BANCOLOMBIA SA
Form 6-K
April 28, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 OF
THE SECURITIES EXCHANGE ACT OF 1934

For the month of April, 2015

Comission File Number 001-32535

Bancolombia S.A.

(Translation of registrant's name into English)

Cra. 48 # 26-85
Medellín, Colombia
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F þ Form 40-F o

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):___

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(2):___

Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes o No þ

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-_____.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BANCOLOMBIA S.A.
(Registrant)

Date: April 27, 2015 By: /s/ JAIME ALBERTO VELÁSQUEZ B.
Name: Jaime Alberto Velásquez B.
Title: Vice President of Strategy and Finance

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28,877

21,575

55,884

45,633

Total revenue

281,564

259,399

542,086

508,412

Cost of revenue (excluding below amortization of intangible assets)

Cost of products sold

58,202

50,535

113,393

96,436

Cost of services			
	18,854		
	15,651		
	37,477		
	31,193		
Total cost of revenue			
	77,056		
	66,186		

150,870

127,629

Gross profit

204,508

193,213

391,216

380,783

Operating expenses:

Sales, marketing and administrative

145,658

138,967

292,424

279,335

Research and development

14,856

12,572

29,347

24,986

Amortization of intangible assets

12,628

11,349

25,053

23,410

Litigation liability (gain) loss

(1,195

)

—

27,800

—

Business transition costs

3,998

1,369

6,251

1,424

Total operating expenses

175,945

164,257

380,875

329,155

Interest and other expense, net:

Interest income

116

139

250

276

Interest expense

(9,956

)

(10,083

)

(19,423

)

(19,882

)

Other expense, net

(2,379

)

(501

)

(12,082

)

(243

)

Total interest and other expense, net

(12,219

)

(10,445

)

(31,255

)

(19,849

)

Income (loss) before income taxes

16,344

18,511

(20,914

)

31,779

Income tax (expense) benefit

(4,813

)

(6,776

)

5,313

(8,061

)

Consolidated net income (loss)

$

11,531

$

11,735

$

(15,601

)

$

23,718

Add back net loss attributable to non-controlling interest

$

—

$

(432

)

$

—

$

(875

)

Net income (loss) attributable to NuVasive, Inc.

$

11,531

$

12,167

$

(15,601

)

$

24,593

Net income (loss) per share attributable to NuVasive, Inc.:

Basic

$

0.22

$

0.24

$

(0.30

)

$

0.48

Diluted

$

0.22

$

0.21

$

(0.30

)

$

0.42

Weighted average shares outstanding:

Basic

51,356

51,082

51,292

50,825

Diluted			
51,956			
58,330			
51,292			
58,059			

See accompanying Notes to Unaudited Consolidated Financial Statements.

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NUVASIVE, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
(unaudited)	2018	2017	2018	2017
Consolidated net income (loss)	$11,531	$11,735	$(15,601)	$23,718
Other comprehensive (loss) income:				
Unrealized gain (loss) on marketable securities, net of tax	—	1	—	(1)
Translation adjustments, net of tax	(4,522)	642	(1,943)	2,501
Other comprehensive (loss) income	(4,522)	643	(1,943)	2,500
Total consolidated comprehensive income (loss)	7,009	12,378	(17,544)	26,218
Net loss attributable to non-controlling interest	—	(432)	—	(875)
Comprehensive income (loss) attributable to NuVasive, Inc.	$7,009	$12,810	$(17,544)	$27,093

See accompanying Notes to Unaudited Consolidated Financial Statements.

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NUVASIVE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)	Six Months Ended June 30, 2018	2017
Operating activities:		
Consolidated net (loss) income	$(15,601)	$23,718
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	64,151	58,688
Impairment of strategic investment	9,004	—
Amortization of non-cash interest	9,920	10,882
Stock-based compensation	10,994	15,411
Reserves on current assets	9,444	64
Other non-cash adjustments	12,133	7,380
Deferred income taxes	(6,593)	(3,077)
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	852	(15,823)
Inventory	(19,615)	(29,417)
Contingent consideration liabilities	(100)	(11,200)
Prepaid expenses and other current assets	(2,141)	(2,543)
Accounts payable and accrued liabilities	9,031	4,868
Accrued payroll and related expenses	(6,358)	(2,059)
Litigation liability	2,150	—
Income taxes	(53)	10,172
Net cash provided by operating activities	77,218	67,064
Investing activities:		
Acquisitions and investments	(52,081)	(14,417)
Purchases of intangible assets	(7,682)	(1,695)
Purchases of property and equipment	(53,388)	(68,690)
Net cash used in investing activities	(113,151)	(84,802)
Financing activities:		
Proceeds from the issuance of common stock	5,312	5,369
Purchase of treasury stock	(2,222)	(10,844)
Payment of contingent consideration	(8,900)	(18,800)
Proceeds from revolving line of credit	82,000	20,000
Repayments on revolving line of credit	(45,000)	—
Other financing activities	(146)	(2,205)
Net cash provided by (used in) financing activities	31,044	(6,480)
Effect of exchange rate changes on cash	(837)	1,449
Decrease in cash, cash equivalents, restricted cash and investments	(5,726)	(22,769)
Cash, cash equivalents, restricted cash and investments at beginning of period	78,198	161,048

Cash, cash equivalents, restricted cash and investments at end of period	$72,472	$138,279

The following table provides a reconciliation of cash, cash equivalents, restricted cash and investments reported on our Unaudited Consolidated Statements of Cash Flows for the periods presented:

	Six Months Ended June 30,	
	2018	2017
Cash and cash equivalents	$70,078	$130,932
Restricted cash and investments, current	—	2,402
Restricted cash and investments, non-current	2,394	4,945
Total cash, cash equivalents, restricted cash and investments shown in the Unaudited Consolidated Statement of Cash Flows	$72,472	$138,279

See accompanying Notes to Unaudited Consolidated Financial Statements.

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NUVASIVE, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business and Basis of Presentation

Description of Business

NuVasive, Inc. (the "Company" or "NuVasive") was incorporated in Delaware on July 21, 1997, and began commercializing its products in 2001. The Company's principal product offering includes a minimally-disruptive surgical platform called Maximum Access Surgery, or MAS. The MAS platform combines three categories of solutions that collectively minimize soft tissue disruption during spine fusion surgery, provide maximum visualization and are designed to enable safe and reproducible outcomes for the surgeon and the patient. The platform includes the Company's proprietary software-driven nerve detection and avoidance systems and Intraoperative Monitoring ("IOM") services and support; MaXcess, an integrated split-blade retractor system; and a wide variety of specialized implants and biologics. To assist with surgical procedures the Company offers a technology platform called Integrated Global Alignment ("iGA"); in which products and computer assisted technology under the MAS platform help achieve more precise spinal alignment. The individual components of the MAS platform, and many of the Company's products, can also be used in open or traditional spine surgery. The Company continues to focus research and development efforts to expand its MAS product platform and advance the applications of its unique technology into procedurally-integrated surgical solutions. The Company dedicates significant resources toward training spine surgeons on its unique technology and products.

The Company's procedurally integrated solutions use innovative, technological advancements and the MAS platform to provide surgical efficiency, operative reliability, and procedural versatility. The Company offers a range of implants for spinal surgery, which include its branded CoRoent products and porous titanium and polyetheretherketone implants under its Advanced Materials Science portfolio, fixation devices such as customizable rods, plates and screws, bone allograft in patented saline packaging, allogeneic and synthetic biologics, and disposables used in IOM. The Company makes available MAS instrument sets, MaXcess and neuromonitoring systems to hospitals to facilitate surgeon access to the spine to perform restorative and fusion procedures using the Company's implants and fixation devices. The Company sells MAS instrument sets, MaXcess and neuromonitoring systems to hospitals, however, such sales are immaterial to the Company's results of operations.

The Company also designs and sells expandable growing rod implant systems that can be non-invasively lengthened following implantation with precise, incremental adjustments via an external remote controller using magnetic technology called MAGnetic External Control, or MAGEC, which allows for the minimally invasive treatment of early-onset and adolescent scoliosis. This technology is also the basis for the Company's PRECICE limb lengthening system, which allows for the correction of long bone limb length discrepancy, as well as enhanced bone healing in patients that have experienced traumatic injury.

The Company intends to continue development on a wide variety of projects intended to broaden surgical applications for greater procedural integration of its MAS techniques and additional applications of the MAGEC technology. Such applications include tumor, trauma, and deformity, as well as increased fixation options, sagittal alignment products, imaging and navigation. The Company also expects to continue expanding its other product and services offerings as it executes on its strategy to offer customers an end-to-end, procedurally integrated solution for spine surgery. The

Company intends to continue to pursue business and technology acquisition targets and strategic partnerships.

Basis of Presentation and Principles of Consolidation

The accompanying Unaudited Consolidated Financial Statements include the accounts of the Company and its majority-owned or controlled subsidiaries, collectively referred to as either NuVasive or the Company. The Company translates the financial statements of its foreign subsidiaries using end-of-period exchange rates for assets and liabilities and average exchange rates during each reporting period for results of operations. When there is a portion of equity in an acquired subsidiary not attributable, directly or indirectly, to the respective parent entity, the Company records the fair value of the non-controlling interest at the acquisition date and classifies the amounts attributable to non-controlling interest separately in equity in the Company's Consolidated Financial Statements. Any subsequent changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary are accounted for as equity transactions. All significant intercompany balances and transactions have been eliminated in consolidation.

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The accompanying Unaudited Consolidated Financial Statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Pursuant to these rules and regulations, the Company has condensed or omitted certain information and footnote disclosures it normally includes in its annual Consolidated Financial Statements prepared in accordance with generally accepted accounting principles in the United States ("GAAP"). Operating results for the three and six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for any other interim period or for the full year. These Unaudited Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and notes thereto for the year ended December 31, 2017 included in the Company's Annual Report on Form 10-K filed with the SEC. In the opinion of management, the Unaudited Consolidated Financial Statements and notes thereto include all adjustments that are of a normal and recurring nature that are necessary for the fair presentation of the Company's financial position and of the results of operations and cash flows for the periods presented.

The Company has reclassified historically presented revenue and cost of revenue to conform to the current year presentation, which now reflects revenue and costs allocated to the Company's product and service offerings. These reclassifications had no impact on previously reported results of operations. Additionally, as required by Accounting Standards Update 2014-09 Revenue from Contracts with Customers ("ASU 2014-09"), on January 1, 2018 the Company adopted Accounting Standards Codification 606 Revenue from Contracts with Customers ("ASC 606"), electing full retrospective method of adoption.

Use of Estimates

To prepare financial statements in conformity with GAAP, management must make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Recent Accounting Pronouncements Not Yet Adopted

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2016-02, Leases, which introduced ASC 842 – Leases, a new comprehensive lease accounting model that supersedes the current lease guidance under ASC 840 – Leases. The new accounting standard requires lessees to recognize right-of-use assets and corresponding lease liabilities for all leases with lease terms of greater than twelve months. It also changes the definition of a lease and expands the disclosure requirements of lease arrangements. The new accounting standard must be adopted using the modified retrospective approach and will be effective for the Company starting in the first quarter of fiscal 2019. Early adoption is permitted. The Company is in the process of determining the impact the adoption will have on its Consolidated Financial Statements and expects significant changes relating to the recognition of right-of-use assets and liabilities associated with its operating leases.

