NUVASIVE INC
Form 10-Q
July 26, 2016

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 June 30, 2016

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 July 21, 2016 there were 50,214,449 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

June 30, 2016

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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)

	June 30, 2016	December 31, 2015
ASSETS	(Unaudited)	
Current assets:		
Cash and cash equivalents	$263,082	$192,339
Short-term marketable securities	54,081	165,423
Accounts receivable, net of allowances of $6,066 and $5,320, respectively	141,917	127,595
Inventory, net	201,901	168,140
Prepaid income taxes	42,852	40,540
Prepaid expenses and other current assets	8,141	8,790
Total current assets	711,974	702,827
Property and equipment, net	171,291	141,441
Long-term marketable securities	13,654	112,332
Intangible assets, net	263,607	85,076
Goodwill	405,569	154,281
Deferred tax assets	14,698	83,691
Restricted cash and investments	7,403	5,615
Other assets	17,714	17,404
Total assets	$1,605,910	$1,302,667
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$100,791	$60,985
Accrued payroll and related expenses	35,268	37,641
Litigation liabilities	45,140	—
Income tax liabilities	1,083	990
Short term senior convertible notes	119,451	—
Total current liabilities	301,733	99,616
Long term senior convertible notes	555,493	372,920
Deferred and income tax liabilities, non-current	14,288	8,602
Non-current litigation liabilities	—	88,261
Other long-term liabilities	26,541	14,425
Commitments and contingencies		
Stockholders’ equity:		
Preferred stock, $0.001 par value; 5,000,000 shares authorized, none outstanding	—	—
	55	53

Common stock, $0.001 par value; 120,000,000 shares authorized at June 30, 2016 and December 31, 2015, 54,868,373 and 52,616,471 issued and outstanding at June 30, 2016 and December 31, 2015, respectively		
Additional paid-in capital	1,017,902	989,387
Accumulated other comprehensive loss	(6,351)	(12,112)
Accumulated deficit	(77,161)	(104,006)
Treasury stock at cost; 4,681,346 shares and 3,316,794 shares at June 30, 2016 and December 31, 2015, respectively	(233,019)	(161,788)
Total NuVasive, Inc. stockholders' equity	701,426	711,534
Non-controlling interests	6,429	7,309
Total equity	$707,855	$718,843
Total liabilities and equity	$1,605,910	$1,302,667

See accompanying Notes to Unaudited Consolidated Financial Statements.

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NUVASIVE, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(unaudited)	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Revenue	$236,210	$202,910	$451,314	$395,293
Cost of goods sold (excluding below amortization of intangible assets)	59,745	48,415	113,971	94,079
Gross profit	176,465	154,495	337,343	301,214
Operating expenses:				
Sales, marketing and administrative	134,487	114,680	259,325	227,889
Research and development	11,871	8,774	22,500	18,038
Amortization of intangible assets	10,603	2,974	18,474	5,970
Litigation liability (gain) loss	(43,310)	568	(43,310)	(42,007)
Business transition costs	2,756	1,636	8,063	9,896
Total operating expenses	116,407	128,632	265,052	219,786
Interest and other expense, net:				
Interest income	406	344	734	763
Interest expense	(10,537)	(7,242)	(19,009)	(14,368)
Loss on repurchases of convertible notes	—	—	(17,444)	—
Other (loss) income, net	(246)	(281)	(196)	143
Total interest and other expense, net	(10,377)	(7,179)	(35,915)	(13,462)
Income before income taxes	49,681	18,684	36,376	67,966
Income tax expense	(19,891)	(8,644)	(10,411)	(26,529)
Consolidated net income	$29,790	$10,040	$25,965	$41,437
Add back net loss attributable to non-controlling interests	$(423)	$(228)	$(880)	$(391)
Net income attributable to NuVasive, Inc.	$30,213	$10,268	$26,845	$41,828
Net income per share attributable to NuVasive, Inc.:				
Basic	$0.60	$0.21	$0.54	$0.87
Diluted	$0.57	$0.20	$0.51	$0.81
Weighted average shares outstanding:				
Basic	50,027	48,545	49,822	48,269
Diluted	53,159	51,681	52,354	51,700

See accompanying Notes to Unaudited Consolidated Financial Statements.

