

NUVASIVE INC
Form 10-Q
October 30, 2014

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 September 30, 2014

OR

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

For the transition period from _____ to _____

Commission file number: 000-50744

NUVASIVE, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

33-0768598

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

7475 Lusk Boulevard,
San Diego, CA 92121

(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 and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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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 October 24, 2014, there were 47,041,259 shares of the registrant's common stock (par value \$0.001 per share) outstanding.

NuVasive, Inc.
Quarterly Report on Form 10-Q
September 30, 2014

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

NUVASIVE, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except par values and share amounts)

	September 30, 2014 (Unaudited)	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 130,657	\$ 102,825
Short-term marketable securities	169,824	143,449
Accounts receivable, net of allowances of \$4,696 and \$3,481, respectively	108,367	104,774
Inventory, net	159,708	136,937
Deferred tax assets, current	37,049	37,076
Income taxes receivable	13,809	—
Prepaid expenses and other current assets	10,216	10,947
Total current assets	629,630	536,008
Property and equipment, net	131,217	128,064
Long-term marketable securities	83,752	79,829
Intangible assets, net	72,210	93,986
Goodwill	154,512	154,944
Deferred tax assets, non-current	46,827	42,863
Restricted cash and investments	123,170	119,195
Other assets	28,065	24,679
Total assets	\$ 1,269,383	\$ 1,179,568
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 107,956	\$ 86,057
Accrued payroll and related expenses	31,289	31,095
Current litigation liability	30,000	—
Total current liabilities	169,245	117,152
Senior Convertible Notes	356,974	346,060
Deferred tax liabilities, non-current	2,967	2,934
Litigation liability	93,700	93,700
Other long-term liabilities	14,088	14,844
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 September 30, 2014 and December 31, 2013, respectively, 47,038,365 and 44,943,233 issued and outstanding at September 30, 2014 and December 31, 2013, respectively	47	45
Additional paid-in capital	822,854	769,203
Accumulated other comprehensive loss	(3,907) (3,238
Accumulated deficit	(194,412) (170,218

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Treasury stock, at cost; 18,350 shares and no shares at September 30, 2014 and December 31, 2013, respectively	(664) —
Total NuVasive, Inc. stockholders' equity	623,918	595,792
Non-controlling interests	8,491	9,086
Total equity	632,409	604,878
Total liabilities and equity	\$1,269,383	\$1,179,568

See accompanying notes to unaudited Consolidated Financial Statements.

NUVASIVE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

(unaudited)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Revenue	\$189,918	\$169,156	\$558,090	\$494,358
Cost of goods sold (excluding amortization and impairment of intangible assets)	47,719	43,291	135,849	131,131
Gross profit	142,199	125,865	422,241	363,227
Operating expenses:				
Sales, marketing and administrative	113,746	102,085	348,820	306,243
Research and development	9,068	7,248	28,590	24,654
Amortization of intangible assets	3,071	4,974	10,541	14,263
Impairment of intangible assets	—	—	10,708	—
Litigation liability	—	—	30,000	—
Total operating expenses	125,885	114,307	428,659	345,160
Interest and other expense, net:				
Interest income	241	157	691	560
Interest expense	(6,965)	) (6,712)	) (20,809)	) (20,396)
Other income (expense), net	(2,489)	) 3,137	(2,318)	) 2,937
Total interest and other expense, net	(9,213)	) (3,418)	) (22,436)	) (16,899)
Income (loss) before income taxes	7,101	8,140	(28,854)	) 1,168
Income tax (expense) benefit	(9,088)	) (860)	) 4,065	(20)
Consolidated net (loss) income	\$(1,987)	) \$7,280	\$(24,789)	) \$1,148
Add back net loss attributable to non-controlling interests	\$(157)	) \$(231)	) \$(595)	) \$(745)
Net (loss) income attributable to NuVasive, Inc.	\$(1,830)	) \$7,511	\$(24,194)	) \$1,893
Net (loss) income per share attributable to NuVasive, Inc.:				
Basic	\$(0.04)	) \$0.17	\$(0.52)	) \$0.04
Diluted	\$(0.04)	) \$0.16	\$(0.52)	) \$0.04
Weighted average shares outstanding:				
Basic	46,990	44,572	46,546	44,339
Diluted	46,990	47,220	46,546	46,387

See accompanying notes to unaudited Consolidated Financial Statements.