In June 2016, the FASB issued Accounting Standards Update No. 2016-13, Financial Instruments – Credit Losses, which changes the accounting for recognizing impairments of financial assets. Under the new guidance, credit losses for certain types of financial instruments will be estimated based on expected losses. The new guidance also modifies the impairment models for available-for-sale debt securities and for purchased financial assets with credit deterioration since their origination. The new guidance will be effective for the Company starting in the first quarter of fiscal 2021. Early adoption is permitted starting in the first quarter of fiscal 2020. The Company believes the adoption will modify the way the Company analyzes financial instruments, but it does not anticipate a material impact on results of operations. The Company is in the process of determining the effects the adoption will have on its Consolidated

Financial Statements as well as whether to early adopt the new guidance.

In January 2017, the FASB issued Accounting Standards Update No. 2017-04, Intangibles – Goodwill and Other, which eliminates the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value. The standard has tiered effective dates, starting in 2020 for calendar-year public business entities that meet the definition of an SEC filer. Early adoption is permitted for annual and interim goodwill impairment testing dates after January 1, 2017. The Company is in the process of determining the effects the adoption will have on its Consolidated Financial Statements as well as whether to early adopt the new guidance.

In July 2017, the FASB issued Accounting Standards Update No. 2017-11, Earnings Per Share, Distinguishing Liabilities from Equity, Derivatives and Hedging, which changes the accounting treatment and the earnings per share calculation for certain instruments with down round features. The amendments in this update should be applied using a cumulative-effect adjustment as of the beginning of the fiscal year of adoption or retrospective adjustment to each period presented. This update is effective for annual periods beginning after December 15, 2018, and interim periods within those periods and early adoption is permitted. The Company is in the process of determining the impact the adoption will have on its Consolidated Financial Statements as well as whether to early adopt the new guidance.

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In August 2017, the FASB issued Accounting Standards Update No. 2017-12, Derivatives and Hedging, which is intended to more closely align hedge accounting with companies' risk management strategies, simplify the application of hedge accounting and increase transparency as to the scope and results of hedging programs. The amendments in this update will be applied using a cumulative-effect adjustment as of the beginning of the fiscal year of adoption. This update is effective for annual periods beginning after December 15, 2018, and interim periods within those periods and early adoption is permitted. The Company is in the process of determining the impact the adoption will have on its Consolidated Financial Statements as well as whether to early adopt the new guidance.

In March 2018, the FASB issued Accounting Standards Update No. 2018-05, Income taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118, which provides guidance regarding the recording of tax impacts where uncertainty exists, in the period of adoption of the 2017 U.S. Tax Cuts and Jobs Act (the "Act"). To the extent that a company's accounting for certain income tax effects of the Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate to be included in the condensed financial statements. If a company cannot determine a provisional estimate to be included in the condensed financial statements, it should continue to apply ASC 740 on the basis of the provision of the tax laws that were in effect immediately before the enactment of the Act. See Note 8 to the Unaudited Consolidated Financial Statements for further discussion on the impact of the Act.

In June 2018, the FASB issued Accounting Standards Update No. 2018-07, Compensation – Stock Compensation, which aligns the measurement and classification guidance for share-based payment to non-employees with the guidance for share-based payments to employees. Under the new guidance, the measurement period for equity-classified non-employee awards will be fixed at the grant date. This update is effective for annual periods beginning after December 15, 2018, and interim periods within those periods and early adoption is permitted. The Company is in the process of determining the impact the adoption will have on its Consolidated Financial Statements as well as whether to early adopt the new guidance.

Recently Adopted Accounting Standards

In May 2014, the FASB issued Accounting Standard Update No. 2014-09 Revenue from Contracts with Customers ("ASU 2014-09"), an updated standard on revenue recognition. The standard effectively replaces Accounting Standards Codification 605 Revenue Recognition ("ASC 605") with ASC 606. In summary, the changes to the guidance in revenue recognition under ASC 606 focuses on the existence of a contract with the customer (whether written, oral, or implied by an entity's customary business practices), the concept that the performance obligation is fulfilled when the customer obtains control of the asset/service, versus the transfer of risk and reward, and the requirement that variable consideration (including rebates, discounts, etc.) and incremental costs must be estimated and recognized in the amount that is expected or most likely to be realized over the term of the contract fulfillment.

Prior to the adoption of ASC 606, the Company recognized revenue in accordance with ASC 605 when all four of the following criteria were met: (i) persuasive evidence that an arrangement exists; (ii) delivery of the products and/or services has occurred; (iii) the selling price is fixed or determinable; and (iv) collectability is reasonably assured. Specifically, revenue from the sale of implants, biologics and disposables was generally recognized upon a purchase order from the hospital or acknowledgment from the hospital indicating product use or implantation or upon shipment to third-party customers who immediately accepted title. Revenue from the sale of instrument sets was recognized upon receipt of a purchase order and the subsequent shipment to customers who immediately accepted title. Revenue from neuromonitoring services was recognized in the period the service was performed for the amount of payment

expected to be received.

The Company adopted ASC 606 as of January 1, 2018, electing full retrospective method of adoption, which resulted in a change in its accounting policy for revenue recognition and related adjustments to the Consolidated Financial Statements for all periods presented. The Company applied the practical expedients permitted under ASC 606 for which (i) contracts with customers originating prior to January 1, 2016 do not require disclosure for the amount of consideration allocated to remaining performance obligations or an explanation of when the Company expects to recognize that amount as revenue; (ii) contracts beginning and completing in the same annual reporting period need not be restated; and (iii) hindsight for estimating variable consideration for completed contracts is permitted.

The Company recognizes revenue from spinal surgery hardware and ancillary products at a point in time in two types of transactions: (i) procedural based transactions with products used during surgery defined as “charge sheet orders”, and (ii) shipping transactions which represent the stocking of product or the purchase of instrumentation to support future surgeries defined as “stocking and capital orders”. The Company also recognizes revenue at a point in time associated with surgical-related servicing procedures, including neuromonitoring services which are defined as “surgical-related services”. Other sources of revenue, such as leasing revenue and royalties, are immaterial to the Consolidated Financial Statements.

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For charge sheet orders, the sale occurs when the surgery is performed and a charge sheet is submitted to the Company by its sales representative identifying the products consumed during the surgery. The charge sheet, as signed by the hospital, serves as a confirmation and acknowledgement of the Company's products consumed during a surgery. Under ASC 605, persuasive evidence of an arrangement and delivery of product was deemed to have occurred once the charge sheet was processed, and an associated authorization or acknowledgement from the customer was received. Under ASC 606, the Company's charge sheet orders are considered to be a contract with a customer when a surgery is scheduled with the Company as requested by the hospital or surgeon, and the products are consumed during the surgery or implanted into the patient. Revenue recognition under ASC 606 occurs upon completion of the Company's performance obligation, which occurs upon consumption of the products during surgery and receipt of the charge sheet. In the event that information related to the surgical event and consumption of product is not readily available the Company recognizes revenue upon a purchase order from the hospital or acknowledgment from the hospital indicating product use.

For stocking and capital orders, under ASC 605, delivery was deemed to have occurred when the title, including all risks and rewards of ownership of the products specified in the sales agreement had passed to the buyer. Accordingly, title, including all risks and rewards of ownership, passed based on the shipping terms. Under ASC 606, the Company's stocking and capital order performance obligation is considered to be satisfied when the hospital assumes control of the asset, either upon shipment or delivery depending on the terms, and ability to direct the use of the asset as appropriate without the Company's consent.

Under both ASC 605 and ASC 606, revenue from surgical-related services, such as neuromonitoring services, is recognized in the period the service is performed based on the delivery of a services report to the customer. The Company recognizes revenue for the amount of payment expected to be received. The Company bills either hospitals or insurance companies for different aspects of the service, as applicable. Revenue from hospitals is recognized based on agreed upon pricing. Revenue from insurance companies is recognized using the expected value method, as the Company bills at a gross rate which is generally not the rate ultimately collected.

Under ASC 605, the Company has historically estimated the amounts of returns, trade-ins, discounts, rebates, credits or incentives as offsets to the total transaction price or revenue associated with the sale. In limited situations, when historical information was not available or reliable, the Company would defer revenue recognition until completion of all performance obligations. Under ASC 606, the Company analyzes sales that could include variable consideration, and estimates the expected or most likely amount of revenue after returns, trade-ins, discounts, rebates, credits, and incentives. In making these estimates, the Company considers whether the amount of variable consideration is constrained and is included in revenue only to the extent that it is probable that a significant reversal of the revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

The Company earns sales-based royalty revenue over time from sales of products using existing biologics intellectual property ("IP") that is out-licensed to certain companies. Under ASC 605, royalty revenue was recognized as earned and when collection was reasonably assured and was generally estimated and recorded in the same period as the sales that generated the royalty obligation. ASC 606 provides an exception for sales or usage-based royalties from the guidance for accounting for variable consideration, allowing the royalty revenue from the license of IP to be recognized when the performance obligation has been satisfied and the subsequent sale has occurred. Therefore, the Company estimates monthly royalty revenue as its performance obligation is satisfied. The Company does not expect a significant impact to royalty revenue under the adoption of ASC 606 as it has historically estimated and accrued royalty revenue in the period earned.

The Company historically expensed incremental costs, such as commissions associated with sales contracts, as incurred. Under ASU 2014-09, ASC 340-40 Other Assets and Deferred Costs was added along with ASC 606 to codify accounting guidance for the incremental costs to obtain or fulfill a contract with a customer. Under the guidance, the incremental costs must be deferred and recorded over the period in which the contract revenue is recognized. The Company typically does not associate quarterly or annual sales bonuses directly with a sale or master contract; however, commissions are directly associated with individual sales and expensed in the same period as the related contract revenue. The associated commissionable sales would not typically have a future benefit unless the revenue is recognized over time. The Company does not typically have situations where revenue is deferred in excess of one year. Given the practical expedient for contracts completing within one year, the Company does not expect these capitalized costs to be material in a given period.

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The cumulative effect of the change on retained earnings for the full retrospective method of adoption of ASC 606 was $0.3 million as of December 31, 2017. The following tables summarize in a condensed presentation the impact of the adoption of ASC 606 on the Company's previously reported Consolidated Balance Sheet as of December 31, 2017, the Unaudited Consolidated Statement of Operations and Comprehensive Income for the three and six months ended June 30, 2017, and the Unaudited Consolidated Statement of Cash Flows for the six months ended June 30, 2017.

NUVASIVE, INC.
CONSOLIDATED BALANCE SHEET
(in thousands)

As of December 31, 2017	As reported	(Unaudited) Adjustments		(Unaudited) As Adjusted
Accounts receivable, gross	$212,709	$ 537	[a]	$213,246
Allowances on accounts receivable	(13,669)	643	[b]	(13,026)
Inventory, net	247,245	(107)	[c]	247,138
Other current assets	112,705	—		112,705
Total current assets	558,990	1,073		560,063
Remaining other assets	1,080,077	—		1,080,077
Total assets	$1,639,067	$ 1,073		$1,640,140
Accounts payable and accrued liabilities	75,076	691	[d]	75,767
Accrued payroll and related expenses	55,582	36	[e]	55,618
Other current liabilities	30,010	—		30,010
Total current liabilities	160,668	727		161,395
Deferred and income tax liabilities, non-current	18,786	84	[f]	18,870
Other long-term liabilities	660,459	—		660,459
Total NuVasive, Inc. stockholders' equity	795,309	262	[g]	795,571
Non-controlling interests	3,845	—		3,845
Total equity	799,154	262		799,416
Total liabilities and equity	$1,639,067	$ 1,073		$1,640,140

[a] Represents cumulative impact from January 1, 2016 to the period presented on accounts receivable for the full retrospective method of adoption of ASC 606.
[b] Represents cumulative impact from January 1, 2016 to the period presented on allowances on accounts receivable for the full retrospective method of adoption of ASC 606.
[c] Represents cumulative impact from January 1, 2016 to the period presented on inventory for the full retrospective method of adoption of ASC 606.
[d] Represents cumulative impact from January 1, 2016 to the period presented on commissions payable and accrued returns for the full retrospective method of adoption of ASC 606.
[e] Represents cumulative impact from January 1, 2016 to the period presented on commissions payable for the full retrospective method of adoption of ASC 606.
[f] Represents cumulative impact from January 1, 2016 to the period presented on deferred tax liabilities for the full retrospective method of adoption of ASC 606.

