NUVASIVE INC
Form 10-Q
May 04, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2015

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 incorporation or organization)	(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 x 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 (§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 x 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.

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

As of April 24, 2015, there were 48,356,489 shares of the registrant's common stock (par value $0.001 per share) outstanding.

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NuVasive, Inc.

Quarterly Report on Form 10-Q

March 31, 2015

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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)

	March 31, 2015	December 31, 2014
ASSETS	(Unaudited)	
Current assets:		
Cash and cash equivalents	$ 88,494	$ 142,387
Short-term marketable securities	200,809	220,329
Accounts receivable, net of allowances of $6,119 and $5,844, respectively	111,547	118,959
Inventory, net	163,413	154,638
Deferred and prepaid taxes	59,608	59,233
Prepaid expenses and other current assets	8,992	10,325
Total current assets	632,863	705,871
Property and equipment, net	139,541	128,565
Long-term marketable securities	27,501	43,042
Intangible assets, net	92,640	96,555
Goodwill	154,273	154,443
Deferred tax assets, non-current	65,196	65,330
Restricted cash and investments	156,155	123,233
Other assets	27,439	26,420
Total assets	$ 1,295,608	$ 1,343,459
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 71,507	$ 133,324
Accrued payroll and related expenses	27,702	38,032
Litigation liability	14,000	30,000
Deferred and income tax liabilities	750	13,543
Total current liabilities	113,959	214,899
Senior Convertible Notes	364,588	360,746
Deferred and income tax liabilities, non-current	23,517	12,526
Non-current litigation liability	117,430	93,700
Other long-term liabilities	12,633	13,230
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 March 31, 2015 and December 31, 2014, 49,674,361 and 47,691,744 issued and outstanding at March 31, 2015	50	48

and December 31, 2014, respectively		
Additional paid-in capital	884,469	847,145
Accumulated other comprehensive loss	(11,722)	(9,670)
Accumulated deficit	(155,378)	(186,938)
Treasury stock at cost; 1,345,606 shares and 233,369 shares at March 31, 2015 and December 31, 2014, respectively	(62,085)	(10,537)
Total NuVasive, Inc. stockholders' equity	655,334	640,048
Non-controlling interests	8,147	8,310
Total equity	$663,481	$648,358
Total liabilities and equity	$1,295,608	$1,343,459

See accompanying Notes to Unaudited Consolidated Financial Statements.

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NUVASIVE, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

	Three Months Ended March 31,	
(unaudited)	2015	2014
Revenue	$192,383	$177,496
Cost of goods sold (excluding below amortization of intangible assets)	45,664	43,294
Gross profit	146,719	134,202
Operating expenses:		
Sales, marketing and administrative	116,096	118,104
Research and development	9,264	9,455
Amortization of intangible assets	2,996	3,998
Litigation liability (gain) loss	(42,575)	30,000
Business transition costs	5,373	—
Total operating expenses	91,154	161,557
Interest and other expense, net:		
Interest income	419	217
Interest expense	(7,126)	(6,865)
Other income (expense), net	424	375
Total interest and other expense, net	(6,283)	(6,273)
Income (loss) before income taxes	49,282	(33,628)
Income tax (expense) benefit	(17,885)	15,095
Consolidated net income (loss)	$31,397	$(18,533)
Add back net loss attributable to non-controlling interests	$(163)	$(257)
Net income (loss) attributable to NuVasive, Inc.	$31,560	$(18,276)
Net income (loss) per share attributable to NuVasive, Inc.:		
Basic	$0.66	$(0.40)
Diluted	$0.61	$(0.40)
Weighted average shares outstanding:		
Basic	47,989	45,798
Diluted	51,716	45,798

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 March 31,	
(unaudited)	2015	2014
Consolidated net income (loss)	$31,397	$(18,533)
Other comprehensive income (loss):		
Unrealized gain (loss) on marketable securities, net of tax	133	(12)
Translation adjustments, net of tax	(2,185)	1,071
Other comprehensive (loss) income:	(2,052)	1,059
Total consolidated comprehensive income (loss)	29,345	(17,474)
Net loss attributable to non-controlling interests	163	257
Comprehensive income (loss) attributable to NuVasive, Inc.	$29,508	$(17,217)

See accompanying Notes to Unaudited Consolidated Financial Statements.

NUVASIVE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)	Three Months Ended March 31, 2015	2014
Operating activities:		
Consolidated net income (loss)	$31,397	$(18,533)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	16,051	15,363
Amortization of non-cash interest	4,331	4,000
Stock-based compensation	7,611	7,764
Deferred income taxes	11,015	—
Reserves on current assets	633	1,366
Other non-cash adjustments	6,172	1,661
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	5,931	(1,194)
Inventory	(11,367)	(11,743)
Prepaid expenses and other current assets	444	(2,807)
Accounts payable and accrued liabilities	17,428	17,951
Income taxes	(13,731)	(16,751)
Accrued royalties	(47,459)	3,291
Litigation liability	7,730	30,000
Accrued payroll and related expenses	(10,163)	(7,068)
Net cash provided by operating activities	26,023	23,300
Investing activities:		
Cash paid for acquisitions and investments	(1,357)	—
Purchase of intangible assets	(27,389)	—
Purchases of property and equipment	(30,694)	(13,390)
Purchases of marketable securities	(71,129)	(46,126)
Sales of marketable securities	105,794	36,257
Purchases of restricted investments	(32,616)	—
Net cash used in investing activities	(57,391)	(23,259)
Financing activities:		
Incremental tax benefits related to stock-based compensation awards	8,092	—
Proceeds from the issuance of common stock	1,403	8,749
Payment of contingent consideration	(514)	(498)
Purchase of treasury stock	(30,944)	—
Other financing activities	(45)	(596)
Net cash (used in) provided by financing activities	(22,008)	7,655
Effect of exchange rate changes on cash	(517)	256
(Decrease) increase in cash and cash equivalents	(53,893)	7,952

Cash and cash equivalents at beginning of period	142,387	102,825
Cash and cash equivalents at end of period	$88,494	$110,777

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. NuVasive'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 proprietary software-driven nerve detection and avoidance systems, NVM5® and NVJJB®, and Intra-Operative Monitoring ("IOM") services and support; MaXcess®, an integrated split-blade retractor system; and a wide variety of specialized implants and biologics. Many of the Company's products, including the individual components of NuVasive's MAS platform, can also be used in open or traditional spine surgery. The Company's spine surgery product line offerings, which include thoracolumbar product offerings, cervical product offerings, IOM services, and disposables, are primarily used to enable access to the spine and to perform restorative and fusion procedures in a minimally-disruptive fashion. The Company's biologic product line offerings used to aid the spinal fusion process or bone healing process include Osteocel® Plus and Osteocel Pro allograft (donated human tissue) which are cellular matrix products containing viable mesenchymal stem cells ("MSCs"), as well as other allograft offerings, FormaGraft®, a collagen synthetic product, and AttraX®, a synthetic bone graft material that is currently available commercially only in select markets outside of the United States. 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 has dedicated and continues to dedicate significant resources toward training spine surgeons around the world; both those who are new to its MAS product platform as well as previously MAS-trained surgeons attending advanced courses.