NUVASIVE, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

(unaudited)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Consolidated net (loss) income	\$(1,987	) \$7,280	\$(24,789	) \$1,148
Other comprehensive income (loss):				
Unrealized gain (loss) on marketable securities, net of tax	(29	) 283	(103	) 13
Translation adjustments, net of tax	(2,579	) 1,654	(566	) (2,275
Other comprehensive income (loss)	(2,608	) 1,937	(669	) (2,262
Total consolidated comprehensive income (loss)	(4,595	) 9,217	(25,458	) (1,114
Net loss attributable to non-controlling interests	157	231	595	745
Comprehensive income (loss) attributable to NuVasive, Inc.	\$(4,438	) \$9,448	\$(24,863	) \$(369

See accompanying notes to unaudited Consolidated Financial Statements.

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NUVASIVE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Nine Months Ended September	
(unaudited)	30,	
	2014	2013
Operating activities:		
Consolidated net (loss) income	\$(24,789	) \$1,148
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	46,521	46,289
Amortization of non-cash interest	12,244	11,413
Stock-based compensation	24,779	24,002
Impairment of intangible assets	10,708	—
Reserves	4,062	2,649
Other non-cash adjustments	11,317	3,881
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(5,519	) (8,253
Inventory	(27,190	) (16,749
Prepaid expenses and other assets	(1,837	) (2,838
Accounts payable and accrued liabilities	16,037	17,915
Litigation liability	30,000	(7,500
Accrued payroll and related expenses	151	(1,824
Net cash provided by operating activities	96,484	70,133
Investing activities:		
Cash paid for business and asset acquisitions	(59	) (8,019
Purchases of property and equipment	(45,692	) (38,018
Purchases of marketable securities	(177,850	) (164,338
Sales of marketable securities	142,051	183,756
Net cash used in investing activities	(81,550	) (26,619
Financing activities:		
Principal payment of 2013 Senior Convertible Notes	—	(74,311
Tax benefits related to stock-based compensation awards	—	5,247
Proceeds from the issuance of common stock	15,341	3,492
Purchases of treasury stock	(664) —
Other financing activities	(1,166	) (72
Net cash provided by (used in) financing activities	13,511	(65,644
Effect of exchange rate changes on cash	(613	) (553
Increase (decrease) in cash and cash equivalents	27,832	(22,683
Cash and cash equivalents at beginning of period	102,825	123,299
Cash and cash equivalents at end of period	\$130,657	\$100,616

See accompanying notes to unaudited Consolidated Financial Statements.

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 is focused on developing minimally-disruptive surgical products and procedurally-integrated solutions for the spine. The Company's principal product offering includes a minimally-disruptive surgical platform called "Maximum Access Surgery", or "MAS[®]", as well as an offering of biologics, cervical and motion preservation products. 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 reproducible outcomes for the surgeon. The platform includes the Company's proprietary nerve monitoring systems (which include software-driven nerve detection and avoidance systems (called "NVM5[®]" and "NVJJB") and accompanying intra-operative monitoring ("IOM") support); MaXcess[®], an integrated split-blade retractor system; and a wide variety of specialized implants. The individual components of the Company's MAS platform, and many of the Company's products, can also be used in open or traditional spine surgery. The Company continues to focus significant 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 primary business model is to loan its MAS systems to surgeons and hospitals who purchase implants, biologics, and disposables for use in individual procedures. In addition, for larger customers, the Company places its proprietary nerve monitoring systems, MaXcess and surgical instrument sets with hospitals for an extended period at no up-front cost to them. The Company also offers a range of bone allograft in patented saline packaging, disposables and spine implants, which include its branded CoRoent[®] products and fixation devices such as rods, plates and screws. Implants, biologics and disposables are shipped from the Company's inventories. The Company sells an immaterial quantity of MAS instrument sets, MaXcess and nerve monitoring systems to hospitals.

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 interests at the acquisition date and classifies the amounts attributable to non-controlling interests 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.

