NUVASIVE INC
Form 10-Q
July 31, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 000-50744

NUVASIVE, INC.

(Exact name of registrant as specified in its charter)

Delaware	33-0768598
(State or other jurisdiction of 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 No

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Small reporting company
Emerging growth company	

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

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

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

NuVasive, Inc.

Quarterly Report on Form 10-Q

June 30, 2018

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

NUVASIVE, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except par values and share amounts)

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

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

See accompanying Notes to Unaudited Consolidated Financial Statements.

Table of Contents

NUVASIVE, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(unaudited)	Three Months Ended June 30, 2018	2017	Six Months Ended June 30, 2018	2017
Revenue				
Product revenue	$252,687	$237,824	$486,202	$462,779
Service revenue	28,877	21,575	55,884	45,633
Total revenue	281,564	259,399	542,086	508,412
Cost of revenue (excluding below amortization of intangible assets)				
Cost of products sold	58,202	50,535	113,393	96,436
Cost of services	18,854	15,651	37,477	31,193
Total cost of revenue	77,056	66,186	150,870	127,629
Gross profit	204,508	193,213	391,216	380,783
Operating expenses:				
Sales, marketing and administrative	145,658	138,967	292,424	279,335
Research and development	14,856	12,572	29,347	24,986
Amortization of intangible assets	12,628	11,349	25,053	23,410
Litigation liability (gain) loss	(1,195)	—	27,800	—
Business transition costs	3,998	1,369	6,251	1,424
Total operating expenses	175,945	164,257	380,875	329,155
Interest and other expense, net:				
Interest income	116	139	250	276
Interest expense	(9,956)	(10,083)	(19,423)	(19,882)
Other expense, net	(2,379)	(501)	(12,082)	(243)
Total interest and other expense, net	(12,219)	(10,445)	(31,255)	(19,849)
Income (loss) before income taxes	16,344	18,511	(20,914)	31,779
Income tax (expense) benefit	(4,813)	(6,776)	5,313	(8,061)
Consolidated net income (loss)	$11,531	$11,735	$(15,601)	$23,718
Add back net loss attributable to non-controlling interest	$—	$(432)	$—	$(875)
Net income (loss) attributable to NuVasive, Inc.	$11,531	$12,167	$(15,601)	$24,593
Net income (loss) per share attributable to NuVasive, Inc.:				
Basic	$0.22	$0.24	$(0.30)	$0.48
Diluted	$0.22	$0.21	$(0.30)	$0.42
Weighted average shares outstanding:				
Basic	51,356	51,082	51,292	50,825
Diluted	51,956	58,330	51,292	58,059

See accompanying Notes to Unaudited Consolidated Financial Statements.

Table of Contents

NUVASIVE, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

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

See accompanying Notes to Unaudited Consolidated Financial Statements.

Table of Contents

NUVASIVE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

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

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

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

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

See accompanying Notes to Unaudited Consolidated Financial Statements.

Table of Contents

NUVASIVE, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business and Basis of Presentation

Description of Business

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

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

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

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

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

Basis of Presentation and Principles of Consolidation

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

Table of Contents

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

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

Use of Estimates

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

Recent Accounting Pronouncements Not Yet Adopted

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

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

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

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

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

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

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

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

Recently Adopted Accounting Standards

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

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

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

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

Table of Contents

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

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

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

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

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

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

Table of Contents

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

NUVASIVE, INC.
CONSOLIDATED BALANCE SHEET
(in thousands)

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

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

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

Table of Contents

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

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

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

Table of Contents

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

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

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

Table of Contents

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

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

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

Table of Contents

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

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

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

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

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

In May 2017, the FASB issued Accounting Standards Update No. 2017-09, Compensation – Stock Compensation (“ASU 2017-09”), which clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as a modification. Entities will apply the modification accounting guidance if the value, vesting conditions, or classification of the award changes. The Company adopted ASU 2017-09 as of January 1, 2018. The adoption did not have any significant impact on its Consolidated Financial Statements.

Table of Contents

Revenue Recognition

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

Inventory

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

Comprehensive Income

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

Product Shipment Costs

Product shipment costs, included in sales, marketing and administrative expense in the accompanying Consolidated Statements of Operations, were $6.4 million and $12.3 million for the three and six months ended June 30, 2018, respectively, and $5.7 million and $11.6 million for the three and six months ended June 30, 2017, respectively. The majority of the Company's shipping costs are related to the loaning of instrument sets, which are not typically sold as part of the Company's core sales offering. Amounts billed to customers for shipping and handling of products are reflected in revenues and are not material for any period presented.

Business Transition Costs

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

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

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

Table of Contents

2. Net Income (Loss) Per Share

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

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

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

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

3. Financial Instruments and Fair Value Measurements

Foreign Currency and Derivative Financial Instruments

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

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

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

Table of Contents

Fair Value Measurements

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

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

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

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

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

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

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

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

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

Fair Value of Senior Convertible Notes

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

Contingent Consideration Liabilities

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

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

Table of Contents

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

Non-financial assets and liabilities measured on a nonrecurring basis

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

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

4. Goodwill and Intangible Assets

Goodwill and intangible assets consisted of the following:

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

Total goodwill and intangible assets, net	$ 837,069

Weighted-