The Company's primary business model is to loan its MAS systems to surgeons and hospitals who use such systems to perform individual procedures, with the hospitals purchasing implants, biologics and disposables in each such case. In addition, for larger customers, the Company's proprietary nerve monitoring systems, MaXcess and surgical instrument sets are placed with hospitals for an extended period at no up-front cost to them, facilitating the hospital's purchase of disposables for such machines from the Company. 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. The Company's implants, biologics and disposables are currently sold and shipped from its primary distribution and warehousing operations facility located in Memphis, Tennessee. The Company sells MAS instrument sets, MaXcess devices and its proprietary software-driven nerve monitoring systems, however this does not make up a material part of its business.

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.

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NUVASIVE, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 months ended March 31, 2015 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, 2014 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.

The Company has reclassified historically presented product offerings revenue to conform to the current year presentation. The reclassification had no impact on previously reported results of operations or financial position.

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.

Business Transition Costs

From time to-time, the Company incurs costs related to integration and business transition activities which include severance, relocation, consulting, and other costs directly associated to such activities. The nature of these costs is that of personnel costs that the Company believes arise and warrant specific disclosure. During the three months ended March 31, 2015, the Company incurred $5.4 million of such costs, which included a $3.4 million charge associated with the resignation of the Company’s former Chief Executive Officer and Chairman of the Board, Alex V. Lukianov. Such resignation occurred in the first quarter 2015 and was announced on April 1, 2015 via filing of a Current Report on Form 8-K with the SEC. The $3.4 million charge includes certain severance and compensation-related charges, net of certain forfeitures of previously recognized equity compensation.

Restructuring Charges

The Company exited its New Jersey location and terminated the respective lease to reduce its footprint on the east coast of the United States as part of a company-wide efficiency effort in order to match its business needs without adversely impacting its ability to deliver surgeon education and local customer fulfillment. As a result of this undertaking, the Company recognized restructuring and associated impairment charges of $2.3 million during the three months ended March 31, 2015 in addition to the $6.4 million recognized during 2014. The restructuring and impairment charges mainly consist of the future rental payments through 2017, net with estimated future sublease income, and elimination of related leasehold improvements and deferred rent liabilities. These charges are recorded in sales, marketing and administrative expense in the Consolidated Statements of Operations.

As of March 31, 2015, the total recorded liability associated with this early lease termination was $4.9 million and consists of future rental payments net of estimated sublease income through 2017. The current portion of the liability is recorded within accounts payable and accrued liabilities and the long-term portion is recorded within other long-term liabilities in the Consolidated Balance Sheets at March 31, 2015.

NUVASIVE, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 $11.7 million and $9.5 million at March 31, 2015 and December 31, 2014, respectively.

Long-Lived Assets

Long-lived assets include surgical instruments, which are loaned to surgeons and hospitals who purchase implants, biologics and disposables for use in individual procedures, leasehold improvements, software, and 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 3, 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 $23.0 million and $22.7 million at March 31, 2015 and December 31, 2014, respectively.

2. Net Income (Loss) Per Share

The Company computes basic net income (loss) per share using the weighted-average number of shares of common stock 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. Common stock equivalents include the Company's stock options, employee stock purchase plan (ESPP), restricted stock units, including those with performance conditions, warrants, and the shares to be issued upon the conversion of the Senior Convertible Notes (see Note 6 to the Unaudited Consolidated Financial Statements).

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 March 31, 2015	2014
Numerator:		
Net income (loss) available to the Company	$31,560	$(18,276)
Denominator for basic and diluted net (loss) income per share:		
Weighted average common shares outstanding for basic	47,989	45,798
Dilutive potential common stock outstanding:		
Stock options and ESPP	1,528	—
Restricted stock units	1,308	—
Senior Convertible Notes	891	—
Weighted average common shares outstanding for diluted	51,716	45,798
Basic net income (loss) per share attributable to the Company	$0.66	$(0.40)
Diluted net income (loss) per share attributable to the Company	$0.61	$(0.40)

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NUVASIVE, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following weighted 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 March 31,	
(in thousands)	2015	2014
Stock Options, ESPP, and RSUs	22	7,870
Warrants	9,553	9,553
Senior Convertible Notes	—	9,553
Total	9,575	26,976

3. 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 March 31, 2015, the Company had no investments that were in a significant unrealized loss position and no impairment charges were recorded during the periods presented. 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 related to marketable securities were immaterial during all 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 financial instruments for speculative purposes.

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NUVASIVE, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The composition of marketable securities is as follows:

(in thousands, except years)	Contractual Maturity (in years)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2015:					
Classified as current assets					
Corporate notes	Less than 1	$ 121,761	$ 37	$ (81)	$ 121,717
Securities of government-sponsored entities	Less than 1	56,822	12	(2)	56,832
Commercial paper	Less than 1	21,979	—	—	21,979
Certificates of deposit	Less than 1	281	—	—	281
Short-term marketable securities		200,843	49	(83)	200,809
Classified as non-current assets					
Securities of government-sponsored entities	1 to 2	19,498	2	(1)	19,499
Corporate notes	1 to 2	7,996	6	—	8,002
Long-term marketable securities		27,494	8	(1)	27,501
Classified as restricted investments					
Securities of government-sponsored entities	Less than 2	71,971	9	(21)	71,959
U.S. government treasury securities	Less than 2	52,223	52	—	52,275
Restricted investments		124,194	61	(21)	124,234
Total marketable securities at March 31, 2015		$ 352,531	$ 118	$ (105)	$ 352,544
December 31, 2014:					
Classified as current assets					
Certificates of deposit	Less than 1	$ 282	$ —	$ —	$ 282
Corporate notes	Less than 1	129,037	8	(105)	128,940
Commercial paper	Less than 1	11,290	—	—	11,290
U.S. government treasury securities	Less than 1	1,500	1	—	1,501
Securities of government-sponsored entities	Less than 1	78,333	12	(29)	78,316
Short-term marketable securities		220,442	21	(134)	220,329
Classified as non-current assets					
Corporate notes	1 to 2	14,082	—	(13)	14,069
Securities of government-sponsored entities	1 to 2	28,996	—	(23)	28,973
Long-term marketable securities		43,078	—	(36)	43,042
Classified as restricted investments					
U.S. government treasury securities	Less than 2	51,331	13	(13)	51,331
Securities of government-sponsored entities	Less than 2	42,862	2	(54)	42,810

Restricted investments	94,193	15	(67)	94,141
Total marketable securities at December 31, 2014	$357,713	$ 36	$ (237)	$357,512

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NUVASIVE, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 gains recognized on business transactions were $0.3 million, net with hedging transactions, for the three months ended March 31, 2015, and $0.2 million for the three months ended March 31, 2014, and are included in other income (expense) 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. Realized and unrealized gains or losses on the value of financial contracts entered into to hedge the exchange rate exposure of these receivables and payables are also included in the determination of net income as they have not been designated for hedge accounting under ASC Topic 815, Derivatives and Hedging. These contracts, which settle monthly, effectively fix the exchange rate at which these specific receivables and payables will be settled in, so that gains or losses on the forward contracts offset the gains or losses from changes in the value of the underlying receivables and payables. As of March 31, 2015 a notional principal amount of $34.4 million in foreign currency forward contracts was outstanding to hedge currency risk relative to our foreign receivables and payables. The Company did not have this program during the three months ended March 31, 2014.

