>
Total liabilities and shareholder's equity .....	<u>\$ 311,537</u>	<u>\$ 310,269</u>

*See accompanying notes to condensed financial statements.*

**Orthofix International N.V.**

**Schedule 1—Condensed Financial Information of Registrant Orthofix International N.V.**

**Condensed Statements of Operations (unaudited)**

<u>(U.S. Dollars in thousands)</u>	<u>Year Ended December 31, 2014</u>	<u>Year Ended December 31, 2013</u>	<u>Year Ended December 31, 2012</u>
(Expenses) income:			
General and administrative .....	\$ (21,073)	\$ (16,641)	\$ (7,700)
Equity in earnings of investments in subsidiaries and affiliates.....	12,540	(12,494)	50,331
Other, net.....	(4)	323	24
(Loss) income before income taxes.....	(8,537)	(28,812)	42,655
Income tax expense .....	—	—	197
Net (loss) income .....	<u>\$ (8,537)</u>	<u>\$ (28,812)</u>	<u>\$ 42,852</u>

*See accompanying notes to condensed financial statements.*

**Orthofix International N.V.**

**Schedule 1—Condensed Financial Information of Registrant Orthofix International N.V.**

**Condensed Statement of Cash Flows (unaudited)**

<u>(U.S. Dollars in thousands)</u>	<u>Year Ended December 31, 2014</u>	<u>Year Ended December 31, 2013</u>	<u>Year Ended December 31, 2012</u>
Net (loss) income .....	\$ (8,537)	\$ (28,812)	\$ 42,852
Equity in (loss) earnings of investments in subsidiaries and affiliates.....	(12,540)	12,494	(50,331)
Cash (used in) provided by other operating activities .....	(5,167)	468	(6,811)
Net cash used in operating activities .....	(26,244)	(15,850)	(14,290)
Cash flows from investing activities:			
Distributions and amounts received from subsidiaries.....	20,723	53,389	12,564
Capital expenditures.....	—	—	—
Net cash provided by investing activities.....	20,723	53,389	12,564
Cash flows from financing activities:			
Net proceeds from issuance of common stock .....	10,462	3,450	25,586
Repurchase of treasury shares .....	—	(39,494)	—
Contributions to subsidiaries and affiliates .....	(1,411)	(7,543)	(36,921)
Excess tax benefit on exercise of stock options .....	206	82	1,020
Net cash provided by (used in) financing activities .....	9,257	(43,505)	(10,315)
Net increase (decrease) in cash and cash equivalents .....	3,736	(5,966)	(12,041)
Cash and cash equivalents at the beginning of the year .....	1,426	7,392	19,433
Cash and cash equivalents at the end of the year .....	<u>\$ 5,162</u>	<u>\$ 1,426</u>	<u>\$ 7,392</u>

*See accompanying notes to condensed financial statements.*

## **Orthofix International N.V.**

### **Schedule 1—Condensed Financial Information of Registrant Orthofix International N.V.**

#### **Notes to Condensed Financial Statements (unaudited)**

##### **1. Background and basis of presentation**

These condensed parent company financial statements have been prepared in accordance with Rule 12-04, Schedule 1 of Regulation S-X, as the restricted net assets of Orthofix Holdings, Inc. and its subsidiaries exceed 25% of the consolidated net assets of Orthofix International N.V. and its subsidiaries (the “Company”). This information should be read in conjunction with the Company’s consolidated financial statements included elsewhere in this filing.

##### **2. Restricted net assets of subsidiaries**

Certain of the Company’s subsidiaries have restrictions on their ability to pay dividends or make intercompany loans and advances pursuant to their financing arrangements. The amount of restricted net assets the Company’s subsidiaries held at December 31, 2014 and 2013 was approximately \$181.8 million and \$168.5 million, respectively. Such restrictions are on net assets of Orthofix Holdings, Inc. and its subsidiaries.

##### **3. Commitments, contingencies and long-term obligations**

For a discussion of the Company’s commitments, contingencies and long term obligations under its senior secured credit facility, see Note 5, Note 7 and Note 15 of the Company’s consolidated financial statements.

