

NUVASIVE INC  
Form 10-Q  
July 31, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018

OR

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

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

Commission File Number: 000-50744

NUVASIVE, INC.

(Exact name of registrant as specified in its charter)

Delaware 33-0768598  
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)

7475 Lusk Boulevard

San Diego, CA 92121

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(Address of principal executive offices)

(858) 909-1800

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Small reporting company

Emerging growth company

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

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

As of July 29, 2018 there were 51,422,448 shares of the registrant's common stock (par value \$0.001 per share) outstanding.

NuVasive, Inc.

Quarterly Report on Form 10-Q

June 30, 2018

PART I. FINANCIAL INFORMATION

Item 1.	<u>Financial Statements</u>	3
	<u>Consolidated Balance Sheets</u>	3
	<u>Consolidated Statements of Operations</u>	4
	<u>Consolidated Statements of Comprehensive Income (Loss)</u>	5
	<u>Consolidated Statements of Cash Flows</u>	6
	<u>Notes to Unaudited Consolidated Financial Statements</u>	7
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	30
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	40
Item 4.	<u>Controls and Procedures</u>	40

PART II. OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u>	41
Item 1A.	<u>Risk Factors</u>	41
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	41
Item 3.	<u>Defaults Upon Senior Securities</u>	41
Item 4.	<u>Mine Safety Disclosures</u>	41
Item 5.	<u>Other Information</u>	41
Item 6.	<u>Exhibits</u>	42

	<u>SIGNATURES</u>	43
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Table of Contents

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## NUVASIVE, INC.

## CONSOLIDATED BALANCE SHEETS

(in thousands, except par values and share amounts)

	June 30, 2018	December 31, 2017
<b>ASSETS</b>	(Unaudited)	
Current assets:		
Cash and cash equivalents	\$70,078	\$72,803
Restricted cash and investments	—	3,901
Accounts receivable, net of allowances of \$16,782 and \$13,026, respectively	199,907	200,220
Inventory, net	259,819	247,138
Prepaid income taxes	18,187	17,209
Prepaid expenses and other current assets	23,588	18,792
Total current assets	571,579	560,063
Property and equipment, net	231,733	215,326
Intangible assets, net	276,318	280,774
Goodwill	560,751	536,926
Deferred tax assets	4,955	6,440
Restricted cash and investments	2,394	1,494
Other assets	24,607	39,117
Total assets	\$1,672,337	\$1,640,140
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$89,534	\$75,767
Contingent consideration liabilities	12,214	18,952
Accrued payroll and related expenses	51,128	55,618
Litigation liabilities	10,300	8,150
Short-term borrowings	37,000	—
Income tax liabilities	3,825	2,908
Total current liabilities	204,001	161,395
Long-term senior convertible notes	592,581	582,920
Deferred and income tax liabilities, non-current	9,525	18,870
Other long-term liabilities	85,067	77,539
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value; 5,000,000 shares authorized, none outstanding	—	—
Common stock, \$0.001 par value; 120,000,000 shares authorized at June 30, 2018 and December 31, 2017, 56,511,851 and 56,164,060 issued and outstanding at June 30, 2018 and December 31, 2017, respectively	61	60
Additional paid-in capital	1,371,436	1,363,549

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Accumulated other comprehensive loss	(8,875 )	(6,933 )
(Accumulated deficit) retained earnings	(10,839 )	4,762
Treasury stock at cost; 5,095,290 shares and 5,001,886 shares at June 30, 2018 and December 31, 2017, respectively	(570,620 )	(565,867 )
Total NuVasive, Inc. stockholders' equity	781,163	795,571
Non-controlling interest	—	3,845
Total equity	781,163	799,416
Total liabilities and equity	\$1,672,337	\$1,640,140

See accompanying Notes to Unaudited Consolidated Financial Statements.

Table of Contents

NUVASIVE, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(unaudited)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenue				
Product revenue	\$252,687	\$237,824	\$486,202	\$462,779
Service revenue	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.



Table of Contents

NUVASIVE, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

(unaudited)	Three Months		Six Months Ended	
	Ended June 30,	Ended June 30,	June 30,	June 30,
	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.



Table of Contents

NUVASIVE, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Six Months Ended	
	June 30,	
(unaudited)	2018	2017
<b>Operating activities:</b>		
Consolidated net (loss) income	\$(15,601 )	\$23,718
<b>Adjustments to reconcile net (loss) income to net cash provided by operating activities:</b>		
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 )
<b>Changes in operating assets and liabilities, net of effects from acquisitions:</b>		
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
<b>Investing activities:</b>		
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 )
<b>Financing activities:</b>		
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
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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.		

Table of Contents

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