The Company's currency exposures vary, but are primarily concentrated in the pound sterling, the euro, the Australian dollar, the Singapore dollar, and the yen. The Company will continuously monitor the costs and the impact of foreign currency risks upon the financial results as part of the Company's risk management program. The Company does not use derivative financial instruments for speculation or trading purposes or for activities other than risk management. The Company does not require and is not required to pledge collateral for these financial instruments and does not carry any master netting arrangements to mitigate the credit risk.

The following table summarizes the fair values of derivative instruments at March 31, 2015 and December 31, 2014:

	Asset Derivatives			Liability Derivatives		
		Fair Value			Fair Value	
(in thousands)	Balance Sheet Location	March 31, 2015	December 31, 2014	Balance Sheet Location	March 31, 2015	December 31, 2014

Derivative instruments not designated as cash flow hedges					
Forward exchange contracts	Other current assets	$268	$ —	Other current liabilities	$—*
Total derivatives		$268	$ —		$—*

*De minimus amount recognized in the hedge relationship.

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NUVASIVE, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table summarizes the effect of derivative instruments on the Consolidated Statements of Operations for the three months ended March 31, 2015 and March 31, 2014:

	Three Months Ended March 31, 2015		Three Months Ended March 31, 2014	
(in thousands)	Location of (Gain)/Loss Recognized in Income	Amount of (Gain)/Loss Recognized in Income	Location of (Gain)/Loss Recognized in Income	Amount of (Gain)/Loss Recognized in Income
Derivative instruments not designated as cash flow hedges				
Forward exchange contracts	Other (income) expense	$ (2,165)	Other (income) expense	$ —
Total derivatives		$ (2,165)		$ —

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 three months ended March 31, 2015 or March 31, 2014.

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 March 31, 2015 and December 31, 2014 approximate their related fair values due to the short-term maturities of these instruments. The carrying values of the Company’s capital lease obligations approximate their related fair values as of March 31, 2015 and December 31, 2014.

The fair value, based on a quoted market price (Level 1), of the Company's outstanding Senior Convertible Notes due 2017 at March 31, 2015 and December 31, 2014 was approximately $503.1 million and $516.1 million, respectively. The carrying value of the Company's Senior Convertible Notes is discussed in Note 6, Senior Convertible Notes.

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NUVASIVE, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The fair values of the Company’s assets and liabilities, including cash equivalents, marketable securities, restricted investments, derivatives, and contingent considerations are measured at fair value on a recurring basis, and are determined using the following inputs:

(in thousands)	Total	Quoted Price in Active Market (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2015:				
Money market funds	$30,464	$ 30,464	$ —	$ —
Certificates of deposit	281	281	—	—
Corporate notes	129,719	—	129,719	—
Commercial paper	21,979	—	21,979	—
U.S. government treasury securities	52,275	52,275	—	—
Securities of government-sponsored entities	148,290	—	148,290	—
Derivative forward exchange contracts	268	—	268	—
Total assets	$383,276	$ 83,020	$ 300,256	$ —
December 31, 2014:				
Money market funds	$39,963	$ 39,963	$ —	$ —
Certificates of deposit	282	282	—	—
Corporate notes	143,009	—	143,009	—
Commercial paper	11,290	—	11,290	—
U.S. government treasury securities	52,831	52,831	—	—
Securities of government-sponsored entities	150,101	—	150,101	—
Total assets	$397,476	$ 93,076	$ 304,400	$ —
Acquisition-related liabilities, current	$(644)	$ —	$ —	$ (644)
Total liabilities	$(644)	$ —	$ —	$ (644)

Contingent Consideration Liability

The fair value of contingent consideration liabilities assumed by a business combination is determined using a discounted cash flow model, the significant inputs of which are not observable in the market. The fair value of such contingent considerations is recorded as part of the purchase consideration of the acquisition. The key assumptions in applying this approach are the revenue projections, the interest rate and the probabilities assigned to the milestones being achieved. For those contingent consideration arrangements assumed by an asset purchase will be measured and accrued when contingency is resolved.

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):

(in thousands)	Three Months Ended March 31, 2015	2014
Fair value measurement at beginning of period	$644	$1,212
Change in fair value measurement included in operating expenses	(36)	—
Contingent consideration paid or settled	(608)	(608)
Fair value measurement at end of period	$—	$604

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NUVASIVE, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The payments made during the three months ended March 31, 2015 and 2014 were related to an immaterial business combination completed in 2012.

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 discounted cash flow method or cost method, on a nonrecurring basis in accordance with authoritative guidance. In general, non-financial assets, including 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 Company exited its New Jersey property and made a decision to terminate the respective lease. Based on management's assessment, during the three months ended March 31, 2015 and March 31, 2014, the Company recognized impairment charges of $0.9 million and $2.2 million, respectively, in leasehold improvement write-offs associated with the lease termination.

See Note 1 to the Consolidated Financial Statements included in this Quarterly Report for further discussion on impairment analysis and leasehold related charges.

4. Goodwill and Intangible Assets

Goodwill and intangible assets consisted of the following:

(in thousands, except years) March 31, 2015:	Weighted-Average Amortization Period (in years)	Gross Amount	Accumulated Amortization	Intangible Assets, net
Intangible assets subject to amortization:				
Developed technology	9	$79,008	$ (30,045)	$48,963
Manufacturing know-how and trade secrets	12	21,783	(12,008)	9,775
Trade name and trademarks	11	9,500	(4,468)	5,032
Customer relationships	8	43,120	(24,890)	18,230
Total intangible assets subject to amortization	10	$153,411	$ (71,411)	$82,000
Intangible assets not subject to amortization:				
In-process research and development				$10,640

Goodwill				$ 154,273

December 31, 2014:	Weighted-Average Amortization Period (in years)	Gross Amount	Accumulated Amortization	Intangible Assets, net
Intangible assets subject to amortization:				
Developed technology	9	$ 79,008	$ (27,760)	$ 51,248
Manufacturing know-how and trade secrets	12	21,879	(11,640)	10,239
Trade name and trademarks	11	9,500	(4,264)	5,236
Customer relationships	8	43,153	(23,961)	19,192
Total intangible assets subject to amortization	10	$ 153,540	$ (67,625)	$ 85,915
Intangible assets not subject to amortization:				
In-process research and development				$ 10,640
Goodwill				$ 154,443

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NUVASIVE, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Total expense related to the amortization of intangible assets was $3.9 million and $4.0 million for the three months ended March 31, 2015 and March 31, 2014, respectively. Intangible assets acquired in a business combination that are used for in-process research and development activities are considered indefinite lived until the completion or abandonment of the associated research and development efforts. Upon reaching the end of the relevant research and development project, the Company will amortize the acquired in-process research and development over its estimated useful life or expense the acquired in-process research and development should the research and development project be unsuccessful with no future alternative use.