[g] Represents cumulative impact from January 1, 2016 to the period presented on retained earnings for the full retrospective method of adoption of ASC 606.

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NUVASIVE, INC.
CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME
(in thousands, except per share amounts)

(Unaudited)	As reported	Adjustments		As adjusted
Three months ended June 30, 2017				
Revenue				
Product revenue	$238,998	$ (1,174)	[a]	$237,824
Service revenue	21,575	—		21,575
Total revenue	260,573	(1,174)		259,399
Cost of revenue (excluding amortization of intangible assets)				
Cost of products sold	50,770	(235)	[b]	50,535
Cost of services	15,651	—		15,651
Total cost of revenue	66,421	(235)		66,186
Gross profit	194,152	(939)		193,213
Operating expenses:				
Sales, marketing and administrative	139,109	(142)	[c]	138,967
Other operating expenses	25,290	—		25,290
Total operating expenses	164,399	(142)		164,257
Total interest and other expense, net	(10,445)	—		(10,445)
Income tax (expense) benefit	(7,079)	303	[d]	(6,776)
Consolidated net income	$12,229	$ (494)	[e]	$11,735
Add back net loss attributable to non-controlling interests	$(432)	$ —		$(432)
Net income attributable to NuVasive, Inc.	$12,661	$ (494)	[e]	$12,167
Net income per share attributable to NuVasive, Inc.:				
Basic	$0.25	$ (0.01)	[f]	$0.24
Diluted	$0.22	$ (0.01)	[f]	$0.21
Comprehensive income attributable to NuVasive, Inc.	$13,304	$ (494)	[e]	$12,810

[a] Represents net change in sales revenue for charge sheet orders recognized under ASC 606.
[b] Represents net change in cost of products sold for charge sheet orders recognized under ASC 606.
[c] Represents net change in accrued sales commissions for charge sheet orders recognized under ASC 606.
[d] Represents deferred income tax liability on net change associated with charge sheet orders recognized under ASC 606.
[e] Represents change in net income and comprehensive income resulting from net change in charge sheet orders recognized under ASC 606.
[f] Represents earnings per share impact resulting from net change in charge sheet orders recognized under ASC 606.

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NUVASIVE, INC.
CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME
(in thousands, except per share amounts)

(Unaudited)	As reported	Adjustments		As adjusted
Six months ended June 30, 2017				
Revenue				
Product revenue	$464,804	$ (2,025)	[a]	$462,779
Service revenue	45,633	—		45,633
Total revenue	510,437	(2,025)		508,412
Cost of revenue (excluding amortization of intangible assets)				
Cost of products sold	96,841	(405)	[b]	96,436
Cost of services	31,193	—		31,193
Total cost of revenue	128,034	(405)		127,629
Gross profit	382,403	(1,620)		380,783
Operating expenses:				
Sales, marketing and administrative	279,611	(276)	[c]	279,335
Other operating expenses	49,820	—		49,820
Total operating expenses	329,431	(276)		329,155
Total interest and other expense, net	(19,849)	—		(19,849)
Income tax (expense) benefit	(8,569)	508	[d]	(8,061)
Consolidated net income	$24,554	$ (836)	[e]	$23,718
Add back net loss attributable to non-controlling interests	$(875)	$ —		$(875)
Net income attributable to NuVasive, Inc.	$25,429	$ (836)	[e]	$24,593
Net income per share attributable to NuVasive, Inc.:				
Basic	$0.50	$ (0.02)	[f]	$0.48
Diluted	$0.44	$ (0.01)	[f]	$0.42
Comprehensive income attributable to NuVasive, Inc.	$27,929	$ (836)	[e]	$27,093

[a] Represents net change in sales revenue for charge sheet orders recognized under ASC 606.
[b] Represents net change in cost of products sold for charge sheet orders recognized under ASC 606.
[c] Represents net change in accrued sales commissions for charge sheet orders recognized under ASC 606.
[d] Represents deferred income tax liability on net change associated with charge sheet orders recognized under ASC 606.
[e] Represents change in net income and comprehensive income resulting from net change in charge sheet orders recognized under ASC 606.
[f] Represents earnings per share impact resulting from net change in charge sheet orders recognized under ASC 606.

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NUVASIVE, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(in thousands)
(Unaudited)

Six months ended June 30, 2017	As reported	Adjustments		As adjusted
Consolidated net income	$24,554	$ (836)	[a]	$23,718
Adjustments to reconcile net income to net cash provided by operating activities:				
Reserves on current assets	(95)	159	[b]	64
Deferred income tax benefit	(2,570)	(507)	[c]	(3,077)
Other adjustments to reconcile net income	92,361	—		92,361
Changes in operating assets and liabilities, net of effects from acquisitions:				
Accounts receivable	(17,586)	1,763	[d]	(15,823)
Inventory	(29,012)	(405)	[e]	(29,417)
Prepaid expenses and other current assets	(2,543)	—		(2,543)
Accounts payable and accrued liabilities	4,987	(119)	[f]	4,868
Litigation liability	(11,200)	—		(11,200)
Accrued payroll and related expenses	(2,004)	(55)	[f]	(2,059)
Income taxes	10,172	—		10,172
Net cash provided by operating activities	67,064	—		67,064
Net cash used in investing activities	(84,802)	—		(84,802)
Net cash used in financing activities	(6,480)	—		(6,480)
Effect of exchange rate changes on cash	1,449	—		1,449
Decrease in cash, cash equivalents and restricted cash	$(22,769)	$ —		$(22,769)

[a] Represents change in net income resulting from charge sheet orders recognized under ASC 606.
[b] Represents net change in allowances on accounts receivable for charge sheet orders recognized under ASC 606.
[c] Represents deferred income tax liability on net change associated with charge sheet orders recognized under ASC 606.
[d] Represents net change in accounts receivable for charge sheet orders recognized under ASC 606.
[e] Represents net change in inventory for charge sheet orders recognized under ASC 606.
[f] Represents net change in accrued sales commissions for charge sheet orders recognized under ASC 606.

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In January 2016, the FASB issued Accounting Standards Update No. 2016-01, Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"), which requires that (i) all equity investments, other than equity-method investments, in unconsolidated entities generally be measured at fair value through earnings and (ii) when the fair value option has been elected for financial liabilities, changes in fair value due to instrument-specific credit risk will be recognized separately in other comprehensive income. Additionally, ASU 2016-01 changes the disclosure requirements for financial instruments. ASU 2016-01 provides a practicability exception for investments that do not have readily determinable fair values, which allows investments to be measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. The Company adopted ASU 2016-01 as of January 1, 2018 and elected to apply the practicability exception for measuring equity investments that do not have readily determinable fair market. The adoption did not have any impact on its Consolidated Financial Statements.

In August 2016, the FASB issued Accounting Standards Update No. 2016-15, Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15"), which eliminates the diversity in practice related to the classification of certain cash receipts and payments for debt prepayment or extinguishment costs, the maturing of a zero coupon bond, the settlement of contingent liabilities arising from a business combination, proceeds from insurance settlements, distributions from certain equity method investees and beneficial interests obtained in a financial asset securitization. ASU 2016-15 designates the appropriate cash flow classification, including requirements to allocate certain components of these cash receipts and payments among operating, investing and financing activities. The retrospective transition method, requiring adjustment to all comparative periods presented, is required unless it is impracticable for some of the amendments, in which case those amendments would be made prospectively as of the earliest date practicable. The Company adopted ASU 2016-15 as of January 1, 2018. The adoption did not have any significant impact on its Consolidated Financial Statements.

In November 2016, the FASB issued Accounting Standards Update No. 2016-18, Restricted Cash ("ASU 2016-18"), which requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. The amendments in this update will be applied using a retrospective transition method to each period presented. The Company adopted ASU 2016-18 as of January 1, 2018 and adjusted the presentation of its Statement of Cash Flows for the periods presented. The adoption did not have any significant impact on its Consolidated Financial Statements.

In January 2017, the FASB issued Accounting Standards Update No. 2017-01, Clarifying the Definition of a Business ("ASU 2017-01"), which clarifies and provides a more robust framework to use in determining when a set of assets and activities is a business. The amendments in this update should be applied prospectively on or after the effective date. The Company adopted ASU 2017-01 as of January 1, 2018.

In February 2017, the FASB issued Accounting Standards Update No. 2017-05, Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets ("ASU 2017-05"), which clarifies the scope of asset derecognition and adds guidance for partial sales and nonfinancial assets. An entity is required to apply the amendments in this update at the same time that it applies the amendments in ASU 2014-09. The Company adopted ASU 2017-05 as of January 1, 2018. The adoption did not have any significant impact on its Consolidated Financial Statements.

In May 2017, the FASB issued Accounting Standards Update No. 2017-09, Compensation – Stock Compensation ("ASU 2017-09"), which clarifies when changes to the terms or conditions of a share-based payment award must be

accounted for as a modification. Entities will apply the modification accounting guidance if the value, vesting conditions, or classification of the award changes. The Company adopted ASU 2017-09 as of January 1, 2018. The adoption did not have any significant impact on its Consolidated Financial Statements.

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Revenue Recognition

In accordance with ASC 606 guidance, the Company recognizes revenue upon the transfer of goods or services to a customer at an amount that reflects the expected consideration to be received in exchange for those goods or services. The principles in ASC 606 are applied using the following five steps: (i) identify the contract with a customer; (ii) identify the performance obligation(s) in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligation(s) in the contract; and (v) recognize revenue when (or as) the Company satisfies its performance obligation(s). Specifically, revenue from the sale of implants and disposables is generally recognized at an amount that reflects the expected consideration upon notice that the Company's products have been used in a surgical procedure or upon shipment to a third-party customer assuming control of the products. Revenue from neuromonitoring services is recognized in the period the service is performed for the amount of consideration expected to be received. Revenue from the sale of instrument sets is generally recognized upon receipt of a purchase order and the subsequent shipment to a customer who assumes control. In certain cases, the Company does offer the ability for customers to lease instrumentation primarily on a non-sales type basis. Instrument sales and leasing revenue represent an immaterial amount of the Company's total revenue in all periods presented. Revenue associated with products holding rights of return or trade-in are recognized when the Company concludes there is not a risk of significant revenue reversal in future periods for the expected consideration in the transaction. Costs incurred by the Company associated with sales contracts with customers are deferred over the performance obligation period and recognized in the same period as the related revenue, with the exception of contracts that complete within one year or less, in which case the associated costs are expensed as incurred.

