NUVASIVE INC
Form 10-Q
November 06, 2009

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2009

OR

o **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, including zip code)
(858) 909-1800
(Registrant s telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)

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 that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes o No o

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

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

(Do not check if a 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 o No þ

As of October 30, 2009, there were 38,218,153 shares of the registrant s common stock outstanding.

NUVASIVE, INC.
QUARTERLY REPORT ON FORM 10-Q
September 30, 2009
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

NUVASIVE, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

	September 30, 2009 (unaudited)	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 134,276	$ 132,318
Short-term marketable securities	55,915	45,738
Accounts receivable, net	51,245	51,622
Inventory	85,892	68,834
Prepaid expenses and other current assets	3,925	3,466
Total current assets	331,253	301,978
Property and equipment, net	77,543	73,686
Long-term marketable securities	10,032	45,305
Goodwill	102,264	2,332
Intangible assets, net	104,601	54,767
Other assets	7,337	9,338
Total assets	$ 633,030	$ 487,406
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 23,183	$ 26,633
Accrued payroll and related expenses	20,568	17,132
Acquisition related liabilities	15,414	
Royalties payable	2,201	1,722
Total current liabilities	61,366	45,487
Senior convertible notes	230,000	230,000
Long-term acquisition related liabilities	30,318	12,111
Other long-term liabilities	29,099	12,177
Commitments and contingencies		
Noncontrolling interests	13,689	
Stockholders equity:		
Common stock, $0.001 par value; 70,000 shares authorized, 38,184 and 36,310 issued and outstanding at September 30, 2009 and December 31, 2008, respectively	38	36
Additional paid-in capital	460,290	383,293
Accumulated other comprehensive income (loss)	211	(190)
Accumulated deficit	(191,981)	(195,508)
Total stockholders equity	268,558	187,631

Total liabilities and stockholders equity	$ 633,030	$ 487,406

See accompanying notes to unaudited condensed consolidated financial statements.

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NUVASIVE, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	**2008**	**2009**	**2008**
Revenues	$94,916	$ 66,915	$263,405	$175,501
Cost of goods sold	18,417	12,195	49,901	30,845
Gross profit	76,499	54,720	213,504	144,656
Operating expenses:				
Sales, marketing and administrative	59,761	54,557	176,391	135,975
Research and development	10,654	6,396	30,047	19,797
In-process research and development		16,700		20,876
Total operating expenses	70,415	77,653	206,438	176,648
Interest income	203	1,460	1,318	4,373
Interest expense	(1,609)	(1,719)	(5,439)	(3,816)
Other income (expense), net	(242)	113	(729)	207
Total interest and other income (expense), net	(1,648)	(146)	(4,850)	764
Consolidated net income (loss)	$ 4,436	$(23,079)	$ 2,216	$ (31,228)
Net loss attributable to noncontrolling interests	$ (628)	$	$ (1,311)	$
Net income (loss) attributable to NuVasive, Inc.	$ 5,064	$(23,079)	$ 3,527	$ (31,228)
Net income (loss) per share attributable to NuVasive, Inc.:				
Basic net income (loss) per share	$ 0.13	$ (0.64)	$ 0.10	$ (0.88)
Diluted net income (loss) per share	$ 0.13	$ (0.64)	$ 0.09	$ (0.88)
Weighted average shares outstanding basic	37,733	35,931	37,008	35,674
Weighted average shares outstanding diluted	39,216	35,931	38,384	35,674

See accompanying notes to unaudited condensed consolidated financial statements.