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NUVASIVE, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Consolidated net income	$29,790	$10,040	$25,965	$41,437
Other comprehensive income (loss):				
Unrealized (loss) gain on marketable securities, net of tax	(6)	11	342	144
Translation adjustments, net of tax	2,734	741	5,419	(1,444)
Other comprehensive income (loss)	2,728	752	5,761	(1,300)
Total consolidated comprehensive income	32,518	10,792	31,726	40,137
Net loss attributable to non-controlling interests	(423)	(228)	(880)	(391)
Comprehensive income attributable to NuVasive, Inc.	$32,941	$11,020	$32,606	$40,528

See accompanying Notes to Unaudited Consolidated Financial Statements.

NUVASIVE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)	Six Months Ended June 30, 2016	2015
Operating activities:		
Consolidated net income	$25,965	$41,437
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	46,329	32,630
Loss on repurchases of convertible notes	17,444	—
Amortization of non-cash interest	10,943	8,749
Stock-based compensation	12,357	13,493
Reserves on current assets	6,751	4,083
Other non-cash adjustments	8,387	10,669
Deferred income taxes	14,691	19,996
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(8,615)	637
Inventory	(12,019)	(15,181)
Prepaid expenses and other current assets	728	1,182
Accounts payable and accrued liabilities	14,273	6,841
Accrued royalties	111	(47,112)
Accrued payroll and related expenses	(4,356)	(8,370)
Litigation liability	(43,310)	4,795
Income taxes	10,534	(38,666)
Net cash provided by operating activities	100,213	35,183
Investing activities:		
Acquisition of Ellipse Technologies, net of cash acquired	(380,080)	—
Other acquisitions and investments	(8,079)	(1,357)
Purchases of intangible assets	(5,918)	(28,589)
Purchases of property and equipment	(52,566)	(47,976)
Purchases of marketable securities	(128,956)	(129,549)
Proceeds from sales of marketable securities	339,320	164,147
Sales of restricted investments	—	33,809
Purchases of restricted investments	—	(62,625)
Net cash used in investing activities	(236,279)	(72,140)
Financing activities:		
Incremental tax benefits related to stock-based compensation awards	—	9,928
Proceeds from the issuance of common stock	6,150	8,360
Payment of contingent consideration	—	(514)
Purchase of treasury stock	(22,549)	(43,937)
Proceeds from issuance of convertible debt, net of issuance costs	634,140	—

Proceeds from sale of warrants	44,850	—
Purchase of convertible note hedge	(111,150)	—
Repurchases of convertible notes	(343,835)	—
Proceeds from revolving line of credit	50,000	—
Repayments on revolving line of credit	(50,000)	—
Other financing activities	(1,545)	(87)
Net cash provided by (used in) financing activities	206,061	(26,250)
Effect of exchange rate changes on cash	748	(543)
Increase (decrease) in cash and cash equivalents	70,743	(63,750)
Cash and cash equivalents at beginning of period	192,339	142,387
Cash and cash equivalents at end of period	$263,082	$78,637

See accompanying Notes to Unaudited Consolidated Financial Statements.

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NUVASIVE, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business and Basis of Presentation

Description of Business

NuVasive, Inc. (the "Company" or "NuVasive") was incorporated in Delaware on July 21, 1997, and began commercializing its products in 2001. The Company's principal product offering includes a minimally-disruptive surgical platform called Maximum Access Surgery, or MAS. The MAS platform combines three categories of solutions that collectively minimize soft tissue disruption during spine fusion surgery, provide maximum visualization and are designed to enable safe and reproducible outcomes for the surgeon and the patient. The platform includes the Company's proprietary software-driven nerve detection and avoidance systems, NVM5, and Intraoperative Monitoring ("IOM"), services and support; MaXcess, an integrated split-blade retractor system; and a wide variety of specialized implants and biologics. The Company also recently launched 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 primary business model is to loan its MAS systems to surgeons and hospitals that purchase implants, biologics and disposables for use in individual procedures. 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. 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 sells MAS instrument sets, MaXcess and nerve monitoring systems to hospitals, however, such sales are immaterial to the Company's results of operations.