Inventory

Net inventory as of June 30, 2018 primarily consisted of $244.4 million of finished goods, $10.2 million of work in progress and $5.2 million of raw materials. Net inventory as of December 31, 2017 consisted of $232.4 million of finished goods, $9.8 million of work in progress and $5.0 million of raw materials. Finished goods include specialized implants and disposables and are stated at the lower of cost or market determined by utilizing a standard cost method, which includes assessment of capitalized variances, which approximates the weighted average cost. Work in progress and raw materials represent the underlying material, and labor for work in progress, that ultimately yield finished goods upon completion and are subject to lower of cost or market. The Company reviews the components of its inventory on a periodic basis for excess and obsolescence and adjusts inventory to its net realizable value as necessary.

Comprehensive Income

Comprehensive income is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources. Comprehensive income includes net of tax, unrealized gains or losses on the Company's marketable securities and foreign currency translation adjustments. The cumulative translation adjustments included in accumulated other comprehensive loss were $8.9 million and $6.9 million at June 30, 2018 and December 31, 2017, respectively.

Product Shipment Costs

Product shipment costs, included in sales, marketing and administrative expense in the accompanying Consolidated Statements of Operations, were $6.4 million and $12.3 million for the three and six months ended June 30, 2018,

respectively, and $5.7 million and $11.6 million for the three and six months ended June 30, 2017, respectively. The majority of the Company's shipping costs are related to the loaning of instrument sets, which are not typically sold as part of the Company's core sales offering. Amounts billed to customers for shipping and handling of products are reflected in revenues and are not material for any period presented.

Business Transition Costs

The Company incurs certain costs related to acquisition, integration and business transition activities, which include severance, relocation, consulting, leasehold exit costs, third-party merger and acquisition costs, contingent consideration fair value adjustments and other costs directly associated with such activities.

The Company incurred $4.0 million and $6.3 million of such costs during the three and six months ended June 30, 2018, respectively, which consisted primarily of acquisition, integration and business transition activities, but also includes $0.6 million and $0.8 million, respectively, of fair value adjustments on contingent consideration liabilities associated with the Company's 2017 and 2016 acquisitions.

During both the three and six months ended June 30, 2017, the Company incurred $1.4 million of such costs, which included $0.7 million and $(0.7) million, respectively, of fair value adjustments on contingent consideration liabilities associated with the Company's 2017 and 2016 acquisitions, and other costs related to acquisition, integration and business transition activities.

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2. Net Income (Loss) Per Share

The following table sets forth the computation of basic and diluted net income (loss) per share attributable to the Company:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except per share data)	2018	2017	2018	2017
Numerator:				
Net income (loss) attributable to NuVasive, Inc.	$11,531	$12,167	$(15,601)	$24,593
Denominator for basic and diluted net income (loss) per share:				
Weighted average common shares outstanding for basic	51,356	51,082	51,292	50,825
Dilutive potential common stock outstanding:				
Stock options and employee stock purchase plan	30	138	—	180
Restricted stock units	570	1,356	—	1,386
Warrants	—	2,929	—	2,987
Senior Convertible Notes	—	2,825	—	2,681
Weighted average common shares outstanding for diluted	51,956	58,330	51,292	58,059
Basic net income (loss) per share attributable to NuVasive, Inc.	$0.22	$0.24	$(0.30)	$0.48
Diluted net income (loss) per share attributable to NuVasive, Inc.	$0.22	$0.21	$(0.30)	$0.42

The following weighted-average outstanding common stock equivalents were not included in the calculation of net income (loss) per diluted share because their effects were anti-dilutive:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2018	2017	2018	2017
Stock options, employee stock purchase plan, and restricted stock units	161	41	1,281	71
Warrants	10,865	10,865	10,865	10,865
Senior Convertible Notes	10,865	—	10,865	—
Total	21,891	10,906	23,011	10,936

3. Financial Instruments and Fair Value Measurements

Foreign Currency and Derivative Financial Instruments

The Company translates the financial statements of its foreign subsidiaries using end-of-period exchange rates for assets and liabilities and average exchange rates during each reporting period for results of operations.

Some of the Company's reporting entities conduct a portion of their business in currencies other than the entity's functional currency. These transactions give rise to receivables and payables that are denominated in currencies other than the entity's functional currency. The value of these receivables and payables is subject to changes in currency exchange rates from the point at which the transactions are originated until the settlement in cash. Both realized and unrealized gains and losses in the value of these receivables and payables are included in the determination of net income. Net currency exchange (losses) gains, which include gains and losses from derivative instruments, were $(2.2) million and $(2.5) million for the three and six months ended June 30, 2018, respectively, and $(0.5) million and $(0.3) million for the three and six months ended June 30, 2017, respectively, and are included in other expense, net in the Consolidated Statements of Operations.

To manage foreign currency exposure risks, the Company uses derivatives for activities in entities that have short-term intercompany receivables and payables denominated in a currency other than the entity's functional currency. The fair value is based on a quoted market price (Level 1). As of June 30, 2018 and December 31, 2017 a notional principal amount of $15.9 million and $14.3 million, respectively, was outstanding to hedge currency risk relative to the Company's foreign receivables and payables. Derivative instrument net gains (losses) on the Company's forward exchange contracts were $0.7 million and $0.3 million for the three and six months ended June 30, 2018, respectively, and $(0.9) million and $(1.3) million for the three and six months ended June 30, 2017, respectively, and are included in other expense, net in the Consolidated Statements of Operations. The fair value of the forward contract exchange derivative instrument liability was $(0.1) million as of June 30, 2018 and December 31, 2017. The derivative instruments are recorded in other current assets or other current liabilities in the Consolidated Balance Sheets commensurate with the nature of the instrument at period end.

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Fair Value Measurements

The Company measures certain assets and liabilities in accordance with authoritative guidance which requires fair value measurements be classified and disclosed in one of the following three categories:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities.

Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available.

Assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurements. The Company reviews the fair value hierarchy classification on a quarterly basis. Changes in the ability to observe valuation inputs may result in a reclassification of levels for certain assets or liabilities within the fair value hierarchy. The Company did not have any transfers of assets and liabilities between the levels of the fair value measurement hierarchy during the periods presented.

The fair values of the Company's assets and liabilities, including cash equivalents, marketable securities, restricted investments, derivatives, and contingent obligations are measured at fair value on a recurring basis. As of June 30, 2018 and December 31, 2017, the Company held investments in securities classified as cash equivalents. During the periods presented, the Company did not hold any investments that were in a significant unrealized loss position and no impairment charges were recorded. Realized gains and losses and interest income related to marketable securities were immaterial during all periods presented. Cash equivalents are determined under the fair value categories as follows:

(in thousands)	Total	Quoted Price in Active Market (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2018:				
Cash equivalents:				
Money market funds	$20,000	$ 20,000	$ —	$ —
Total cash equivalents	$20,000	$ 20,000	$ —	$ —
December 31, 2017:				
Cash equivalents:				
Money market funds	$27,000	$ 27,000	$ —	$ —
Total cash equivalents	$27,000	$ 27,000	$ —	$ —

The carrying amounts of certain financial instruments such as cash equivalents, accounts receivable, prepaid expenses, other current assets, accounts payable, accrued expenses, and other current liabilities as of June 30, 2018 and December 31, 2017 approximate their related fair values due to the short-term maturities of these instruments.

The fair value of certain financial instruments was measured and classified within Level 1 of the fair value hierarchy based on quoted prices. Certain financial instruments classified within Level 2 of the fair value hierarchy include the types of instruments that trade in markets that are not considered to be active, but are valued based on quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency.

Fair Value of Senior Convertible Notes

The fair value, based on a quoted market price (Level 1), of the Company's outstanding Senior Convertible Notes due 2021 at June 30, 2018 and December 31, 2017, was $710.9 million and $779.5 million, respectively. See Note 6 to the Unaudited Consolidated Financial Statements for further discussion on the carrying value of the notes.

Contingent Consideration Liabilities

The fair value of contingent consideration liabilities assumed in business combinations is recorded as part of the purchase price consideration of the acquisition, and is determined using a discounted cash flow model or probability simulation model. The significant inputs of such models are not observable in the market, such as certain financial metric growth rates, volatility rates, projections associated with the applicable milestone, the interest rate, and the related probabilities and payment structure in the contingent consideration arrangement. Fair value adjustments to contingent consideration liabilities are recorded through operating expenses in the Consolidated Statement of Operations. Contingent consideration arrangements assumed by an asset purchase will be measured and accrued when such contingency is resolved.

Contingent consideration liabilities were $66.4 million and $67.9 million as of June 30, 2018 and December 31, 2017, respectively, and were recorded in the Consolidated Balance Sheet commensurate with the respective payment terms. The following table sets forth the changes in the estimated fair value of the Company's liabilities measured on a recurring basis using significant unobservable inputs (Level 3):

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(in thousands)	Six Months Ended June 30, 2018	2017
Fair value measurement at beginning of period	$67,941	$67,501
Contingent consideration liability recorded upon acquisition	6,663	533
Change in fair value measurement	794	(657)
Changes resulting from foreign currency fluctuations	25	44
Contingent consideration paid or settled	(9,000)	(30,000)
Fair value measurement at end of period	$66,423	$37,421

Non-financial assets and liabilities measured on a nonrecurring basis

Certain non-financial assets and liabilities are measured at fair value, usually with Level 3 inputs including the discounted cash flow method or cost method, on a nonrecurring basis in accordance with authoritative guidance. These include items such as non-financial assets and liabilities initially measured at fair value in a business combination and non-financial long-lived assets measured at fair value for an impairment assessment. In general, non-financial assets, including goodwill, intangible assets and property and equipment, are measured at fair value when there is an indication of impairment and are recorded at fair value only when any impairment is recognized. The carrying values of the Company's capital lease obligations approximated their estimated fair value as of June 30, 2018 and December 31, 2017.

During the six months ended June 30, 2018, the Company recorded an impairment charge of $9.0 million on a strategic investment. The impairment was recorded in other expense, net in the Unaudited Consolidated Statement of Operations.

4. Goodwill and Intangible Assets

Goodwill and intangible assets consisted of the following:

(in thousands, except years) June 30, 2018:	Weighted-Average Amortization Period (in years)	Gross Amount	Accumulated Amortization	Intangible Assets, net
Intangible assets subject to amortization:				
Developed technology	8	$271,748	$ (115,442)	$156,306
Manufacturing know-how and trade secrets	13	30,831	(16,728)	14,103
Trade name and trademarks	9	25,500	(12,218)	13,282
Customer relationships	9	143,847	(51,220)	92,627
Total intangible assets subject to amortization	9	$471,926	$ (195,608)	$276,318
Intangible assets not subject to amortization:				
Goodwill				$560,751

Total goodwill and intangible assets, net	$837,069

December 31, 2017:	Weighted-Average Amortization Period (in years)	Gross Amount	Accumulated Amortization	Intangible Assets, net
Intangible assets subject to amortization:				
Developed technology	8	$271,748	$ (98,693)	$173,055
Manufacturing know-how and trade secrets	13	30,653	(15,542)	15,111
Trade name and trademarks	9	25,200	(10,559)	14,641
Customer relationships	9	122,249	(44,282)	77,967
Total intangible assets subject to amortization	9	$449,850	$ (169,076)	$280,774
Intangible assets not subject to amortization:				
Goodwill				$536,926
Total goodwill and intangible assets, net				$817,700

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The following table summarizes the changes in the carrying value of the Company's goodwill:

(in thousands)	
December 31, 2017	
Gross goodwill	$545,226
Accumulated impairment loss	(8,300)
	536,926
Changes to gross goodwill	
Increases recorded in business combinations	26,303
Changes in purchase price allocation	(1,075)
Changes resulting from foreign currency fluctuations	(1,403)
	23,825
June 30, 2018	
Gross goodwill	569,051
Accumulated impairment loss	(8,300)
	$560,751

Total expense related to the amortization of intangible assets, which is recorded in both cost of revenue and operating expenses in the Consolidated Statements of Operations depending on the functional nature of the intangible asset, was $13.5 million and $26.9 million for the three and six months ended June 30, 2018, respectively, and $12.2 million and $25.2 million for the three and six months ended June 30, 2017, respectively.