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 accounting principles generally accepted in the United States ("GAAP"). Operating results for the three and nine months ended September 30, 2014 are not necessarily indicative of the results that may be expected for any other interim period or for the full year. These Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and notes thereto for the year ended December 31, 2013 included in the Company's Annual Report on Form 10-K filed with the SEC. In the opinion of management, the Consolidated Financial Statements 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.

Change in Accounting Estimate. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Certain prior period amounts have been reclassified to conform to the current period presentation. Any reclassification of prior period

amounts does not affect any content or total of prior period financial statements.

During the nine months ended September 30, 2014, the Company committed to a plan to consolidate its offices located in San Diego, California into one corporate headquarters for efficiency purposes. This project started during the fourth quarter of 2014 and is expected to be completed by March 31, 2015. As a result, certain long-lived assets, primarily leasehold improvements, will be abandoned and replaced during the respective construction period. In accordance with the authoritative guidance, the Company has shortened the depreciable lives of impacted assets, which resulted in approximately \$2.2 million and \$2.7 million

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NUVASIVE, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

of accelerated depreciation, which is included in sales, marketing and administrative expenses, during the three and nine months ended September 30, 2014, respectively. Based on the current construction schedules, the Company expects to accelerate approximately \$4.2 million of depreciation during the full year ended December 31, 2014 that would have otherwise been recorded in future periods. There is no impact to the Company's Consolidated Statement of Operations over the life of the respective assets.

At the beginning of 2014, the Company completed a review of the estimated useful life of the international surgical instrument sets used in support of its business outside of the United States. Based on historical useful life information, as well as forecasted product life cycles and demand expectations, the useful life of certain international surgical instrument sets was extended from three to four years, which is consistent with the depreciable lives of such sets domestically. In accordance with authoritative guidance, this was accounted for as a change in accounting estimate and was made on a prospective basis effective January 1, 2014. For the three and nine months ended September 30, 2014, depreciation expense, which is included in sales, marketing and administrative expenses, was approximately \$0.7 million and \$2.1 million less, respectively, than it would have been had the useful life of these assets not been extended. The Company expects to have a \$2.8 million favorable impact to its Consolidated Statement of Operations, for the full year ended December 31, 2014 due to this change in estimate. The total net impact to the Company's Consolidated Statement of Operations for all four years affected by the change will be zero.

Comprehensive Income (Loss). Comprehensive income (loss) is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources. Comprehensive income (loss) includes unrealized gains or losses on the Company's marketable securities and foreign currency translation adjustments. The cumulative translation adjustments included in accumulated other comprehensive income (loss) were a net cumulative loss of \$3.8 million and \$3.3 million at September 30, 2014 and December 31, 2013, respectively.

Long-Lived Assets. Long-lived assets primarily include surgical instruments, which are loaned to surgeons and hospitals who purchase implants, biologics and disposables for use in individual procedures, as well as certain intangible assets. The Company periodically re-evaluates the original assumptions and rationale utilized in the establishment of the carrying value and estimated lives of its long-lived assets. The criteria used for these evaluations include management's estimate of the asset's continuing ability to generate income from operations and positive cash flow in future periods as well as the strategic significance of any intangible asset to the Company's business objectives. If assets are considered to be impaired, the impairment recognized is the amount by which the carrying value of the assets exceeds the fair value of the assets, which is determined by applicable market prices when available or other methods by utilizing unobservable inputs including discounted cash flow models. See Note 4, Financial Instruments and Fair Value Measurements for further discussion.

Inventories. The Company's inventory consists primarily of purchased finished goods which includes specialized implants and disposables, and is stated at the lower of cost or market determined by a weighted average cost method. The Company reviews the components of its inventory on a periodic basis for excess, obsolete or impaired inventory, and records a reserve for such identified items. The inventory reserve was \$25.1 million and \$21.9 million at September 30, 2014 and December 31, 2013, respectively.

Pending Adoption of Recent Accounting Pronouncements. In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update No. 2014-09, Revenue from Contracts with Customers, ("ASU 2014-09") an updated standard on revenue recognition. ASU 2014-09 provides enhancements to the quality and consistency of how revenue is reported by companies while also improving comparability in the financial statements of companies reporting using International Financial Reporting Standards or GAAP. The main purpose of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which a company expects to be entitled in exchange for those goods or services. The new standard also will result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements. ASU 2014-09 will be effective for the Company in the first quarter of fiscal year 2017 and may be applied on a full retrospective or modified retrospective approach. The Company is evaluating the impact of implementation of this standard on its

financial statements.