The Company made a payment of $27.4 million during the three months ended March 31, 2015 associated with the intangible assets which were accrued for as of December 31, 2014 in accounts payable and accrued liabilities.

Total future amortization expense related to intangible assets subject to amortization at March 31, 2015 is set forth in the table below:

(in thousands)	
Remaining 2015	$11,363
2016	14,802
2017	12,455
2018	11,432
2019	10,078
2020	9,666
Thereafter through 2027	12,204
Total future amortization expense	$82,000

5. Business Combinations

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 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 consideration of the acquisition with subsequent fair value adjustments to the contingent consideration reflected in the line items of the Consolidated Statements of Operations commensurate with the nature of the contingent consideration.

Investment in 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 (the Progentix Shareholders) pursuant to a Preferred Stock Purchase Agreement for $10.0 million in cash (the Initial Investment). As of March 31, 2015, NuVasive has loaned Progentix cumulatively $5.3 million at an interest at a rate of 6% per year. NuVasive is not obligated to provide additional funding.

Concurrently with the Preferred Stock Purchase Agreement, NuVasive, Progentix and the Progentix Shareholders entered into an Option Purchase Agreement (as amended the “Option Agreement”), whereby NuVasive was obligated under certain circumstances, and had the option under other circumstances, to purchase the remaining 60% of capital stock of Progentix (the “Remaining Shares”) from its shareholders for an amount up to $35.0 million, subject to certain reductions. The Option Agreement expired unexercised in 2013. Also, concurrently with the Preferred Stock Purchase Agreement, NuVasive and Progentix entered into a Distribution Agreement, as amended, whereby Progentix appointed NuVasive 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.

NUVASIVE, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In accordance with authoritative guidance, the Company has determined that Progentix is a variable interest entity, (“VIE”) as it does not have the ability to finance its activities without additional subordinated financial support and its equity investors will not absorb their proportionate share of expected losses and will be limited in the receipt of the potential residual returns of Progentix. Additionally, pursuant to this guidance, NuVasive is considered a primary beneficiary as NuVasive has both the power to direct the economically significant activities of Progentix and 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 from the date of the Initial Investment. 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 NuVasive.

The equity interests in Progentix not owned by the Company, which includes shares of both common and preferred stock, are reported as non-controlling interests on the consolidated balance sheet of the Company. 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 non-controlling interest and shares in the allocation of the losses incurred by Progentix. Losses incurred by Progentix are charged to the Company and to the non-controlling interest holders based on their ownership percentage.

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

(in thousands)	March 31, 2015	December 31, 2014
Total current assets	$639	$ 839
Identifiable intangible assets, net	13,819	13,935
Goodwill	12,654	12,654
Other long-term assets	1	1
Accounts payable and accrued expenses	453	542
Deferred tax liabilities, net	2,770	2,770
Non-controlling interests	8,147	8,310

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

(in thousands)	Three Months Ended March 31, 2015	2014

Non-controlling interests at beginning of period	$8,310	$9,086
Less: Net loss attributable to the non-controlling interests	163	257
Non-controlling interests at end of period	$8,147	$8,829

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, respective PCs provide physician oversight services associated with the IOM service offerings. The Company provides management services to these PCs including all non-medical services, management reporting, billing and collections of all charges for medical services provided as well as administrative support. In turn, 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 VIEs and the Company has controlling financial interests in the PCs as it has both the power to direct the economically significant activities of the PCs, and the obligation to absorb losses of, or the right to receive benefits from, the PCs. Therefore, the accompanying Consolidated Financial Statements include the accounts of the PCs from the date of acquisition. During the periods presented, the result of PCs was immaterial to our 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.

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NUVASIVE, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

6. Senior Convertible Notes

The carrying values of the Company's Senior Convertible Notes are as follows:

(in thousands)	March 31, 2015	December 31, 2014
2.75% Senior Convertible Notes due 2017:		
Principal amount	$402,500	$402,500
Unamortized debt discount	(37,912)	(41,754)
Total Senior Convertible Notes	$364,588	$360,746

2.75% Senior Convertible Notes due 2017

In June 2011, the Company issued $402.5 million principal amount of Senior Convertible Notes with a stated interest rate of 2.75% and a maturity date of July 1, 2017 (the "2017 Notes"). The net proceeds from the offering, after deducting initial purchasers' discounts and costs directly related to the offering, were approximately $359.2 million. The 2017 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 2017 Notes is 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 also entered into transactions for convertible note hedge (the "2017 Hedge") and warrants (the "2017 Warrants") concurrently with the issuance of the 2017 Notes.

The cash conversion feature of the 2017 Notes (the "Embedded Conversion Derivative") required bifurcation from the 2017 Notes and was initially accounted for as a derivative liability and debt discount of $88.9 million upon issuance of the 2017 Notes without authorization of issuing additional common stock for the conversion. Upon obtaining stockholder approval for the additional authorized shares of the Company's common stock, the derivative liability was reclassified to stockholders' equity, which resulted in recognizing cumulatively $39.5 million in other income for change in fair value measurement and $49.4 million in additional paid-in-capital during 2011. The debt discount of $88.9 million is recognized as interest expense using an effective interest rate of 8.0% over the term of the 2017 Notes. The interest expense recognized on the 2017 Notes during the three months ended March 31, 2015 includes $2.8 million and $3.8 million for the contractual coupon interest and the accretion of the debt discount, respectively. The interest expense recognized on the 2017 Notes during the three months ended March 31, 2014 includes $2.8 million and $3.6 million for the contractual coupon interest and the accretion of the debt discount, respectively. Interest on the 2017 Notes began accruing upon issuance and is payable semi-annually. The Company uses the treasury share method for assumed conversion of the 2017 Notes to compute the weighted average common shares outstanding for diluted earnings per share.

Prior to January 1, 2017, holders may convert their 2017 Notes only under the following conditions: (a) during any calendar quarter beginning October 1, 2011, 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 2017 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 2017 Notes. From January 1, 2017 and until the close of business on the second scheduled trading day immediately preceding July 1, 2017, holders may convert their 2017 Notes at any time (regardless of the foregoing circumstances). The Company may not redeem the 2017 Notes prior to maturity. Other than restrictions relating to certain fundamental changes and consolidations, mergers or asset sales and customary anti-dilution adjustments, the 2017 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.