Total future amortization expense related to intangible assets subject to amortization at June 30, 2018 is set forth in the table below:

(in thousands)	
Remaining 2018	$26,406
2019	51,638
2020	51,016
2021	48,956
2022	41,545
Thereafter through 2031	56,757
Total future amortization expense	$276,318

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5. Business Combinations

The Company recognizes the assets acquired, liabilities assumed, and any non-controlling interest at fair value at the date of acquisition. Certain acquisitions contained contingent consideration arrangements that required the Company to assess the acquisition date fair value of the contingent consideration liabilities, which was recorded as part of the purchase price allocation of the acquisition, with subsequent fair value adjustments to the contingent consideration recorded in the Consolidated Statements of Operations. See Note 3 to the Unaudited Consolidated Financial Statements for further discussion on contingent consideration liabilities.

Acquisitions

In January 2018, the Company acquired SafePassage, a privately-held provider of IOM services, which now operates as a wholly-owned subsidiary of the Company. The acquisition was not considered material to the overall Unaudited Consolidated Financial Statements. The Company's NuVasive Clinical Services division (including SafePassage) represents the reported service revenue on the Unaudited Consolidated Statement of Operations.

The Company has completed other acquisitions that were not considered material, individually or collectively, to the overall Unaudited Consolidated Financial Statements during the periods presented. These acquisitions have been included in the Unaudited Consolidated Financial Statements from the respective dates of acquisition. The Company does not believe that collectively the acquisitions made during the periods presented are material to the overall financial statements.

For certain acquisitions completed during the periods presented, the Company is still in the process of finalizing the purchase price allocation given the timing of the acquisitions and the size and scope of the assets and liabilities subject to valuation. While the Company does not expect material changes in the valuation outcome, certain assumptions and findings that were in place at the date of acquisition could result in changes in the purchase price allocation.

Variable Interest Entities

Progentix Orthobiology B.V.

In 2009, the Company purchased forty percent (40%) of the capital stock of Progentix Orthobiology B.V. ("Progentix"), a company organized under the laws of the Netherlands, from existing shareholders pursuant to a Preferred Stock Purchase Agreement for $10.0 million in cash (the "Initial Investment"). The Company also loaned Progentix cumulatively a total of $5.3 million at an interest rate of 6% per year (the "Loan"). Concurrently, with the Initial Investment, the Company and Progentix entered into a Distribution Agreement (as amended, the "Distribution Agreement") for a term of ten years, whereby Progentix appointed the Company as its exclusive distributor for certain Progentix products.

Following the Initial Investment, in accordance with authoritative guidance, the Company determined that Progentix was a variable interest entity ("VIE"), as it did not have the ability to finance its activities without additional subordinated financial support and its equity investors would not absorb their proportionate share of expected losses and would be limited in the receipt of the potential residual returns of Progentix.

In January 2018, the Company completed the acquisition of the remaining 60% of the capital stock of Progentix (the "Non-Controlling Interest Acquisition"). Subsequent to the Non-Controlling Interest Acquisition, the Company owns 100% of the capital stock of Progentix, which now operates as its wholly-owned subsidiary and is no longer accounted for as a VIE or a separate reporting unit as of the date of the Non-Controlling Interest Acquisition. In accordance with authoritative guidance, the non-controlling interest associated with Progentix was reclassified to additional paid-in capital, including the difference between the non-controlling interest and consideration paid. The Loan plus accrued interest and the related receivable between the Company and Progentix is still outstanding as of June 30, 2018.

The following is a reconciliation of equity (net assets) attributable to the non-controlling interest:

	Six Months Ended June 30,	
(in thousands)	2018	2017
Non-controlling interest at beginning of period	$3,845	$5,588
Acquired non-controlling interest reclassified to additional paid-in capital	(3,845)	—
Less: Net loss attributable to the non-controlling interest	—	(875)
Non-controlling interest at end of period	$—	$4,713

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Total assets and liabilities of Progentix as a VIE included in the accompanying Consolidated Balance Sheets are as follows:

(in thousands)	June 30, 2018	December 31, 2017
Total current assets	$ —	$ 670
Identifiable intangible assets, net	—	8,752
Goodwill	—	12,654
Accounts payable and accrued expenses	—	562
Deferred tax liabilities, net	—	331
Non-controlling interest	—	3,845

NuVasive Clinical Services and Physician Practices

The Company’s NuVasive Clinical Services division (including SafePassage), which provides IOM services to surgeons and healthcare facilities across the U.S., maintain contractual relationships with several physician practices (“PCs”). In accordance with authoritative guidance, the Company has determined that the PCs are VIEs and therefore, the accompanying Unaudited Consolidated Financial Statements include the accounts of the PCs from the date of acquisition. During the periods presented, the results of the PCs were immaterial to the Company’s financials. The creditors of the PCs have claims only on the assets of the PCs, which are not material, and the assets of the PCs are not available to the Company.

6. Indebtedness

The carrying values of the Company’s Senior Convertible Notes due 2021 are as follows:

(in thousands)	June 30, 2018	December 31, 2017
2.25% Senior Convertible Notes due 2021:		
Principal amount	650,000	650,000
Unamortized debt discount	(48,587)	(56,839)
Unamortized debt issuance costs	(8,832)	(10,241)
Total Senior Convertible Notes	$592,581	$582,920

2.25% Senior Convertible Notes due 2021

In March 2016, the Company issued $650.0 million principal amount of unsecured Senior Convertible Notes with a stated interest rate of 2.25% and a maturity date of March 15, 2021 (the "2021 Notes"). The net proceeds from the offering, after deducting initial purchasers' discounts and costs directly related to the offering, were approximately $634.1 million. The 2021 Notes may be settled in cash, stock, or a combination thereof, solely at the Company's discretion. It is the Company's current intent and policy to settle all conversions through combination settlement, which involves satisfying the principal amount outstanding with cash and any note conversion value over the principal amount in shares of the Company's common stock. The initial conversion rate of the 2021 Notes is 16.7158 shares per $1,000 principal amount, which is equivalent to a conversion price of approximately $59.82 per

share, subject to adjustments. The Company uses the treasury share method for assumed conversion of the 2021 Notes to compute the weighted average shares of common stock outstanding for diluted earnings per share. The Company also entered into transactions for a convertible note hedge (the "2021 Hedge") and warrants (the "2021 Warrants") concurrently with the issuance of the 2021 Notes.

The cash conversion feature of the 2021 Notes required bifurcation from the notes and was initially accounted for as an equity instrument classified to stockholders' equity, which resulted in recognizing $84.8 million in additional paid-in-capital during 2016.

The interest expense recognized on the 2021 Notes during the three months ended June 30, 2018 includes $3.7 million, $4.2 million and $0.7 million for the contractual coupon interest, the accretion of the debt discount and the amortization of the debt issuance costs, respectively. The interest expense recognized on the 2021 Notes during the six months ended June 30, 2018 includes $7.3 million, $8.3 million and $1.4 million for the contractual coupon interest, the accretion of the debt discount and the amortization of the debt issuance costs, respectively. The interest expense recognized on the 2021 Notes during the three months ended June 30, 2017 includes $3.7 million, $3.9 million and $0.7 million for the contractual coupon interest, the accretion of the debt discount and the amortization of the debt issuance costs, respectively. The interest expense recognized on the 2021 Notes during the six months ended June 30, 2017 includes $7.3 million, $7.8 million and $1.3 million for the contractual coupon interest, the accretion of the debt discount and the amortization of the debt issuance costs, respectively. The effective interest rate on the 2021 Notes is 5.8%, which includes the interest on the notes, amortization of the debt discount and debt issuance costs. Interest on the 2021 Notes began accruing upon issuance and is payable semi-annually.

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Prior to September 15, 2020, holders may convert their 2021 Notes only under the following conditions: (a) during any calendar quarter beginning June 30, 2016, if the reported sale price of the Company's common stock for at least 20 days out of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than 130% of the conversion price on each applicable trading day; (b) during the five business day period in which the trading price of the 2021 Notes falls below 98% of the product of (i) the last reported sale price of the Company's common stock and (ii) the conversion rate on that date; and (c) upon the occurrence of specified corporate events, as defined in the 2021 Notes. From September 15, 2020 and until the close of business on the second scheduled trading day immediately preceding March 15, 2021, holders may convert their 2021 Notes at any time (regardless of the foregoing circumstances). The Company may not redeem the 2021 Notes prior to March 20, 2019. The Company may redeem the 2021 Notes, at its option, in whole or in part on or after March 20, 2019 until the close of business on the business day immediately preceding September 15, 2020 if the last reported sale price of the Company’s common stock has been at least 130% of the conversion price then in effect for at least 20 trading days during any 30 consecutive trading day period ending on, and including, the trading day immediately preceding the date on which the Company delivers written notice of a redemption. The redemption price will be equal to 100% of the principal amount of such 2021 Notes to be redeemed plus accrued and unpaid interest to, but excluding, the redemption date. No principal payments are due on the 2021 Notes prior to maturity. Other than restrictions relating to certain fundamental changes and consolidations, mergers or asset sales and customary anti-dilution adjustments, the 2021 Notes do not contain any financial covenants and do not restrict the Company from paying dividends or issuing or repurchasing any of its other securities. The Company is unaware of any current events or market conditions that would allow holders to convert the 2021 Notes.

2021 Hedge

In connection with the offering of the 2021 Notes, the Company entered into the hedge transaction with the initial purchasers of the 2021 Notes and/or their affiliates (the "2021 Counterparties") entitling the Company to purchase up to 10,865,270 shares of the Company's common stock at an initial stock price of $59.82 per share, each of which is subject to adjustment. The cost of the 2021 Hedge was $111.2 million and accounted for as an equity instrument by recognizing $111.2 million in additional paid-in-capital during 2016. The 2021 Hedge will expire on March 15, 2021. The 2021 Hedge is expected to reduce the potential equity dilution upon conversion of the 2021 Notes if the daily volume-weighted average price per share of the Company's common stock exceeds the strike price of the 2021 Hedge. An assumed exercise of the 2021 Hedge by the Company is considered anti-dilutive since the effect of the inclusion would always be anti-dilutive with respect to the calculation of diluted earnings per share.

2021 Warrants

The Company sold warrants to the 2021 Counterparties to acquire up to 10,865,270 shares of the Company’s common stock. The 2021 Warrants will expire on various dates from June 2021 through December 2021 and may be settled in cash or net shares. It is the Company's current intent and policy to settle all conversions in shares of the Company’s common stock. The Company received $44.9 million in cash proceeds from the sale of the 2021 Warrants, which was recorded in additional paid-in-capital. The 2021 Warrants could have a dilutive effect on the Company's earnings per share to the extent that the price of the Company's common stock during a given measurement period exceeds the strike price of the 2021 Warrants, which is $80.00 per share. The Company uses the treasury share method for assumed conversion of its 2021 Warrants to compute the weighted average common shares outstanding for diluted earnings per share.