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NUVASIVE, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Nine Months Ended September 30,	
	2009	**2008**
Operating activities:		
Net income (loss)	$ 3,527	$ (31,228)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	22,005	15,671
In-process research and development		20,876
Stock-based compensation	18,165	15,719
Leasehold abandonment charges	(1,997)	4,486
Noncontrolling interests	(1,311)	
Allowance for excess and obsolete inventory	2,470	(3)
Allowance for doubtful accounts	1,175	410
Other non-cash adjustments	2,248	1,019
Changes in operating assets and liabilities:		
Accounts receivable	(329)	(18,986)
Inventory	(19,027)	(22,136)
Prepaid expenses and other current assets	788	(941)
Accounts payable and accrued liabilities	2,410	3,898
Accrued payroll and related expenses	2,742	1,778
Net cash provided by (used in) operating activities	32,866	(9,437)
Investing activities:		
Cash paid for acquisitions (Note 3)	(24,055)	(41,256)
Cash paid for investment in Progentix (Note 3)	(10,000)	
Acquisition related milestone payments	(10,000)	
Purchases of property and equipment	(21,250)	(34,161)
Purchases of short-term marketable securities	(46,678)	(83,069)
Sales of short-term marketable securities	56,365	29,842
Purchases of long-term marketable securities	(17,964)	(51,390)
Sales of long-term marketable securities	32,971	14,778
Other assets		544
Net cash used in investing activities	(40,611)	(164,712)
Financing activities:		
Payments of long-term liabilities		(300)
Issuance of convertible debt, net of costs		222,414
Purchase of convertible note hedges		(45,758)
Sale of warrants		31,786
Issuance of common stock	9,618	8,480
Net cash provided by financing activities	9,618	216,622
Effect of exchange rate changes on cash	85	

Increase in cash and cash equivalents	1,958	42,473
Cash and cash equivalents at beginning of period	132,318	61,915
Cash and cash equivalents at end of period	$ 134,276	$ 104,388

See accompanying notes to unaudited condensed consolidated financial statements.

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NuVasive, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

1. Description of Business

NuVasive, Inc. (the Company or NuVasive) was incorporated in Delaware on July 21, 1997. The Company is a medical device company focused on the design, development, and marketing of products for the surgical treatment of spine disorders. The Company s product portfolio is focused primarily on the U.S. spine implant market. Additionally, the Company has expanded into the global biologics market, the international spine implant market, and is developing products for the emerging motion preservation market.

NuVasive s principal product offering is based on its Maximum Access Surgery, or MAS® platform. The MAS platform combines four categories of products that collectively minimize soft tissue disruption during spine surgery with maximum visualization and safe, easy reproducibility for the surgeon: NeuroVision®, a proprietary software-driven nerve avoidance system; MaXcess®, a unique split-blade retractor system; a wide variety of specialized implants; and several biologic fusion enhancers. The MAS platform significantly reduces surgery time and returns patients to activities of daily living much faster than conventional approaches. Utilizing the Company s MAS platform s lateral approach, known as eXtreme Lateral Interbody Fusion, or XLIF®, the Company has built an entire spine franchise. With products today spanning lumbar, thoracic and cervical applications, the Company continues to expand and evolve its offering predicated on its research and development focus and dedication to outstanding service levels supported by a culture of Absolute Responsiveness®.

The Company loans its MAS systems to surgeons and hospitals that purchase implants and disposables for use in individual procedures. In addition, NeuroVision, MaXcess and surgical instrument sets are placed with hospitals for an extended period at no up-front cost to them provided they commit to minimum monthly purchases of disposables and implants. The Company sells a small quantity of MAS instrument sets, MaXcess and NeuroVision systems to hospitals. The Company also offers a range of allograft and spine implants such as rods, plates and screws. Implants and disposables are shipped from the Company s facilities.

2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. 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). In the opinion of management, the consolidated financial statements include all adjustments necessary, which are of a normal and recurring nature, for the fair presentation of the Company s financial position and of the results of operations and cash flows for the periods presented.

The accompanying unaudited condensed consolidated financial statements as of December 31, 2008 and for the three and nine months ended September 30, 2008 include the accounts of the Company and its wholly owned subsidiaries. The unaudited condensed consolidated financial statements as of September 30, 2009 and for the three and nine months then ended include the accounts of the Company and its wholly owned subsidiaries, as well as the accounts of a variable interest entity, Progentix Orthobiology, B.V. (Progentix), which is consolidated pursuant to existing guidance issued by the Financial Accounting Standards Board (FASB). There has been no material activity by the Company s subsidiaries during the periods presented. All significant intercompany accounts and transactions have been eliminated in consolidation.

Management evaluated all events or transactions that occurred after September 30, 2009 up through November 6, 2009, the date on which these financial statements were issued.