On February 11, 2016 the Company acquired Ellipse Technologies, Inc. ("Ellipse Technologies"), which now operates as a wholly owned subsidiary under the renamed legal entity NuVasive Specialized Orthopedics, Inc. ("NSO"). NSO 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. The technology platform provides the basis of NSO's core product offerings, including MAGEC-EOS, which allows for the minimally invasive treatment of early-onset and adolescent scoliosis, as well as the 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 and sagittal alignment products. 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, integrated procedural solution for spine surgery.

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 and six months ended June 30, 2016 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, 2015 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 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 period presentation. The Company has also reclassified certain operating expenses into business transition costs. Both reclassifications have no impact on previously reported results of operations or financial position. Refer to section “Recently Adopted Accounting Standards” below for information regarding historical financial information adjusted for a change in accounting policy.

Change in Accounting Estimates

The preparation of financial statements in conformity with GAAP requires management to 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 May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update No. 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”), an updated standard on revenue recognition. ASU 2014-09 provides enhancements to the quality and consistency of how revenue is reported by companies while also improving comparability in the financial statements of companies reporting using International Financial Reporting Standards or GAAP. The main purpose of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which a company expects to be entitled in exchange for those goods or services. The new standard also will result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date, which deferred the effective date of the new revenue standard for periods beginning after December 15, 2016 to December 15, 2017, with early adoption permitted but not earlier than the original effective date. Accordingly, the updated standard is effective for the Company in the first quarter of fiscal 2018. The Company is evaluating the impact of implementation and transition approach of this standard on its financial statements but does not anticipate a material impact on its financial statements.

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, the ASU 2016-01 changes the disclosure requirements for financial instruments. The new standard will be effective for the Company starting in the first quarter of fiscal 2019. Early adoption is permitted for certain provisions. The Company is in the process of determining the effects the adoption will have on its consolidated financial statements as well as whether to adopt certain provisions early.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases, which outlines a comprehensive lease accounting model and supersedes the current lease guidance. The new accounting standard requires lessees to recognize lease liabilities and corresponding right-of-use assets for all leases with lease terms of greater than 12 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 effects the adoption will have on its consolidated financial statements as well as whether to adopt the new guidance early.

NUVASIVE, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 is in the process of determining the effects the adoption will have on its consolidated financial statements as well as whether to adopt the new guidance early.

Recently Adopted Accounting Standards

In April 2014, the FASB issued Accounting Standards Update No. 2015-03 amended requirements that require debt issuance costs, related to a recognized debt liability, to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, effective for the Company beginning January 1, 2016 applied retroactively for all consolidated balance sheets presented. The Company applied the amended presentation requirements in the first quarter 2016, which does not have a material impact on its financial statements. This change resulted in a reclassification of debt issuance costs from other assets to senior convertible notes on the Consolidated Balance Sheets presented. See Note 6 to the Unaudited Consolidated Financial Statements for revised presentation.

In March 2016, the FASB issued Accounting Standards Update 2016-09, Improvements to Employee Share-Based Payment Accounting (“ASU 2016-09”), which simplifies the accounting for employee share-based payments. The new standard requires the immediate recognition of all excess tax benefits and deficiencies in the income statement, and requires classification of excess tax benefits as an operating activity as opposed to a financing activity in the statements of cash flows. The provisions of the new standard are effective for the Company beginning January 1, 2017, with early adoption permitted. The Company elected to early adopt ASU 2016-09 in the second quarter 2016, which requires any adjustments to be recorded as of the beginning of fiscal 2016. As a result, the Company recorded a modified retrospective adjustment of $16.6 million to deferred tax assets and accumulated deficit as of January 1, 2016, and a retrospective adjustment to the previously reported first quarter 2016 provision for income taxes of approximately $5.5 million for the recognition of excess tax benefits in the provision for income taxes rather than additional paid-in capital. This resulted in a decrease in net loss per share of $0.11 for the three months ended March 31, 2016. The Company elected to apply the change in classification for excess tax benefits in the statement of cash flows on a prospective basis, and elected to continue estimating stock-based compensation award forfeitures in determining the amount of compensation cost to be recognized each period.