2.75% Senior Convertible Notes due 2017

In June 2011, the Company issued $402.5 million principal amount of the unsecured Senior Convertible Notes with a stated interest rate of 2.75% and a maturity date of July 1, 2017 (the “2017 Notes”). The 2017 Notes provided for settlement in cash, stock, or a combination thereof, solely at the Company’s discretion. The initial conversion rate of the 2017 Notes was 23.7344 shares per $1,000 principal amount, which is equivalent to a conversion price of approximately $42.13 per share, subject to adjustments. The Company used the treasury share method for assumed conversion of the 2017 Notes to compute the weighted average shares of common stock outstanding for diluted earnings per share.

During 2016, the Company repurchased a majority of the 2017 Notes, which resulted in a cumulative loss of approximately $19.1 million recorded in other expense on the accompanying Consolidated Statements of Operations for the year ended December 31, 2016. In July 2017, the Company settled the remaining 2017 Notes upon maturity via combination settlement, which involved satisfying the principal amount outstanding with cash and any note conversion value over the principal amount in shares of the Company’s common stock.

The interest expense recognized on the 2017 Notes during the three months ended June 30, 2017 includes $0.4 million, $0.7 million and $0.1 million for the contractual coupon interest, the accretion of the debt discount and the amortization of the debt issuance costs, respectively. The interest expense recognized on the 2017 Notes during the six months ended June 30, 2017 includes $0.9 million, $1.4 million and $0.2 million for the contractual coupon interest, the accretion of the debt discount and the amortization of the debt issuance costs, respectively. The effective interest rate on the 2017 Notes was 8.0%, which includes the interest on the notes, amortization of the debt discount and debt issuance costs. Interest on the 2017 Notes began accruing upon issuance and was payable semi-annually.

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Concurrently, with the offering of the 2017 Notes the Company also entered into transactions for a convertible note hedge (the "2017 Hedge") and warrants (the "2017 Warrants"). The 2017 Hedge entitled the Company to purchase up to 9,553,096 shares of the Company's common stock at an initial price of $42.13 per share. Prior to its maturity, an assumed exercise of the 2017 Hedge by the Company was considered anti-dilutive since the effect of inclusion would always be anti-dilutive with respect to the calculation of diluted earnings per share. The 2017 Warrants entitled its holders to acquire up to 477,654 shares of the Company's Series A Participating Preferred Stock at an initial strike price of $988.51 per share. Each share of Series A Participating Preferred Stock was convertible into 20 shares of the Company's common stock, or up to 9,553,080 common shares in total. The 2017 Warrants were scheduled to expire on various dates from September 2017 through January 2018 with settlement in cash or net shares. The Company used the treasury share method for assumed conversion of its 2017 Warrants to compute the weighted average common shares outstanding for diluted earnings per share. In 2017, the Company exercised the 2017 Hedge and also entered into warrant termination agreements which settled the 2017 Warrants on a net share basis.

Revolving Senior Credit Facility

In April 2017, the Company entered into an Amended and Restated Credit Agreement (the "2017 Credit Agreement") for a revolving senior credit facility (the "2017 Facility"), which replaced the previous Credit Agreement the Company had entered into in February 2016. The 2017 Credit Agreement provides for secured revolving loans, multicurrency loan options and letters of credit in an aggregate amount of up to $500.0 million. The 2017 Credit Agreement also contains an expansion feature, which allows the Company to increase the aggregate principal amount of the 2017 Facility provided the Company remains in compliance with the underlying financial covenants, including but not limited to, compliance with the consolidated interest coverage ratio and certain consolidated leverage ratios. The 2017 Facility matures in April 2022 (subject to an earlier springing maturity date), and includes a sublimit of $100.0 million for multicurrency borrowings, a sublimit of $50.0 million for the issuance of standby letters of credit, and a sublimit of $5.0 million for swingline loans. All assets of the Company and its material domestic subsidiaries are pledged as collateral under the 2017 Facility (subject to customary exceptions) pursuant to the term set forth in the Amended and Restated Security and Pledge Agreement (the "2017 Security Agreement") executed in favor of the administrative agent by the Company. Each of the Company's material domestic subsidiaries guarantees the 2017 Facility. In connection with the 2017 Facility, the Company incurred issuance costs which will be amortized over the term of the 2017 Facility. As of June 30, 2018, the Company had $37.0 million outstanding under the 2017 Facility, at an interest rate of 4.05% (one month LIBOR plus 1.75%).

Borrowings under the 2017 Facility are used by the Company to provide financing for working capital and other general corporate purposes, including potential mergers and acquisitions. Borrowings under the 2017 Facility bear interest, at the Company's option, at a rate equal to an applicable margin plus: (a) the applicable Eurocurrency Rate (as defined in the 2017 Credit Agreement), or (b) a base rate determined by reference to the highest of (1) the federal funds effective rate plus 0.50%, (2) the Bank of America prime rate, and (3) LIBOR for an interest period of one month plus 1.00%. The margin for the 2017 Facility ranges, based on the Company's consolidated leverage ratio, from 0.00% to 1.00% in the case of base rate loans and from 1.00% to 2.00% in the case of Eurocurrency Rate loans. The 2017 Facility includes an unused line fee ranging, based on the Company's consolidated leverage ratio, from 0.20% to 0.35% per annum on the revolving commitment.

The 2017 Credit Agreement contains affirmative, negative, permitted acquisition and financial covenants, and events of default customary for financings of this type. The financial covenants require the Company to maintain ratios of consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) in relation to consolidated

interest expense and consolidated debt, respectively, as defined in the 2017 Credit Agreement. The 2017 Facility grants the lenders preferred first priority liens and security interests in capital stock, intercompany debt and all of the present and future property and assets of the Company and each guarantor. The Company is currently in compliance with the 2017 Credit Agreement covenants.

7. Stock-Based Compensation

The compensation cost that has been included in the Consolidated Statements of Operations for all stock-based compensation arrangements was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2018	2017	2018	2017
Sales, marketing and administrative expense	$5,929	$7,891	$9,444	$14,686
Research and development expense	838	428	1,338	567
Cost of revenue	93	75	212	158
Stock-based compensation expense before taxes	6,860	8,394	10,994	15,411
Related income tax benefits	(1,715)	(3,190)	(2,749)	(5,856)
Stock-based compensation expense, net of taxes	$5,145	$5,204	$8,245	$9,555

At June 30, 2018, there was $53.9 million of unamortized compensation expense for restricted stock units (“RSUs”) and performance-based restricted stock units (“PRSUs”) to be recognized over a weighted average period of 2.3 years.

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Restricted Stock Units

The Company issued approximately 38,000 and 150,000 shares of common stock, before net share settlement, upon vesting of RSUs (including PRSUs) during the three and six months ended June 30, 2018 and issued approximately 359,000 shares of common stock in settlement of RSUs (including PRSUs) upon their vesting during the year ended December 31, 2017.

Stock Options and Purchase Rights

The weighted average assumptions used to estimate the fair value of stock purchase rights under the employee stock purchase plan ("ESPP") are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
ESPP				
Volatility	30 %	21 %	34 %	23 %
Expected term (years)	0.5	0.5	0.5	0.5
Risk free interest rate	1.8%	0.8 %	1.4%	0.6 %
Expected dividend yield	— %	— %	— %	— %

Under the terms of the ESPP, the Company's employees (referred to as "shareowners") can elect to have up to 15% of their annual compensation, up to a maximum of $21,250 per year, withheld to purchase shares of the Company's common stock for a purchase price equal to 85% of the lower of the fair market value per share (at closing) of the Company's common stock on (i) the commencement date of the six-month offering period, or (ii) the respective purchase date.

The Company has not granted any options since 2011. The Company issued approximately 43,000 and 103,000 shares of common stock, before net share settlement, upon the exercise of outstanding stock options during the three and six months ended June 30, 2018 and issued approximately 232,000 shares of common stock, before net share settlement, upon the exercise of outstanding stock options during the year ended December 31, 2017.

8. Income Taxes

Income taxes are determined using an estimated annual effective tax rate applied against income, and then adjusted for the tax impacts of certain significant and discrete items. For the six months ended June 30, 2018, the Company treated the tax impact of the following significant items as discrete events for which the tax effect was recognized separately from the application of the annual effective tax rate: tax expense related to net shortfalls on share-based payments, return to provision adjustments, favorable audit settlements, and limitations on certain officer's compensation. The Company's effective tax rate recorded for the six months ended June 30, 2018 was 25%.

On December 22, 2017, President Trump signed U.S. tax reform legislation, commonly referred to as the Tax Cuts and Jobs Act (the "Act"), which became effective January 1, 2018. Due to insufficient guidance on certain aspects of the Act, such as officer's compensation, as well as uncertainty around the GAAP treatment associated with many other parts of the Act, such as the implementation of certain international provisions, the Company recorded certain provisional amounts related to the revaluation and realization of its deferred taxes in its December 31, 2017 tax provision. During the six months ended June 30, 2018, the Company further analyzed the impact of the Act on certain executive compensation related deferred taxes as well as the federal tax rate revaluation impact on certain other existing deferred taxes and determined that an aggregate write-down of approximately $0.3 million was required, which would have increased the 2017 full year effective tax rate by 0.5% and the fourth quarter 2017 effective tax rate by 1.7%. The Company is continuing to analyze the impact of the Act during which adjustments to the 2017 year-end provisional calculation will be subject to change during the Staff Accounting Bulletin No. 118 measurement period. As the Company finalizes its analysis and adjusts its tax balances accordingly, it will describe the issue and impact on previously recorded provisional amounts. At June 30, 2018, the Company has not completed its accounting for the tax effects of the global intangible low-taxed income ("GILTI"), foreign derived intangible income ("FDII"), and base erosion and anti-abuse tax ("BEAT") provisions of the Act on current year tax expense; however, the Company has made a reasonable estimate and determined that these provisions will have no impact on its 2018 results. Because the Company continues to evaluate the impact of the Act's GILTI provisions, it has yet to elect an accounting policy to treat the tax impact as either a future period charge or as a current component of deferred taxes.

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In accordance with the disclosure requirements as described in ASC Topic 740, Income Taxes, the Company has classified unrecognized tax benefits as non-current income tax liabilities, or a reduction in deferred tax assets, unless expected to be paid within one year. The Company's continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense. The Company had an increase in gross unrecognized tax benefits of approximately $0.9 million during the six months ended June 30, 2018, primarily related to research and development credits. The Company believes it is reasonably possible that approximately $6.5 million of its remaining unrecognized tax benefits may be recognized within the next twelve months as certain statute of limitations expire, the amount of which is primarily attributable to tax positions involving the valuation of intercompany transactions. In July 2018, the U.S. Ninth Circuit court of appeals overturned the U.S. Tax Court's unanimous 2015 decision in Altera v. Commissioner, holding that the IRS did not violate the rulemaking procedures required by the Administrative Procedures Act (APA). The Company is evaluating the overall impact from this decision and does not believe it will have a material impact on the financial position of the Company.

The Company is subject to routine compliance reviews on various tax matters around the world in the ordinary course of business. Currently, income tax audits are being conducted with U.S. federal and Germany. U.S. states and most foreign jurisdictions remain subject to examination in all years due to prior year net operating losses and R&D credits.