These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2008 included in NuVasive s Annual Report on Form 10-K filed with the Securities and Exchange Commission. Operating results for the three and nine months ended September 30, 2009 and 2008 are not necessarily indicative of the results that may be expected for any other interim period or for the full year. The balance sheet at December 31, 2008 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by GAAP for complete financial statements.

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3. Acquisitions and Investments

Cervitech® Inc. Acquisition

On May 8, 2009 (the Closing Date), the Company completed the purchase of all of the outstanding shares of Cervitech, Inc., a Delaware corporation (Cervitech), pursuant to a Share Purchase Agreement dated April 22, 2009 (the Purchase Agreement) for an initial payment of approximately $48 million consisting of cash totaling approximately $24 million and the issuance of 638,261 shares of NuVasive common stock to certain stockholders of Cervitech. Cervitech, a New Jersey based company, is focused on the clinical approval of the PCM® cervical disc system, a motion preserving total disc replacement device in the United States. This acquisition allows NuVasive the potential to accelerate its entry into the growing mechanical cervical disc replacement market.

In addition to the above payment, the Company may be obligated to make an additional milestone payment of $33 million if the U.S. Food and Drug Administration (FDA) issues an approval order allowing the commercialization of Cervitech s PCM device in the United States with an intended use for treatment of degenerative disc disease. The milestone payment may be made in cash or a combination of cash and up to half in NuVasive common stock, at the Company s discretion.

Purchase Price

The acquisition of Cervitech was recorded using the acquisition method of accounting in accordance with the revised authoritative guidance for business combinations.

The estimated purchase price is determined as follows (*in thousands)*:

Cash paid to sellers	$ 24,055
Market value of NuVasive common stock issued on Closing Date	24,215
Contingent consideration liability, due on achieving FDA approval	29,722
Total estimated purchase price	$ 77,992

The preliminary allocation of the estimated purchase price is based on management s preliminary valuation of the fair value of tangible, intangible assets and in-process research and development acquired and liabilities assumed as of the Closing Date and such estimates are subject to revision. The area of the purchase price allocation that is not yet finalized relates primarily to the valuation of income tax related assets acquired. Consequently, the amounts recorded at September 30, 2009 are subject to change, and the final amounts may differ. The following table summarizes the allocation of the estimated initial purchase price (*in thousands*):

	Estimated Fair Value	Estimated Useful Life
Total current assets	$ 1,233	
Property, plant and equipment	59	
Developed technology	700	14 years
Non-compete agreement	100	2 years
Trade name	700	10 years
In-process research and development	34,800	14 years
Goodwill	54,825	
Current liabilities	(483)	
Deferred income tax liabilities	(13,942)	
Total estimated initial purchase price allocation	$ 77,992	

The Goodwill balance related to the Cervitech Acquisition was $54.8 million as of September 30, 2009. Goodwill represents the excess of the purchase price over the fair value of tangible and identifiable intangible assets acquired.

Of the $54.8 million recorded as goodwill, none is expected to be deductible for tax purposes.

Contingent Consideration Liability

The arrangement requires the Company to pay an additional amount not to exceed $33 million in the event that Cervitech s device receives FDA approval. The fair value of the contingent consideration at the Closing Date was determined to be $29.7 million using a probability-weighted discounted cash flow model. This fair value measurement is based on significant inputs not observable in the market. The key assumptions in applying this approach were the interest rate and the probability assigned to the milestone being achieved. Management will remeasure the fair value of the contingent consideration at each reporting period, with any change in its

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fair value resulting from either the passage of time or events occurring after the acquisition date, such as changes in the estimate of the probability of achieving the milestone, being recorded in the current period s earnings. During the nine months ended September 30, 2009, there were no changes in estimate to affect the fair value of the contingent consideration liability other than accretion related solely to the passage of time. For the three and nine months ended September 30, 2009, the Company recorded approximately $0.4 million and $0.6 million, respectively, in expense to reflect the change in the fair value of the contingent consideration and increasing the fair value of the contingent consideration liability to $30.3 million at September 30, 2009. The $0.6 million change in fair value is recorded in the statement of operations as sales, marketing and administrative expenses.