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 $6.4 million and $11.6 million at June 30, 2016 and December 31, 2015, respectively.

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 acquisitions costs and other costs directly associated with such activities. The Company incurred $2.8 million and $8.1 million of business transition costs during the three and six months ended June 30, 2016, respectively, primarily related to acquisition and integration activities.

During the three and six months ended June 30, 2015, the Company incurred $1.6 million and $9.9 million, respectively, 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, which occurred in the first quarter 2015. The $3.4 million charge includes certain severance and compensation-related charges, net of certain forfeitures of previously recognized equity-based compensation.

Included in business transition costs were the restructuring and impairment charges associated with the Company's exit of its New Jersey location and termination of the respective lease. The Company incurred charges of $0.4 million and $2.3 million associated with this activity during the six months ended June 30, 2016 and June 30, 2015, respectively. As of June 30, 2016, the total recorded liability associated with this early lease termination was $3.5 million compared to $4.1 million at December 31, 2015. The liability consists of future rental payments 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 for the periods presented.

NUVASIVE, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Product Shipment Costs

Product shipment costs, included in sales, marketing and administrative expense in the accompanying Consolidated Statements of Operations, were $6.6 million and $12.8 million for the three and six months ended June 30, 2016, respectively, and $5.2 million and $10.3 million for the three and six months ended June 30, 2015, respectively. The majority of the Company's shipping costs are related to the loan of instrument sets, which are not 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 significant for any period presented.

Litigation Liability Gain (Loss)

During the three and six months ended June 30, 2016, the Company agreed to settle its ongoing litigation with Medtronic. As a result of the settlement, the Company will pay $45.0 million to Medtronic and accordingly has recorded a gain of $43.3 million related to the settlement. During the three months ended June 30, 2015, the Company received an unfavorable jury verdict in a general litigation matter, and recorded a $3.3 million litigation charge, including fees and costs. This amount was offset by a gain of $2.8 million in litigation accrual change related to the settlement of the NeuroVision trademark litigation. During the six months ended June 30, 2015, the Company also recorded a litigation liability gain of $42.6 million resulting primarily from the recognition of a $56.4 million gain stemming from a favorable appeal in Phase 1 of the Medtronic litigation, partially offset by a litigation loss of $13.8 million in connection with the OIG investigation.

See Note 11 and Note 12 to the Unaudited Consolidated Financial Statements for further discussion.

2. Net Income Per Share

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

(in thousands, except per share data)	Three Months Ended June 30, 2016	2015	Six Months Ended June 30, 2016	2015
Numerator:				
Net income attributable to NuVasive, Inc.	$30,213	$10,268	$26,845	$41,828
Denominator for basic and diluted net income per share:				
Weighted average common shares outstanding for basic	50,027	48,545	49,822	48,269
Dilutive potential common stock outstanding:				
Stock options and employee stock purchase plan	374	1,250	409	1,389
Restricted stock units	1,281	945	1,090	1,126
Warrants	819	—	409	—
Senior Convertible Notes	658	941	624	916

Weighted average common shares outstanding for diluted	53,159	51,681	52,354	51,700
Basic net income per share attributable to NuVasive, Inc.	$0.60	$0.21	$0.54	$0.87
Diluted net income per share attributable to NuVasive, Inc.	$0.57	$0.20	$0.51	$0.81

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2016	2015	2016	2015
Stock options, employee stock purchase plan, and restricted stock units	3	126	1,817	74
Warrants	10,865	9,553	15,642	9,553
Senior Convertible Notes	10,865	—	15,100	—
Total	21,733	9,679	32,559	9,627

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NUVASIVE, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

As discussed in Note 1 to the Unaudited Consolidated Financial Statements, the Company elected to early adopt ASU 2016-09 in the second quarter 2016, which requires any adjustments to be recorded as of the beginning of the fiscal year. The retrospective adjustments to the Company’s financial results for the three months ended March 31, 2016 included a decrease in net loss attributable to the Company of $5.5 million, which resulted in a decrease in net loss per share of $0.11. The financial information in the table above for the six months ended June 30, 2016 reflects this retrospective adjustment to the Company’s financial results for the three months ended March 31, 2016.