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NUVASIVE, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

2017 Hedge

In connection with the offering of the 2017 Notes, the Company entered into the 2017 Hedge with the initial purchasers and/or their affiliates (the “2017 Counterparties”) entitling the Company to purchase up to 9,553,096 shares of the Company’s common stock at an initial stock price of $42.13 per share, each of which is subject to adjustment. The cost of the 2017 Hedge was $80.1 million and accounted for as derivative assets upon issuance of the 2017 Notes. Upon obtaining stockholder approval for the additional authorized shares of the Company’s common stock, the derivative asset was reclassified to stockholders’ equity, resulted in recognizing cumulatively $37.1 million in other expense for the change in fair value measurement and $43.0 million in additional paid-in-capital during 2011. The 2017 Hedge will expire on July 1, 2017. The 2017 Hedge is expected to reduce the potential equity dilution upon conversion of the 2017 Notes if the daily volume-weighted average price per share of the Company’s common stock exceeds the strike price of the 2017 Hedge. An assumed exercise of the 2017 Hedge by the Company is considered anti-dilutive since the effect of inclusion would always be anti-dilutive with respect to the calculation of diluted earnings per share.

2017 Warrant

The Company sold warrants to the 2017 Counterparties 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, subject to adjustment. Each share of Series A Participating Preferred Stock is convertible into 20 shares of the Company’s common stock, or up to 9,553,080 common shares in total. The 2017 Warrants will expire on various dates from September 2017 through January 2018 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 $47.9 million in cash proceeds from the sale of the 2017 Warrants, which was recorded in additional paid-in-capital. The 2017 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 2017 Warrants. The Company uses the treasury share method for assumed conversion of its 2017 Warrants to compute the weighted average common shares outstanding for diluted earnings per share.

7. Stock-Based Compensation

The Company estimates the fair value of stock options and shares issued to shareowners under the NuVasive, Inc. 2004 Amended and Restated Employee Stock Purchase Plan (the “ESPP”) using a Black-Scholes option-pricing model on the date of grant. The Black-Scholes option-pricing model incorporates various and highly sensitive assumptions including expected volatility, expected term and risk-free interest rates. The expected volatility is based on the historical volatility of the Company’s common stock over the most recent period commensurate with the estimated expected term of the Company’s stock options and ESPP which is derived from historical experience. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury yield in effect at the time of grant. The Company has never declared or paid dividends and has no plans to do so in the foreseeable future. The fair value of restricted stock units (“RSUs”) including performance RSU (“PRSUs”) with pre-defined performance criteria is based on the stock price on the date of grant whereas the expense for PRSU with pre-defined performance criteria is adjusted with probability of achievements at each period end. The fair value of the PRSUs that are earned based on the achievement of pre-defined market conditions for total shareholder return (“TSR PRSUs”) is estimated on the date of grant using a Monte Carlo valuation model. The key assumptions in applying this model are an expected volatility and a risk free interest rate. The fair value of equity instruments that are expected to vest are recognized and amortized on an accelerated basis over the requisite service period.

The Company is required to estimate at the grant date the value of awards that are anticipated to be forfeited prior to their vesting, and thereafter, adjusts the forfeiture rate estimates as necessary through the vesting date so that full compensation cost is recognized only for awards that vest. The Company assesses the reasonableness of the estimated forfeiture rate at least annually, with any change to be made on a cumulative basis in the period the estimated forfeiture rates change. The Company considered its historical experience of pre-vesting forfeitures on awards by each homogenous group of shareowners as the basis to arrive at its estimated annual pre-vesting forfeiture rates for RSUs.

NUVASIVE, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

(in thousands)	Three Months Ended March 31, 2015	2014
Sales, marketing and administrative expense	$7,277	$7,186
Research and development expense	259	465
Cost of goods sold	75	113
Stock-based compensation expense before taxes	7,611	7,764
Related income tax benefits	(3,044)	(3,106)
Stock-based compensation expense, net of taxes	$4,567	$4,658

At March 31, 2015, there was $30.7 million of unamortized compensation expense for stock options, restricted stock units and performance-based restricted stock units to be recognized over a weighted average period of 2.1 years.

Stock Options and Purchase Rights

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

	Three Months Ended March 31, 2015	2014
ESPP		
Volatility	44 %	47 %
Expected term (years)	1.4	1.1
Risk free interest rate	0.2 %	0.2 %
Expected dividend yield	— %	— %

Under the terms of ESPP, employees 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 NuVasive common stock at a discount. The purchase price of the common stock is equal to 85% of the lower of the fair market value per share of the common stock on the commencement date of the two-year or six-month offering period (depending on the purchase period enrolled) or the end of each semi-annual purchase period. The Company has not granted any options since 2011.

The Company issued approximately 692,000 shares of common stock, before net share settlement, upon the exercise of outstanding stock options during the three months ended March 31, 2015 and approximately 1,030,000 shares of common stock upon the exercise of outstanding stock options during the year ended December 31, 2014.

Restricted Stock Units

RSUs represent a right to receive shares of common stock at a future date determined in accordance with the terms and conditions of a participant’s award agreement (issued under either our 2004 Amended and Restated Equity Incentive Plan (as previously amended “the 2004 EIP”) or the 2014 Equity Incentive Plan of NuVasive, Inc. (the “2014 EIP”)). No exercise price or other monetary payment is required for receipt of RSUs or the shares issued in settlement of the respective award; instead, consideration is furnished in the form of the participant’s service to the Company. The Company has granted time-based RSUs with graded vesting terms of up to four years. The Company has also granted PRSUs with up to three year graded or cliff vesting terms (in each case, with service through the date of vesting being required) and for which the ultimate issuance amount is determined by the Company’s Compensation Committee upon its certification of Company performance against a pre-determined matrix, including revenue targets, total shareholder return, or earnings per share over pre-determined periods of time. Share payout levels range from 0 to 250% depending on the respective terms of an award.

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NUVASIVE, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company issued approximately 1,291,000 shares of common stock, before net share settlement, upon vesting of RSUs (including PRSUs) during the three months ended March 31, 2015, and issued approximately 1,361,000 shares of common stock in settlement of RSUs (including PRSUs) upon their vesting during the year ended December 31, 2014.

8. Income Taxes

The Company recorded an income tax expense of $17.9 million for the three months ended March 31, 2015 and an income tax benefit of $15.1 million for the three months ended March 31, 2014. The effective income tax rate for the three months ended March 31, 2015 was 36% and reflects a negative impact from our globalization initiative project, change in mix of earnings between high tax and low tax jurisdictions, reduced by an unexpected benefit relating to executive stock-based compensation. The effective income tax rate for the three months ended March 31, 2014 was 45% and reflected a negative impact from our globalization initiative project and non-deductible expenses primarily relating to stock-based compensation. The globalization initiative which started during 2013 and became effective in January 2014 involved establishing new international operations and entering into new intercompany transfer pricing arrangements, including the licensing of intangibles. As part of the initiative the Company expects a negative impact on the tax rate in the implementation years with longer term benefits as international operations expand.