##### **4. Dividends from subsidiaries**

Orthofix International N.V. did not receive cash dividends in 2014 or 2013.

**Orthofix International N.V.**

**Schedule 2—Valuation and Qualifying Accounts**

For the years ended December 31, 2014, 2013 and 2012:

(U.S. Dollars in thousands) Provisions from assets to which they apply	Balance at beginning of year	Additions		Deductions/ Other	Balance at end of year
		Charged to cost and expenses	Charged (credited) to other accounts		
<b>2014</b>					
Allowance for doubtful accounts receivable .....	\$ 9,111	\$ 937	—	\$ (2,763)	\$ 7,285
Deferred tax valuation allowance .....	31,772	5,666	—	—	37,438
<b>2013</b>					
Allowance for doubtful accounts receivable .....	\$ 6,673	\$ 4,590	—	\$ (2,152)	\$ 9,111
Deferred tax valuation allowance .....	26,361	5,411	—	—	31,772
<b>2012</b>					
Allowance for doubtful accounts receivable .....	\$ 6,184	\$ 2,027	\$ (13)	\$ (1,525)	\$ 6,673
Deferred tax valuation allowance .....	19,124	7,237	—	—	26,361



**CORPORATE HEADQUARTERS - U.S.  
SALES, MANUFACTURING  
& DISTRIBUTION**

**Orthofix International NV**

3451 Plano Parkway  
Lewisville, TX 75056  
USA

Tel: 214.937.2000  
Fax: 214.937.2736

**INTERNATIONAL  
EXECUTIVE OFFICE**

**Orthofix International N.V.**

7 Abraham de Veerstraat  
Willemstad,  
Curaçao

**INTERNATIONAL SALES, MANUFACTURING  
& DISTRIBUTION SUBSIDIARIES**

**Orthofix Srl.**

Via delle Nazioni 9  
37012 Bussolengo  
Verona, Italy

Tel: +39.045.6719000  
Fax: +39.045.6719380

**Orthofix Srl. (International  
Distribution Center)**

Via della Filanda 7/9  
37060 Lugagnano di Sona  
Verona, Italy

Tel: +39.045.6719000  
Fax: +39.045.6719380

**Orthofix do Brasil Ltda.**

Rua Alves Guimarães, 1212/1216  
Pinheiros 05410-002  
São Paulo – SP  
Brazil

Tel: +55.11.30872260  
Fax: +55.11.30872266

**Orthofix GmbH / Orthofix Spine GmbH**

Siemensstraße 5  
85521 Ottobrunn  
Munich/Germany

Tel: +49.89.35499990  
Fax: +49.89.35499997

**Orthofix SA**

21-37 Rue de Stalingrad, 24/28 Villa Baudran  
94110 Arcueil  
France

Tel: +33.1.41983333  
Fax: +33.1.41983344

**Orthofix Australia Pty. Ltd.**

Unit 2, 12 Frederick Street  
St Leonards, NSW 2065  
Australia

Tel: +61.2.9493.4448  
Fax: +61.2.9493.4441

**Orthofix Ltd.**

Burney Court Unit 5  
Cordwallis Park  
Maidenhead, Berkshire  
SL6 7BZ  
United Kingdom

Tel: +44.1628.594500  
Fax: +44.1628.789400

**IMPLANTES Y SISTEMAS MEDICOS, INC.**

6 Calle 1, Suite 80 Metro Park Office  
Guaynabo 00968  
Puerto Rico

Tel: +1.787.273.8131  
Fax: +1.787.273.8105

**COMMON STOCK**

Approximately 327 shareholders of record.  
Traded on the NASDAQ  
Symbol: OFIX

**TRANSFER AGENT**

Computershare Investor Services  
P.O. BOX 30170  
College Station, TX 77842-3170  
1.877.205.0957  
[www.computershare.com/investor](http://www.computershare.com/investor)

**INDEPENDENT REGISTERED PUBLIC  
ACCOUNTING FIRM**

Ernst & Young LLP  
Dallas, TX

214.937.2000  
[www.orthofix.com](http://www.orthofix.com)

OF-1502 © Orthofix Holdings, Inc. 04/2014 3K