2. Net Income (Loss) Per Share

The Company computes basic net income (loss) per share using the weighted-average number of common shares outstanding during the period. Diluted net income (loss) per share assumes the conversion, exercise or issuance of all potential common stock equivalents, unless the effect of inclusion would be anti-dilutive. For purposes of this calculation, common stock equivalents include the Company's stock options, employee stock purchase plan ("ESPP"), restricted stock units, including those with performance conditions, warrants, and shares to be issued upon the conversion of the Senior Convertible Notes (see Note 6, Senior Convertible Notes).

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NUVASIVE, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

(in thousands, except per share data)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Numerator:				
Net income (loss) attributable to the Company	\$(1,830)	\$7,511	\$(24,194)	\$1,893
Denominator for basic and diluted net income per share:				
Weighted average common shares outstanding for basic	46,990	44,572	46,546	44,339
Dilutive potential common stock outstanding:				
Stock options and ESPP shares	—	473	—	304
Restricted stock units	—	2,175	—	1,744
Weighted average common shares outstanding for diluted	46,990	47,220	46,546	46,387
Basic net income (loss) per share attributable to the Company	\$(0.04)	\$0.17	\$(0.52)	\$0.04
Diluted net income (loss) per share attributable to the Company	\$(0.04)	\$0.16	\$(0.52)	\$0.04

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

(in thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Stock options, ESPP shares and restricted stock units	8,777	4,957	8,999	5,759
Warrants	9,553	11,998	9,553	13,768
Senior Convertible Notes	9,553	9,553	9,553	10,003
Total	27,883	26,508	28,105	29,530

3. Business Combinations

During its history, the Company has completed acquisitions that were not considered individually or collectively material to the overall Consolidated Financial Statements and/or the results of the Company's operations. These acquisitions have been included in the Consolidated Financial Statements from the respective dates of the acquisitions. The Company recognizes the assets acquired, liabilities assumed, and any non-controlling interest at fair value at the date of acquisition. Certain acquisitions contain contingent consideration arrangements that require the Company to assess the acquisition date fair value of the contingent consideration liabilities, which is recorded as part of the purchase consideration of the acquisition. The Company continuously assesses and adjusts the fair value of the contingent consideration liabilities, if necessary, until the settlement or expiration of the contingency occurs.

Contingent Consideration Liabilities

As a result of contingent consideration arrangements associated with certain asset and/or business acquisitions, the Company may have (or at times following such transactions, may have had) future payment obligations based on certain technological or operational milestones. In accordance with the authoritative guidance, the Company records these obligations at fair value at the time of acquisition with subsequent fair value adjustments to the contingent consideration reflected in the line items of the Consolidated Statement of Operations commensurate with the nature of the contingent consideration. At September 30, 2014, the estimated fair value of existing contingent consideration agreements, individually or collectively, are not considered material to the Company's Consolidated Financial Statements. Refer to Note 4, Financial Instruments and Fair Value Measurements for further discussion on fair market valuation and subsequent changes.

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NUVASIVE, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Progentix Orthobiology B.V.

In 2009, the Company completed the purchase of 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 million in cash. The Company and Progentix also entered into a Distribution Agreement, as amended, whereby Progentix appointed the Company as its exclusive distributor for certain Progentix products. The Distribution Agreement is in effect for a term of ten years unless terminated earlier in accordance with its terms.

Progentix is determined to be a variable interest entity ("VIE") in accordance with authoritative guidance, and the Company has a controlling financial interest in the VIE as NuVasive has both (1) the power to direct the economically significant activities of Progentix, and (2) the obligation to absorb losses of, or the right to receive benefits from Progentix. Accordingly, the financial position and results of operations of Progentix have been included in the Company's Consolidated Financial Statements since the time of the initial cash investment in 2009. The liabilities recognized as a result of consolidating Progentix do not represent additional claims on the Company's general assets. The creditors of Progentix have claims only on the assets of Progentix, which are not material, and the assets of Progentix are not available to the Company.