9. Business Segment, Product and Geographic Information

The Company operates in one segment based upon the Company's organizational structure, the way in which the operations and investments are managed and evaluated by the chief operating decision maker ("CODM") as well as the lack of availability of discrete financial information at a lower level. The Company's CODM reviews revenue at the product line offering level, and manufacturing, operating income and expenses, and net income at the Company wide level to allocate resources and assess the Company's overall performance. The Company shares common, centralized support functions, including finance, human resources, legal, information technology, and corporate marketing, all of which report directly to the CODM. Accordingly, decision-making regarding the Company's overall operating performance and allocation of Company resources is assessed on a consolidated basis. As such, the Company operates as one reporting segment. The Company has disclosed the revenues for each of its product line offerings to provide the reader of the financial statements transparency into the operations of the Company.

The Company reports under two distinct product lines; spinal hardware and surgical support. The Company's spinal hardware product line offerings include implants and fixation products. The Company's surgical support product offerings include IOM services, disposables and biologics, all of which are used to aid spinal surgery.

The Company has reclassified historically presented product line revenue to conform to the current period presentation. The reclassification had no impact on previously reported results of operations.

Revenue by product line was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2018	2017	2018	2017
Spinal hardware	$202,060	$184,725	$387,961	$359,812

Surgical support	79,504	74,674	154,125	148,600
Total revenue	$281,564	$259,399	$542,086	$508,412

Revenue and property and equipment, net, by geographic area were as follows:

	Revenue				Property and Equipment, Net	
	Three Months Ended June 30,		Six Months Ended June 30,			December 31,
(in thousands)	2018	2017	2018	2017	June 30, 2018	2017
United States	$226,949	$215,972	$440,252	$429,329	$195,980	$179,891
International (excludes Puerto Rico)	54,615	43,427	101,834	79,083	35,753	35,435
Total	$281,564	$259,399	$542,086	$508,412	$231,733	$215,326

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10. Commitments

Licensing and Purchasing Agreements

As of June 30, 2018 the Company has obligations under certain consulting arrangements to pay up to approximately $47.2 million in the aggregate in the event that specified revenue-based milestones are achieved prior to 2027. Any such payment will be made in a combination of cash and the Company's common shares as provided in the agreements. Any payments in satisfaction of these contingent obligations are considered either a research and development expense or a cost of revenue depending on the nature of the arrangement and are recognized ratably as and if milestones are achieved. These agreements expire on various dates through 2027.

Executive Severance Plans

The Company has employment contracts with key executives and maintains severance plans that provide for the payment of severance and other benefits if such executives are terminated for reasons other than cause, as defined in those agreements and plans. Certain agreements call for payments that are based on historical compensation, and accordingly, the amount of the contractual commitment will change over time commensurate with the executive's earnings. At June 30, 2018, future commitments for such key executives were approximately $23.3 million. In certain circumstances, the agreements call for the acceleration of equity vesting. Those figures are not reflected in the above information.

11. Contingencies

The Company is subject to potential liabilities under government regulations and various claims and legal actions that are pending or may be asserted from time-to-time. These matters arise in the ordinary course and conduct of the Company's business and include, for example, commercial, intellectual property, environmental, securities and employment matters. The Company intends to continue to defend itself vigorously in such matters and when warranted, take legal action against others. Furthermore, the Company regularly assesses contingencies to determine the degree of probability and range of possible loss for potential accrual in its financial statements.

During the three months ended June 30, 2018, the Company settled its ongoing litigation and related matters with Madsen Medical, Inc. As a result of the settlement, the Company paid $27.8 million to Madsen Medical and accordingly recorded a gain of $1.2 million related to the settlement by reducing its previous accrual of $29.0 million related to the matter.

An estimated loss contingency is accrued in the Company's financial statements if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Based on the Company's assessment, it has adequately accrued an amount for contingent liabilities currently in existence. The Company does not accrue amounts for liabilities that it does not believe are probable or that it considers immaterial to its overall financial position. Litigation is inherently unpredictable, and unfavorable resolutions could occur. As a result, assessing contingencies is highly subjective and requires judgment about future events. The amount of ultimate loss may exceed the Company's current accruals, and it is possible that its cash flows or results of operations could be materially affected in any particular period by the unfavorable resolution of one or more of these contingencies.

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Legal Proceedings

Securities Litigation

On August 28, 2013, a purported securities class action lawsuit was filed in the U.S. District Court for the Southern District of California naming the Company and certain of its current and former executive officers for allegedly making false and materially misleading statements regarding the Company's business and financial results, specifically relating to the purported improper submission of false claims to Medicare and Medicaid. The operative complaint asserts a putative class period stemming from October 22, 2008 to July 30, 2013. The complaint alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder and seeks unspecified monetary relief, interest, and attorneys' fees. On February 13, 2014, Brad Mauss, the lead plaintiff in the case, filed an Amended Class Action Complaint for Violations of the Federal Securities Laws. The Company answered the complaint on August 25, 2016, and discovery commenced. The plaintiffs filed motions for class certification on October 28, 2016 and the Company's opposition papers were filed on January 9, 2017. On March 22, 2017, the court issued an order granting class certification. The Company filed a petition to appeal the order granting class certification with the U.S. Court of Appeals for the Ninth Circuit (the "Ninth Circuit") on April 5, 2017 and the plaintiffs filed an opposition to the petition. On August 15, 2017, the Ninth Circuit denied the Company's petition. The Company filed a motion for summary judgment on September 8, 2017. On February 1, 2018, the court entered an order denying the Company's motion for summary judgment. On February 13, 2018, the Company entered into a memorandum of understanding with the plaintiffs to settle the case for $7.9 million. On March 23, 2017, the parties executed a stipulation of settlement, which was preliminarily approved by the court on June 11, 2018. A hearing on the final approval of the settlement by the court has been scheduled for November 12, 2018. The Company expects the settlement will be fully funded by insurance proceeds. The settlement includes the dismissal of all claims against the Company and the named individuals in the lawsuit without any liability or wrongdoing attributed to them. There can be no assurance that a settlement will be finalized and approved or as to the ultimate outcome of this litigation. However, in connection with the proposed settlement and in accordance with authoritative guidance, the Company has recorded the loss contingency of $7.9 million as a current litigation liability and the expected insurance proceeds of $7.9 million as a current receivable in the Consolidated Balance Sheet as of June 30, 2018 and December 31, 2017.

Madsen Medical, Inc. Litigation

On February 19, 2016, an unfavorable jury verdict was delivered against the Company in its litigation in the U.S. District Court for the Southern District of California against Madsen Medical, Inc. ("MMI"), a former sales agent. Specifically, the jury awarded MMI $7.5 million in lost profits for tortious interference, $14.0 million for unjust enrichment, $20.0 million in punitive damages, and approximately $0.3 million in damages for breach of contract. On March 18, 2016, the trial court entered judgment in favor of MMI in the amount of $27.8 million, which amount excluded the $14.0 million disgorgement awarded by the jury. On July 5, 2016, the trial court also awarded MMI attorney's fees and costs of approximately $1.1 million. The Company's post-trial motions for judgment as a matter of law and/or for a new trial were denied, and the Company appealed both the verdict and the court's subsequent award of attorney's fees and costs. The U.S. Court of Appeals for the Ninth Circuit held oral argument on April 12, 2018. During pendency of the appeal, the Company secured a bond to cover the amount of the judgment and attorneys' fees and costs.

As of December 31, 2017, the Company believed that the outcome of the case did not constitute a probable nor an estimable loss associated with the litigation, but rather a reasonably possible loss. The Company, based on its own assessment as well as that of outside counsel, believed that it was probable upon appeal the judgment would be vacated. Accordingly, the Company did not record a loss contingency at December 31, 2017, but assessed a reasonable range of potential loss, which would be from zero to the current amount entered as a judgment, as well as attorney's fees and interest.

Following the April 12, 2018 oral argument, the Company believed that the prior judgments against it, in part or as a whole, may be upheld. Accordingly, at March 31, 2018, the Company believed that the outcome of the case constituted a probable loss. While the actual amount of the probable loss was not known, the Company assessed a range of potential loss in accordance with Accounting Standards Codification 450, Contingencies, which would be from zero to $29.0 million, and recorded an additional estimated loss contingency in the amount of $29.0 million as a current litigation liability in the Unaudited Consolidated Balance Sheet as of March 31, 2018, resulting in an aggregate litigation liability of $29.0 million accrued for this matter. In May 2018, the Company entered into an agreement to settle all outstanding matters with MMI for $27.8 million. As a result of the settlement, the Company adjusted its litigation liability from $29.0 million to $27.8 million, which resulted in a $1.2 million gain which was recorded in the Consolidated Statement of Operations during the three months ended June 30, 2018. The Company has paid the settlement amount and no longer has any remaining liability related to this matter as of June 30, 2018.

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12. Regulatory Matters

On August 31, 2015, the Company received a civil investigative demand (“CID”) issued by the Department of Justice (“DOJ”) pursuant to the federal False Claims Act. The CID requires the delivery of a wide range of documents and information related to an investigation by the DOJ concerning allegations that the Company assisted a physician group customer in submitting improper claims for reimbursement and made improper payments to the physician group in violation of the Anti-Kickback Statute. The Company is cooperating with the DOJ. No assurance can be given as to the timing or outcome of this investigation. At June 30, 2018, the probable outcome of this matter cannot be determined, nor can the Company estimate a range of potential loss. In accordance with authoritative guidance on the evaluation of loss contingencies, the Company has not recorded an accrual related to this matter.

On June 9, 2017, the Company received a subpoena from the Office of the Inspector General of the U.S. Department of Health and Human Services (“OIG”) in connection with an investigation into possible false or otherwise improper claims submitted to Medicare and Medicaid. The subpoena seeks discovery of documents for the period January 2014 through June 2017, primarily associated with sales to a particular customer and relationships related to that customer account. The Company is working with the OIG to understand the scope of the subpoena and its request for documents, and the Company intends to fully cooperate with the OIG's request. No assurance can be given as to the timing or outcome of this investigation. At June 30, 2018, the probable outcome of this matter cannot be determined, nor can the Company estimate a range of potential loss. In accordance with authoritative guidance on the evaluation of loss contingencies, the Company has not recorded an accrual related to this matter.

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

Forward-Looking Statements May Prove Inaccurate

This quarterly report on Form 10-Q ("Quarterly Report"), including the following discussion and analysis, may contain forward-looking statements that involve risks, uncertainties, assumptions and other factors which, if they do not materialize or prove correct, could cause our results to differ from historical results or those expressed or implied by such forward-looking statements. In some cases, you can identify these forward-looking statements by words like "may", "will", "should", "could", "expects", "plans", "anticipates", "believes", "estimates", "predicts", "potential", "intends" the negative of those words and other comparable words). Forward-looking statements include, but are not limited to, statements about:

- our intentions, beliefs and expectations regarding our expenses, sales, operations and future financial performance;
- our operating results;
- our plans for future products and enhancements of existing products;
- anticipated growth and trends in our business;
- the timing of and our ability to maintain and obtain regulatory clearances or approvals;
- our belief that our cash and cash equivalents and investments will be sufficient to satisfy our anticipated cash requirements;
- our expectations regarding our revenues, customers and distributors;
- our beliefs and expectations regarding our market penetration and expansion efforts;
- our expectations regarding the benefits and integration of recently-acquired businesses and our ability to make future acquisitions and successfully integrate any such future-acquired businesses;
- our anticipated trends and challenges in the markets in which we operate; and
- our expectations and beliefs regarding and the impact of investigations, claims and litigation.