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 non-current 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. There were no material changes to the Company's unrecognized tax benefits and interest accrued related to unrecognized tax benefits during the three months ended March 31, 2015 and 2014.

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 are managed and evaluated by the chief operating decision maker ("CODM") and the lack of availability of discrete financial information. 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, decisions regarding the Company's overall operating performance and allocation of Company resources are assessed on a consolidated basis. The Company believes it is appropriate to operate as one reporting segment. The Company has disclosed the revenues for each of its product line offerings to allow the reader of the financial statements the ability to gain some transparency into the operations of the Company.

The Company operates under two distinct product line offerings for revenue; spine surgery products, and biologics. The Company's spine surgery products line offerings, which include thoracolumbar product offerings, cervical product offerings, IOM services, and disposables, are primarily used to enable access to the spine and to perform restorative and fusion procedures in a minimally-disruptive fashion. The Company's biologics product line offerings includes allograft (donated human tissue), FormaGraft (a collagen synthetic product), Osteocel Plus and Osteocel Pro (each an allograft cellular matrix containing viable mesenchymal stem cells, or MSCs), and AttraX (a synthetic bone graft material), all of which are used to aid the spinal fusion or bone healing process.

Revenue by product line offerings was as follows:

	Three Months Ended March 31,	
(in thousands)	2015	2014
Spine surgery products	$159,054	$148,007
Biologics	33,329	29,489
Total Revenue	$192,383	$177,496

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NUVASIVE, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

(in thousands)	Revenue Three Months Ended March 31, 2015	2014	Property and Equipment, Net March 31, 2015	December 31, 2014
United States	$169,926	$158,394	$116,229	$105,022
International (excludes Puerto Rico)	22,457	19,102	23,312	23,543
Total	$192,383	$177,496	$139,541	$128,565

10. Commitments

Licensing and Purchasing Agreements

As of March 31, 2015, the Company has obligations under certain consultancy arrangements to pay up to approximately $22.7 million in the aggregate in the event that specified revenue-based milestones are achieved prior to 2024. 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 theses contingent obligations are considered a cost of goods sold and are recognized as and if milestones are achieved. In early 2014, the Company paid $6.2 million in aggregate – $3.0 million in cash and $3.2 million in common shares - in connection with these agreements. There was no accrual recognized as of March 31, 2015 and December 31, 2014 related to these payments.

Executive Severance Plans

The Company is party to certain agreements with its key executives that provide for certain payments if an executive is terminated for reasons other than cause, as defined in those agreements. At March 31, 2015, future contractual commitments for such key executives were approximately $15.3 million, excluding the acceleration of equity vesting, which is called for in certain circumstances by the applicable agreements.

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. 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 period ended March 31, 2015, the Company had a litigation accrual change gain of $56.4 million related to the legal proceedings in the Medtronic Sofamor Danek USA, Inc. litigation whereby the damages award by the jury was overturned. Refer to the subsequent section herein titled "Legal Proceedings" for further information.

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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NUVASIVE, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Legal Proceedings

Medtronic Sofamor Danek USA, Inc. Litigation

In August 2008, Warsaw Orthopedic, Inc., Medtronic Sofamor Danek USA, Inc. and other Medtronic related entities (collectively, “Medtronic”) filed a patent infringement lawsuit against the Company in the United States District Court for the Southern District of California (the “Medtronic Litigation”), alleging that certain of the Company’s products or methods, including the XLIF® procedure, infringe, or contribute to the infringement of, twelve U.S. patents assigned or licensed to Medtronic. Three of the patents were later withdrawn by Medtronic, leaving nine purportedly infringed patents. The Company brought counterclaims against Medtronic alleging infringement of certain of the Company’s patents.

The case has been administratively broken into several phases.

The first phase of the case included three Medtronic patents and one Company patent. The initial trial on the first phase of the case concluded on September 20, 2011 and a jury delivered an unfavorable verdict against the Company with respect to the three Medtronic patents and a favorable verdict with respect to the one Company patent at hand, including a monetary damages award of approximately $101.2 million to Medtronic (the “2011 verdict”). Medtronic’s subsequent motion for a permanent injunction was denied by the District Court on January 26, 2012. On March 19, 2012, the District Court issued an order granting prejudgment interest with respect to the patent infringements determined in the 2011 verdict. On May 15, 2013, the District Court granted the parties’ joint motion to dismiss claims relating to one of the three Medtronic patents pursuant to a settlement agreement. On June 11, 2013, the District Court granted the parties ongoing royalties with respect to the two Medtronic patents and the one Company patent remaining in the first phase of the case (the “June 2013 ruling”).

On August 20, 2013, the Company and Medtronic filed their respective notices of appeal to the U.S. Court of Appeals for the Federal Circuit. On March 2, 2015, the Court of Appeals issued a decision upholding the jury’s findings of liability as to all patents, but overturning the damage award against the Company as improper (“March 2nd Court of Appeals Decision”). The case has been transferred back to the District Court for further proceedings to determine a proper damage award, and no trial date has been set. As a result of the affirmation of the infringement and remand for a new trial on damages, the Company assessed the existing liability under the loss contingency framework and – in accordance with applicable accounting guidance – believes the most appropriate accrual estimate within the possible range dictated by such guidance is $87.4 million. This amount represents a liability for the infringement of patents for infringing products at historically supplied rates from the date of infringement to the current period. The liability does not include an accrual for lost profits or convoyed products. A liability associated with this matter has been recorded in non-current litigation liabilities. In prior periods, the Company recorded the respective liabilities (as estimated) in non-current litigation liabilities and the accrued royalties in accrued liabilities. The Company does not agree with the previously-ruled royalty rates, and intends to rigorously pursue appropriate rates during the new trial on damages. Nonetheless, in the interim, the Company has applied the previously-ruled royalty rates when calculating the appropriate estimate. As a result of the adjustment, the Company has recorded an adjustment of $56.4 million as a gain in its Consolidated Statements of Operations.

On March 19, 2012, in connection with these proceedings, the Company entered into an escrow arrangement and transferred $113.3 million of cash into a restricted escrow account to secure the amount of judgment, plus prejudgment interest, during pendency of the appeal. These funds are included in restricted cash and investments on the Company's March 31, 2015 Consolidated Balance Sheet.

In accordance with the authoritative guidance on the evaluation of loss contingencies, during the year ended December 31, 2011, the Company recorded an accrual of $101.2 million for the 2011 verdict. In addition, the Company accrued royalties at the royalty rates stated in the 2011 verdict on sales subsequent to the 2011 verdict and through March 31, 2013. After the June 2013 ruling, the Company (i) began accruing ongoing royalties on sales at the royalty rates stated in the June 2013 ruling, and (ii) recorded a charge of approximately $7.9 million to account for the difference between using the royalty rates stated in the 2011 verdict and those in the June 2013 ruling on sales through March 31, 2013. Based on the June 2013 ruling, the Company agreed to escrow funds to secure accrued royalties as well as future ongoing royalties. However, in light of the Court of Appeals ruling, absent a court order the Company will no longer escrow such funds until damages are ultimately determined. Additionally, the Company has modified its accrual from the 2011 verdict as a result of the March 2, 2015 Court of Appeals ruling as previously discussed.