Results of Operations

The accompanying condensed consolidated statement of operations for the nine months ended September 30, 2009 reflect the operating results of Cervitech since the date of the acquisition. The amount of loss attributable to Cervitech included in the Company s consolidated statement of operations from the acquisition date to September 30, 2009 was $1.5 million. For the three and nine months ended September 30, 2009, the Company s consolidated results of operations include acquisition-related expenses related to this acquisition of $0 and $1.2 million, respectively, which are included in sales, marketing and administrative expenses.

The Company has prepared the following unaudited pro forma financial statement information to compare results of the periods presented assuming the Cervitech acquisition had occurred as of January 1, 2008. These unaudited pro forma results have been prepared for comparative purposes only and do not purport to be an indicator of the results of operations that would have actually resulted had the acquisition occurred at the beginning of each of the periods presented, or of future results of operations. Assuming the Cervitech acquisition occurred as of January 1, 2008, the pro forma unaudited results of operations would have been as follows for the three and nine months ended September 30, 2009 and 2008:

	Three Months Ended		Nine Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Revenue	$94,916	$ 67,699	$263,943	$177,587
Net income (loss) attributable to NuVasive, Inc.	$ 5,064	$(22,770)	$ 2,679	$ (37,222)
Net income (loss) per share basic and diluted	$ 0.13	$ (0.62)	$ 0.07	$ (1.03)

The above pro forma unaudited results of operations do not include pro forma adjustments relating to costs of integration or post-integration cost reductions that may be incurred or realized by the Company in excess of actual amounts incurred or realized through September 30, 2009.

Investment in Progentix Orthobiology, B.V.

On January 13, 2009, the Company completed the purchase of forty percent (40%) of the capital stock of Progentix Orthobiology, B.V., a company organized under the laws of the Netherlands (Progentix), from existing shareholders (the Progentix Shareholders) pursuant to a Preferred Stock Purchase Agreement for $10 million in cash (the Initial Investment). Progentix has as its objective the development and exploitation of knowledge and products in the field of bone defects and the recovery of bone tissue in general. Progentix wishes to further extend the existing knowledge and patent position in the field of Osteoinductive Bone Graft Material Technology. Since inception, Progentix has incurred approximately $3.2 million in losses.

NuVasive and Progentix also entered into a Senior Secured Facility Agreement dated January 13, 2009, whereby Progentix may borrow up to $5 million from NuVasive to fund ongoing clinical and regulatory efforts (the Loan). The proceeds of the Loan are to be utilized towards achievement of all milestones, as defined in the Preferred Stock Purchase Agreement. The Loan accrues interest at a rate of six percent (6%) per year. Other than its obligations under the Loan, NuVasive is not obligated to provide additional funding to Progentix. Concurrent with the Preferred Stock Purchase Agreement, NuVasive, Progentix and the Progentix Shareholders entered into an Option Purchase Agreement dated January 13, 2009 (the Option Agreement), whereby NuVasive may be obligated (the Put Option),

upon the achievement within two years of certain milestones by Progentix, to purchase the remaining sixty percent (60%) of capital stock of Progentix from its shareholders for $45 million, payable in a combination of cash and/or NuVasive common stock at the Company s sole discretion, subject to certain adjustments (the Remaining Shares).

NuVasive may also be obligated, in the event that Progentix achieves the milestones contemplated above within the requisite two-year period, to make additional payments to Progentix shareholders, excluding NuVasive, of up to an aggregate total of $25 million, payable in a combination of cash and/or NuVasive common stock, at the Company s sole discretion, subject to certain adjustments, upon completion of additional milestones and dependent on NuVasive s sales success. NuVasive also has the right under the Option

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Agreement to purchase the Remaining Shares (the Call Option) at any time between the second anniversary and the fourth anniversary of the Option Agreement (the Option Period) for $35 million, payable in a combination of cash and/or NuVasive common stock, at the Company s sole discretion, subject to certain adjustments. In the event NuVasive achieves in excess of a specified annual sales run rate on Progentix products during the Option Period, NuVasive may be required to purchase the Remaining Shares for $35 million. NuVasive and Progentix also entered into a Distribution Agreement dated January 13, 2009, whereby Progentix appointed NuVasive as its exclusive distributor for certain Progentix products. The Distribution Agreement will be in effect for a term of ten years unless earlier terminated in accordance with its terms.