The equity interests in Progentix not owned by the Company, which includes shares of both common and preferred stock, are reported on the Company's consolidated balance sheet as non-controlling interests. The preferred stock represents 18% of the non-controlling equity interests and provides for a cumulative 8% dividend, if and when declared by Progentix's Board of Directors. As the rights of the preferred stock are substantially the same as those of the common stock, the preferred stock is classified as a non-controlling interest and shares in the allocation of the losses incurred by Progentix. Gains or losses incurred by Progentix are absorbed by the Company and the non-controlling interest holders based on the respective ownership percentages.

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

(in thousands)	September 30, 2014	December 31, 2013
Total current assets	\$503	\$580
Identifiable intangible assets, net	14,052	14,403
Goodwill	12,654	12,654
Other long-term assets	2	7
Accounts payable and accrued expenses	551	403
Deferred tax liabilities, net	2,770	2,770
Non-controlling interests	8,491	9,086

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

(in thousands)	Nine Months Ended 2014	September 30, 2013
Non-controlling interests at beginning of period	\$9,086	\$10,003
Less: Net loss attributable to the non-controlling interests prior to reclassification from mezzanine to equity	—	745
Less: Net loss attributable to the non-controlling interests subsequent to reclassification from mezzanine to equity	595	—
Non-controlling interests at end of period	\$8,491	\$9,258

Impulse Monitoring Inc. and Physician Practices

The Company maintains contractual relationships with several physician practices ("PCs") which were inherited through the 2011 acquisition of Impulse Monitoring Inc. Under the respective contracts' terms, PCs provide the

physician oversight services associated with IOM services. The Company provides management services to the PCs including all non-medical services, management reporting, billing and collections of all charges for medical services provided as well as administrative support. The PCs pay the Company a monthly management fee for these services. In accordance with authoritative guidance, the Company has determined that the PCs are variable interest entities and the Company has controlling financial interests in the PCs as it has both (1) the power to direct the economically significant activities of the PCs and (2) the obligation to absorb losses of, or the right to

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NUVASIVE, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

receive benefits from, the PCs. Therefore, the accompanying Consolidated Financial Statements include the accounts of the PCs from the date of acquisition. 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.

4. Financial Instruments and Fair Value Measurements

The Company invests its excess cash in certificates of deposit, corporate notes, commercial paper, U.S. government treasury securities and securities of government-sponsored entities. The Company classifies all such securities as available-for-sale, as the sale of such securities may be required prior to maturity to implement management strategies. These securities are carried at fair value with the unrealized gains and losses reported as a component of other comprehensive income in equity until realized. Realized gains and losses and declines in value judged to be other-than-temporary, if any, on available-for-sale securities are included in other income or expense on the Consolidated Statements of Operations and a new accounting cost basis for the security is established. The Company reviews its investments if there is an indicator of possible other-than-temporary impairment. Factors considered in determining whether a loss is other-than-temporary include the length of time and extent to which fair value has been less than the cost basis, the financial condition and near-term prospects of the investee, and the Company's intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value. As of September 30, 2014, the Company had no investments that were in a significant unrealized loss position and no impairment charges were recorded during the periods presented.

According to the Company's investment policy, the Company maintains a diversified investment portfolio in terms of types, maturities, and credit exposure, and invests with institutions that have high credit quality. The Company does not currently hold derivative financial investments or speculative investments. Interest and dividends on securities classified as available-for-sale are also included in interest income on the consolidated statements of operations. Realized gains and losses and interest income and expense related to marketable securities were immaterial during all periods presented.

The composition of marketable securities is as follows:

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NUVASIVE, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(in thousands, except years)	Contractual Maturity (in Years)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2014:					
Classified as current assets					
Certificates of deposit	Less than 1	\$572	\$—	\$—	\$572
Corporate notes	Less than 1	99,429	18	(53	) 99,394
Commercial paper	Less than 1	2,497	—	—	2,497
U.S. government treasury securities	Less than 1	1,500	2	—	1,502
Securities of government-sponsored entities	Less than 1	65,835	32	(8	) 65,859
Total short-term marketable securities		169,833	52	(61	) 169,824
Classified as non-current assets					