3. Financial Instruments and Fair Value Measurements

The Company maintains an investment policy that requires a diversified investment portfolio in terms of types, maturities, and credit exposure, and invests with institutions that have high credit quality. Annually, the Company reassesses the investment policy to ensure it is reflective of current markets and conditions. The Company does not currently hold financial instruments for speculative purposes.

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
June 30, 2016:					
Classified as current assets					
Corporate notes	Less than 1	$37,130	$ 9	$ (14)	$37,125
Commercial paper	Less than 1	10,453	—	—	10,453
Securities of government-sponsored entities	Less than 1	6,494	9	—	6,503
Short-term marketable securities		54,077	18	(14)	54,081
Classified as non-current assets					
Securities of government-sponsored entities	1 to 2	2,597	6	—	2,603
Corporate notes	1 to 2	11,044	13	(6)	11,051
Long-term marketable securities		13,641	19	(6)	13,654
Total marketable securities at June 30, 2016		$67,718	$ 37	$ (20)	$67,735
December 31, 2015:					
Classified as current assets					
Certificates of deposit	Less than 1	$6,615	$ —	$ —	$6,615
Corporate notes	Less than 1	108,739	5	(173)	108,571
Commercial paper	Less than 1	21,991	—	—	21,991
Securities of government-sponsored entities	Less than 1	28,284	—	(38)	28,246

Short-term marketable securities		165,629	5	(211)	165,423
Classified as non-current assets					
Certificates of deposit	1 to 2	12,392	—	—	12,392
Corporate notes	1 to 2	43,857	—	(109)	43,748
Securities of government-sponsored entities	1 to 2	56,412	—	(220)	56,192
Long-term marketable securities		112,661	—	(329)	112,332
Total marketable securities at December 31, 2015		$278,290	$ 5	$ (540)	$277,755

As of June 30, 2016, the Company had no investments that were in a significant unrealized loss position and no impairment charges were recorded during the periods presented. Realized gains and losses and interest income related to marketable securities were immaterial during all periods presented.

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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 foreign currency exchange gains (losses), which include gains and losses from derivative instruments, were $(0.3) million and $(0.2) million for the three and six months ended June 30, 2016, respectively, and $(0.3) million and $0.1 million for the three and six months ended June 30, 2015, respectively, and are included in other (loss) income, net, in the Consolidated Statements of Operations.

The Company maintains a foreign currency risk management strategy that uses derivative instruments to protect against fluctuations in earnings and cash flows that may rise from volatility in currency exchange rates. The Company uses foreign currency forward exchange contracts to hedge the currency exchange rate exposure from short-term intercompany receivables and payables denominated in a currency other than the reporting entity's functional currency. Realized and unrealized gains or losses on forward contracts are included in the determination of net income as the forward contracts are not designated for hedge accounting under ASC Topic 815, Derivatives and Hedging. The foreign currency forward contracts effectively lock in the exchange rate at which the specific intercompany receivables and payables will be settled, 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. The forward contracts are generally settled monthly. As of June 30, 2016 and December 31, 2015, notional principal amount of $18.5 million and $8.5 million, respectively, in foreign currency forward contracts was outstanding to hedge currency risk relative to the Company's foreign receivables and payables.

The following table summarizes the fair values of derivative instruments at June 30, 2016 and December 31, 2015:

	Asset Derivatives			Liability Derivatives		
		Fair Value			Fair Value	
(in thousands)	Balance Sheet Location	June 30, 2016	December 31, 2015	Balance Sheet Location	June 30, 2016	December 31, 2015
Derivative instruments not designated as cash flow hedges						
Forward exchange contracts	Other current	$—	$ 46	Other current	$99	—

	assets		liabilities	
Total derivatives	$—	$ 46	$99	—

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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 and six months ended June 30, 2016 and June 30, 2015:

	Three Months Ended