These statements are not guarantees of future performance or events. Our actual results may differ materially from those discussed here. The potential risks and uncertainties that could cause actual results to differ materially include, but are not limited to those set forth under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017, and this Quarterly Report on Form 10-Q, and similar discussions in our other Securities and Exchange Commission filings. We assume no obligation to update any forward looking statements to reflect new information, future events or circumstances or otherwise.

This information should be read in conjunction with the Unaudited Consolidated Financial Statements and the notes thereto included in Part I, Item 1 of this Quarterly Report and with Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2017 contained in our 2017 Annual Report on Form 10-K.

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Overview

We are a leading medical device company in the global spine surgery market, focused on developing minimally-disruptive surgical products and procedurally-integrated solutions for spine surgery. Our currently-marketed product portfolio is focused on applications for spine fusion surgery, including ancillary products and services used to aid in the surgical procedure. Our procedurally integrated solutions use innovative, technological advancements and a minimally-disruptive surgical platform called Maximum Access Surgery, or MAS, to provide surgical efficiency, operative reliability, and procedural versatility.

Our principal product offering includes the MAS platform which combines three categories of solutions that collectively minimize soft tissue disruption during spine fusion surgery, provide maximum visualization and are designed to enable safe and reproducible outcomes for the surgeon and the patient. The platform includes our proprietary software-driven nerve detection and avoidance systems, NVM5, and Intraoperative Monitoring, or IOM, services and support offered by our NuVasive Clinical Services division; MaXcess, an integrated split-blade retractor system; and a wide variety of specialized implants and biologics. Many of our products, including the individual components of our MAS platform can also be used in open or traditional spine surgery. Our spine surgery product line offerings, which include products for the thoracolumbar and the cervical spine, are primarily used to enable surgeon access to the spine to perform restorative and fusion procedures in a minimally-disruptive fashion. To assist with surgical procedures we offer a platform called Integrated Global Alignment, or iGA, in which products and computer assisted technology under our MAS platform help achieve more precise spinal alignment.

Our MAS platform and its related offerings are designed to provide a unique and comprehensive solution for the safe and reproducible minimally-disruptive surgical treatment of spine disorders by enabling surgeons to access the spine in a manner that affords both direct visualization and detection and avoidance of critical nerves along with intraoperative reconciliation. The fundamental difference between our MAS platform, which is sometimes referred to in the industry as “minimally invasive surgery” or “MIS”, is the ability to customize safe and reproducible access to the spine while allowing surgeons to continue to use instruments that are familiar to them and effective during surgery. Accordingly, the MAS platform does not force surgeons to reinvent or learn new approaches that add complexity and undermine safety, ease of use and/or efficacy. We have dedicated and continue to dedicate significant resources toward training spine surgeons around the world; both those who are new to our MAS and other product platforms, as well as ongoing education for MAS-trained surgeons attending advanced courses. An important ongoing objective of ours has been to maintain a leading position in access and nerve avoidance, as well as to pioneer and remain the ongoing leader in minimally invasive spine surgery. Our MAS platform, with the unique advantages provided by our neuromonitoring systems, enables an innovative lateral procedure known as eXtreme Lateral Interbody Fusion, or XLIF, in which surgeons access the spine for a fusion procedure from the side of the patient’s body, rather than from the front or back. It has been demonstrated clinically that XLIF and other procedures facilitated by our MAS platform decrease trauma and blood loss, and lead to faster overall patient recovery times compared to open spine surgery.

We offer a range of implants for spinal surgery, which include our branded CoRoent products and porous titanium and polyetheretherketone implants under our Advanced Materials Science portfolio, fixation devices such as customizable rods, plates and screws, bone allograft in patented saline packaging, allogeneic and synthetic biologics, and disposables used in IOM. We also design and sell expandable growing rod implant systems that can be non-invasively lengthened following implantation with precise, incremental adjustments via an external remote controller using magnetic technology called MAGnetic External Control, or MAGEC, which allows for the minimally invasive treatment of early-onset and adolescent scoliosis. This technology is also the basis for our PRECICE limb lengthening

system, which allows for the correction of long bone limb length discrepancy, as well as enhanced bone healing in patients that have experienced traumatic injury. The PRECICE limb lengthening system is sold by our NuVasive Specialized Orthopedics division.

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We intend to continue development on a wide variety of projects intended to broaden surgical applications for greater procedural integration of our MAS techniques and additional applications of the MAGEC technology. Such applications include tumor, trauma, and deformity, as well as increased fixation options, sagittal alignment products, imaging and navigation. We also expect to continue expanding our other product and services offerings as we execute on our strategy to offer customers an end-to-end, procedurally integrated solution for spine surgery. We intend to continue to pursue business and technology acquisition targets and strategic partnerships.

Revenues and Operations

The majority of our revenues are derived from the sale of implants, biologics and disposables and we expect this trend to continue for the foreseeable future. Additionally, with our recent acquisitions of IOM service providers, we expect our IOM service and support revenue to increase compared to previous periods. Our implants, biologics and disposables are currently sold and shipped from our distribution and warehousing operations. We generally recognize revenue for implants, biologics and disposables upon notice that our products have been used in a surgical procedure or upon shipment to a third-party customer assuming control of the products. Revenue from IOM services is recognized in the period the service is performed for the amount of payment we expect to receive. We make available MAS instrument sets, MaXcess and neuromonitoring systems to hospitals to facilitate surgeon access to the spine to perform restorative and fusion procedures using our implants and fixation devices. We sell MAS instrument sets, MaXcess devices, and our proprietary software-driven neuromonitoring systems, however this does not make up a material part of our business. Currently, sales and leases of capital equipment, including our LessRay software technology suite, represent a small portion of our consolidated revenues.

The majority of our operations are located and the majority of our sales have been generated in the United States. We sell our products in the United States through a sales force comprised primarily of independent sales agents and directly-employed sales representatives. Our sales force provides a delivery and consultative service to our surgeon and hospital customers and is compensated based on sales and product placements in their territories. Sales force commissions are reflected in the sales, marketing and administrative operating expense line item within our Consolidated Statements of Operations. We continue to invest in international expansion with a focus on European, Asia-Pacific and Latin American markets. Our international sales force is comprised of directly-employed sales personnel, independent sales agents, as well as exclusive and non-exclusive independent third-party distributors.

Results of Operations

Revenue

	June 30,				
(in thousands, except %)	2018	2017	$ Change	% Change	
Three Months Ended					
Revenue					
Spinal hardware	$202,060	$184,725	$17,335	9	%
Surgical support	79,504	74,674	4,830	6	%
Total revenue	$281,564	$259,399	$22,165	9	%
Six Months Ended					
Revenue					

Spinal hardware	$387,961	$359,812	$28,149	8	%
Surgical support	154,125	148,600	5,525	4	%
Total revenue	$542,086	$508,412	$33,674	7	%

Our spinal hardware product line offerings include our implants and fixation products. Our surgical support product line offerings include IOM services, disposables and biologics, all of which are used to aid spinal surgery.

The continued adoption of minimally invasive procedures for spine has led to the expansion of our procedure volume. In addition, increased market acceptance in our international markets contributed to the increase in revenues for the periods presented. We expect continued adoption of our innovative minimally invasive procedures and deeper penetration into existing accounts and international markets as our sales force executes on our strategy of selling the full mix of our products and services. However, the continued consolidation and increased purchasing power of our hospital customers and group purchasing organizations, the continued existence of physician-owned distributorships, continued changes in the public and private insurance markets regarding reimbursement, and ongoing policy and legislative changes in the United States have created less predictability in the lumbar portion of the spine market. Although the market for procedurally-integrated spine surgery solutions should continue to grow over the long term, economic, political and regulatory influences are subjecting our industry to significant changes that may slow the growth rate of the spine surgery market. Our growth in revenue in 2018 is expected to come primarily from market share gains in the shift toward less invasive spinal surgery, revenue from new products and services, and international growth.

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Revenue from our spinal hardware product line offerings increased $17.3 million and $28.1 million, or 9% and 8%, during the three and six months ended June 30, 2018, respectively, compared to the same periods in 2017. Product volume in spinal hardware increased our revenue by approximately 10% and 8% for the three and six months ended June 30, 2018, respectively, offset by unfavorable pricing impacts of approximately 2% and 1% for the three and six months ended June 30, 2018, respectively, as compared to the same periods in 2017. Foreign currency fluctuation increased our spinal hardware revenue by approximately 1% for both the three and six months ended June 30, 2018, as compared to the same periods in 2017.

Revenue from our surgical support product line offerings increased $4.8 million and $5.5 million, or 6% and 4%, during the three and six months ended June 30, 2018, respectively, compared to the same periods in 2017. Excluding the impact from our 2018 acquisitions, the three months ended June 30, 2018 experienced relatively consistent volume in our surgical support product line offerings and unfavorable pricing impacts of 2%, as compared to the same period in 2017. Excluding the impact from our 2018 acquisitions, the six months ended June 30, 2018 included decreases in surgical support volume of 2% and unfavorable pricing impacts of 1%, as compared to the same period in 2017. Revenue associated with our 2018 acquisitions accounted for approximately 8% and 7% of the increase in surgical support revenue for the three and six months ended June 30, 2018, respectively, as compared to the same periods in 2017. Foreign currency fluctuation had an insignificant impact on revenue from surgical support for the periods presented.

Cost of Revenue, Excluding Below Amortization of Intangible Assets

	June 30,							
(in thousands, except %)	2018		2017		$ Change	% Change		
Three Months Ended								
Cost of revenue	$77,056		$66,186		$10,870	16	%	
% of total revenue	27	%	26	%				
Six Months Ended								
Cost of revenue	$150,870		$127,629		$23,241	18	%	
% of total revenue	28	%	25	%				

Cost of revenue consists primarily of purchased goods, raw materials, labor and overhead associated with product manufacturing, inventory-related costs and royalty expenses, as well as the cost of providing IOM services, which includes personnel and physician oversight costs. We primarily procure and manufacture our goods in the United States, and accordingly, foreign currency fluctuations have not materially impacted our cost of revenue.

Cost of revenue increased $10.9 million and $23.2 million, or 16% and 18%, during the three and six months ended June 30, 2018, respectively, compared to the same periods in 2017. The cost of revenue associated with the operations of our 2018 acquisitions accounted for approximately 5% of the total increase during both the three and six months ended June 30, 2018, compared to the same periods in 2017. Cost of revenue for our business, excluding our 2018 acquisitions, increased primarily due to growth in volume, but also includes product mix and shifts in production costs, for an overall increase of approximately 11% and 12% during the three and six months ended June 30, 2018, respectively, compared to the same periods in 2017.

Cost of revenue as a percentage of revenue increased for the three and six months ended June 30, 2018 compared to the same periods in 2017. On a long-term basis, we expect cost of revenue, as a percentage of revenue, to decrease

moderately due to our manufacturing insourcing efforts.

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Operating Expenses

	Three Months Ended June 30,					
(in thousands, except %)	2018		2017		$ Change	% Change
Sales, marketing and administrative	$145,658		138,967		$6,691	5 %
% of total revenue	52	%	54	%		
Research and development	14,856		12,572		2,284	18 %
% of total revenue	5	%	5	%		
Amortization of intangible assets	12,628		11,349		1,279	11 %
Litigation liability (gain) loss	(1,195)		—		(1,195)	*
Business transition costs	3,998		1,369		2,629	192 %