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NUVASIVE, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

With respect to the favorable verdict delivered regarding the one Company patent litigated to verdict, the jury awarded the Company monetary damages of approximately $0.7 million for reasonable royalty damages. In accordance with the authoritative guidance on the evaluation of gain contingencies, this amount has not been recorded at March 31, 2015. Additionally, the June 2013 ruling determined the ongoing royalty rate to be paid to the Company by Medtronic for its post-verdict sales of the one Company patent. Consistent with the treatment afforded the $0.7 million damage award, no amount has been recorded for royalty revenue as of March 31, 2015.

The second phase of the case involved one Medtronic cervical plate patent. On April 25, 2013, the Company and Medtronic entered into a settlement agreement fully resolving the second phase of the case. The settlement also removed from the case the cervical plate patent that was part of the first phase. As part of the settlement, the Company received a broad license to practice (i) the Medtronic patent that was the sole subject of the second phase of the litigation, (ii) the Medtronic cervical plate patent that was part of the first phase of the litigation, and (iii) each of the Medtronic patent families that collectively represent the vast majority of Medtronic's patent rights related to cervical plate technology. In exchange for these license rights, the Company made a one-time payment to Medtronic of $7.5 million, which amount will be fully offset against any damage award ultimately determined to be owed by the Company in connection with a final resolution of the first phase of the litigation. In addition, Medtronic will receive a royalty on certain cervical plate products sold by the Company, including the Helix® and Gradient® lines of products. As a result of this settlement, all current patent disputes between the parties related to cervical plate technology have been resolved.

In August 2012, Medtronic filed additional patent claims in the U.S. District Court for the Northern District of Indiana alleging that various Company spinal implants (including its CoRoent® XL family of spinal implants) infringe Medtronic's U.S. Patent No. 8,021,430, that the Company's Osteocel® Plus bone graft product infringes Medtronic's U.S. Patent No. 5,676,146, ('146 Patent) and that the Company's XLIF® procedure and use of MaXcess IV retractor during the XLIF procedure infringe methodology claims of Medtronic's U.S. Patent No. 8,251,997. The case, which is referred to herein as the third phase of the Medtronic litigation, was later transferred to the Southern District of California, and, on March 7, 2013, the Company counterclaimed alleging infringement by Medtronic of the Company's U.S. Patent Nos. 8,000,782 (systems and related methods for performing surgical procedures), 8,005,535 (systems and related methods for performing surgical procedures), 8,016,767 (a surgical access system including a tissue distraction assembly and a tissue retraction assembly), 8,192,356 (a system for accessing a surgical target site and related methods, involving an initial distraction system, among other things), 8,187,334 (spinal fusion implant), 8,361,156 (spinal fusion implant), D652,922 (dilator design), and D666,294 (dilator design). On July 25, 2013, Medtronic amended its complaint to add a charge of infringement of its U.S. Patent No. 8,444,696. The District Court has stayed litigation of a number of Medtronic and Company patents currently subject to reexamination or review proceedings conducted by the Patent Office. Both parties brought motions for summary judgment addressing the remaining patents, Medtronic's '146 Patent and the Company's '922 Patent but the District Court has not yet issued a final decision regarding summary judgment. No trial date has been set in this third phase of the litigation for the '146 Patent or '922 Patent. At March 31, 2015, the probable outcome of this litigation cannot be determined, nor can the Company estimate a range of potential loss. In accordance with the authoritative guidance on the evaluation of loss contingencies, the Company has not recorded an accrual related to this litigation.

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NUVASIVE, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Trademark Infringement Litigation

On September 25, 2009, Neurovision Medical Products, Inc. (NMP) filed suit against the Company in the U.S. District Court for the Central District of California (Case No. 2:09-cv-06988-R-JEM) alleging trademark infringement and unfair competition. NMP sought cancellation of NuVasive's "NeuroVision" trademark registrations, injunctive relief and damages based on NMP's common law use of the "NeuroVision" mark. The matter was tried in October 2010 and an unfavorable jury verdict was delivered against the Company. The verdict awarded damages to NMP of $60.0 million, which was upheld in a January 2011 judgment ordered by the District Court. NuVasive appealed the judgment, and during pendency of the appeal, NuVasive was required to escrow funds totaling $62.5 million. In September 2012, the Court of Appeals reversed and vacated the District Court judgment and ordered the case back to the District Court for a new trial before a different judge. As a result, the full $62.5 million was released from escrow and returned to the Company. Retrial of the matter began on March 25, 2014, and on April 3, 2014, a jury returned a verdict in favor of NMP on its claims against the Company in the amount of $30.0 million. The Court affirmed the jury's verdict, and on September 4, 2014, the Company filed a notice of appeal. The Court entered judgment and ordered a permanent injunction on September 24, 2014, enjoining the Company's future use of the NeuroVision trademark to market or promote its products. The Court also entered an order canceling the Company's NeuroVision trademark registrations, but that order is stayed pending the appeal process. On December 2, 2014, the Court denied NMP's motion for attorneys' fees, costs, and prejudgment interest, and NMP filed a notice of appeal on December 17, 2014. The appeals were consolidated on February 2, 2015, and resolution of the appeals may take up to two years. During pendency of the appeal, the Company escrowed funds totaling $32.5 million to secure the amount of judgment, and cover potential attorney's fees and costs. Those funds accrue interest and are included in restricted cash and investments in the Consolidated Balance Sheets. At March 31, 2015 the jury verdict represents a probable loss that can reasonably be determined. Accordingly, in accordance with the authoritative guidance on the evaluation of loss contingencies, the Company has a litigation accrual of $30.0 million related to this litigation at period end, which was reclassified from current liabilities to long-term liabilities to coincide with the establishment of restricted assets during the three months ended March 31, 2015.

Securities Litigation

On August 28, 2013, a purported securities class action lawsuit was filed in the United States 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 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, the lead plaintiff ("Plaintiff") filed an Amended Class Action Complaint for Violations of the Federal Securities Laws. In March 2014, the Company filed a motion to dismiss the Amended Class Action Complaint for Violations of the Federal Securities Laws. On August 19, 2014, the Court granted the Company's motion to dismiss and ordered Plaintiff to amend its complaint. Plaintiff filed a Second Amended Complaint on September 8, 2014. The Company once again moved to dismiss the complaint on September 22, 2014 and that motion was granted on December 9, 2014. On December 23, 2014 Plaintiff filed a Third Amended Complaint. The Company filed a motion to dismiss the Third Amended Complaint on January 9, 2015. While the Company's motion was pending, Plaintiff sought leave to file a Fourth Amended Complaint. The Company moved to dismiss the Fourth Amended Complaint and the motion is pending. At March 31, 2015, the probable outcome of this litigation 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 litigation.

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12. Regulatory Matter

In 2013, the Company received a federal administrative 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 sought discovery of documents for the period January 2007 through April 2013. The Company has been working with the OIG to understand the scope of their investigation and has reached an agreement in principle with the U.S. Department of Justice (“DOJ”), as further detailed in the Company’s Current Report on Form 8-K filed with the SEC on April 30, 2015. Subject to completion of a written settlement agreement, the Company has agreed to pay $13.8 million to resolve this matter. The Company does not currently anticipate entering into a corporate integrity agreement with the OIG as part of the settlement. Finalizing the written settlement agreement could take several months. In accordance with the authoritative guidance on the evaluation of loss contingencies, the Company recorded a $13.8 million liability related to this matter, which is included in the Consolidated Statements of Operations during the three months ending March 31, 2015.

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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", and elsewhere in this Quarterly Report, and similar discussions in our other Securities and Exchange Commission filings, including our Annual Report on Form 10-K for the year ended December 31, 2014. We assume no obligation to update any forward looking statements to reflect new information, future events or circumstances or otherwise.

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with the Unaudited Consolidated Financial Statements and the Notes to those statements included in this Quarterly Report.

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Overview

We are the third largest global medical device company in the global spine market, focused on developing minimally-disruptive surgical products and procedurally-integrated solutions for the spine. Our currently-marketed product portfolio is focused on applications for spine fusion surgery (including biologics), a combined market estimated to be approximately $9.0 billion globally in 2015. Our principal product offering includes a minimally-disruptive surgical platform called Maximum Access Surgery (“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 our proprietary software-driven nerve detection and avoidance systems, NVM5 and NVJJB, and Intra-Operative Monitoring (“IOM”) support; 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 access to the spine and to perform restorative and fusion procedures in a minimally-disruptive fashion. Our biologic product line offerings used to aid the spinal fusion process or bone healing include Osteocel Plus and Osteocel Pro allograft (donated human tissue) which are cellular matrix products containing viable mesenchymal stem cells, or MSCs, as well as allograft offerings, FormaGraft, a collagen synthetic product, and AttraX, a synthetic bone graft material, currently available commercially only in select markets outside of the United States. We continue to focus significant research and development efforts to expand our MAS product platform and advance the applications of our unique technology into procedurally-integrated surgical solutions. We have dedicated and continue to dedicate significant resources toward training spine surgeons around the world; both those who are new to our MAS product platform as well as previously MAS-trained surgeons attending advanced training courses.

Our MAS platform, with the unique advantages provided by our nerve monitoring 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. Our MaXcess instruments provide access to the spine in a manner that affords direct visualization and our nerve monitoring systems assist surgeons in avoiding critical nerves.

At various times in the past, certain insurance providers have adopted policies of not providing reimbursement for the XLIF procedure or some of its components. We have worked with our surgeon customers and the North American Spine Society who, in turn, have worked with these insurance providers to supply the information, explanation and clinical data they require to categorize the XLIF procedure as a procedure entitled to reimbursement under their policies. At present, the majority of insurance companies provide reimbursement for XLIF procedures. However, certain carriers - large and small - may have policies significantly limiting coverage of XLIF, Interlaminar Lumbar Instrumented Fusion, Osteocel Plus and Osteocel Pro, and/or other procedures or products we sell. We cannot offer definitive time frames or final outcomes regarding reversal of the coverage-limiting policies, as the process is dictated by the third-party insurance providers.

In recent years, we have significantly expanded our product offerings relating to procedures in the cervical spine. Our cervical product offering now provides a full set of solutions for cervical, both motion preservation and fusion surgery, including both allograft and CoRoent implants, as well as cervical plating and posterior fixation products.

To date, 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. The Company’s primary business model is to loan its MAS systems to surgeons and hospitals who use such systems to perform individual procedures, with the hospitals purchasing implants, biologics and disposables in each such case. In addition, for larger customers, the Company's proprietary nerve monitoring systems, MaXcess and surgical instrument sets are placed with hospitals for an extended period at no up-front cost to them, facilitating the hospital's purchase of disposables for such machines from the Company. Our implants, biologics and disposables are currently sold and shipped from our primary distribution and warehousing operations facility located in Memphis, Tennessee. We generally recognize revenue for implants, biologics and disposables upon receiving acknowledgement of a purchase order and upon completion of delivery. We sell MAS instrument sets, MaXcess devices, and our proprietary software-driven nerve monitoring systems, however this does not make up a material part of our business.

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 of exclusive independent sales agents and directly-employed sales employees ("shareowners"), both engaged to sell only NuVasive products. 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 our statement of operations in the sales, marketing and administrative expenses line. We are continuing to invest in our expansion of international sales efforts with the focus on European, Asian and Latin American markets. Our

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international sales force is comprised of directly-employed sales shareowners as well as exclusive distributors and independent sales agents.

During the quarter, our former Chief Executive Officer and Chairman of the Board, Alex V. Lukianov, resigned from such roles and our Board of Directors appointed Gregory T. Lucier, a Director since 2013, to be our Interim Chief Executive Officer and Chairman of the Board.

Results of Operations

Revenue

(in thousands, except %)	Three Months Ended March 31, 2015	2014	$ Change	% Change
Revenue				
Spine surgery products	$159,054	$148,007	$11,047	7 %
Biologics	33,329	29,489	3,840	13 %
Total revenue	$192,383	$177,496	$14,887	8 %

Our spine surgery product line offerings, which include products for the thoracolumbar product offerings, cervical product offerings, IOM services, and disposables, are primarily used to enable access to the spine and to perform restorative and fusion procedures in a minimally-disruptive fashion. Our biologic product line offerings include allograft (donated human tissue), FormaGraft (a collagen synthetic product), Osteocel Plus and Osteocel Pro (each an allograft cellular matrix containing viable mesenchymal stem cells, or MSCs), and AttraX (a synthetic bone graft material), all of which are used to aid the spinal fusion or bone healing process.

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 noted 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. However, the continued consolidation and increased purchasing power of our hospital customers and group purchasing organizations, the continued existence of physician-owned distributorships, recent 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 and have limited the domestic spine market’s procedural growth rate. Accordingly, we believe that our growth in revenue in 2015 will continuously come primarily from share gains in the shift toward less invasive spinal surgery and international growth.

Our total revenues increased $14.9 million during the three months ended March 31, 2015, representing total revenue growth of 8%, compared to the same period in 2014.

Revenue from our spine surgery products increased $11.0 million, or 7%, during the three months ended March 31, 2015, compared to the same period in 2014. This increase resulted from an increase in volume of approximately 10%, offset by unfavorable changes in price and foreign currency fluctuation of approximately 1% and 2%, respectively, compared to the same period in 2014.

Revenue from biologics increased $3.8 million, or 13%, during the three months ended March 31, 2015, compared to the same period in 2014, which was primarily due to increases in volume.

Cost of Goods Sold, excluding below amortization of intangible assets

Three
Months
Ended
March
31,