In accordance with authoritative guidance issued by the FASB, the Company has determined that Progentix is a variable interest entity (VIE) as it does not have the ability to finance its activities without additional subordinated financial support and its equity investors will not absorb their proportionate share of expected losses and will be limited in the receipt of the potential residual returns of Progentix. Additionally, pursuant to this guidance, NuVasive is considered its primary beneficiary as NuVasive has the obligation to absorb a majority of the expected losses and the right to receive a majority of expected residual returns of Progentix. This conclusion was reached due to the existence of the Put Option and Call Option to acquire the Remaining Shares at prices that were fixed upon entry into the arrangement, with the specific prices based upon the achievement of certain milestones within a specified period of time. The fixed nature of the Put Option and the Call Option limit Progentix Shareholders potential future returns. Accordingly, the financial position and results of operations of Progentix have been included in the consolidated financial statements from the date of the Initial Investment.

Pursuant to authoritative guidance, the equity interests in Progentix not owned by the Company are reported as noncontrolling interests on the consolidated balance sheet of the Company. Losses incurred by Progentix are charged to the Company and to the noncontrolling interest holders based on their ownership percentage. The Remaining Shares and the Option Agreement that was entered into between NuVasive, Progentix and the Progentix Shareholders are not considered to be freestanding financial instruments as defined by authoritative guidance. Therefore the Remaining Shares and the Option Agreement are accounted for as a combined unit in the consolidated financial statements as a redeemable noncontrolling interest that is initially recorded at fair value and classified as mezzanine equity.

Pursuant to authoritative guidance, when the embedded Put Option is exercisable and therefore the Remaining Shares considered currently redeemable (i.e., at the option of the holder), the instrument should be adjusted to its maximum redemption amount. If the embedded Put Option is considered not currently exercisable (e.g., because a contingency has not been met), and it is not probable that the embedded Put Option will become exercisable, an adjustment is not necessary until it is probable that the embedded Put Option will become exercisable. At September 30, 2009, the embedded Put Option was not deemed currently exercisable and therefore the Remaining Shares were not redeemable because the milestones referred to previously had not been met. Furthermore, at September 30, 2009, as it is not currently possible to predict the outcome of such milestones, the Company concluded it is not probable that the milestones will be met and that the Remaining Shares will become redeemable. The probability of redemption will be reevaluated on a quarterly basis.

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In accordance with authoritative guidance, we have recorded the identifiable assets, liabilities and noncontrolling interests in the VIE at their fair value upon initial consolidation. There has been no material change to the balances consolidated at the date of the Initial Investment, therefore only the balances consolidated as of September 30, 2009 are included below. Total assets and liabilities of Progentix as of September 30, 2009 are as follows *(in thousands):*

Total current assets	$ 629
Identifiable intangible assets, net	16,407
Goodwill	12,654
Accounts payable & accrued expenses	439
Other long term liabilities	50
Deferred tax liabilities	4,310
Noncontrolling interests	13,689

Intangible assets consolidated pursuant to the Progentix investment are included in the Intangible assets, net balance in the consolidated balance sheet as of September 30, 2009 and consist of the following *(in thousands):*

	Weighted-Average Amortization *(in years)*	**Gross Carrying Amount**	**Accumulated Amortization**	**Intangible Assets, Net**
Non-competition agreement	2	$ 300	$ 107	$ 193
Existing technology	10	5,400	386	5,014
In-process research and development		11,200		11,200
Total Progentix intangible assets		$16,900	$ 493	$16,407

Osteocel Biologics Business Acquisition

On July 24, 2008, NuVasive completed the acquisition of certain assets of Osiris Therapeutics, Inc. (Osiris) (the Osteocel® Biologics Business Acquisition) for $35 million in cash paid at closing pursuant to an Asset Purchase Agreement, as amended (the Asset Purchase Agreement). The completion date of this transaction is referred to as the Technology Closing Date. At the Technology Closing Date, the Company also entered into a Manufacturing Agreement, as amended (collectively with the Asset Purchase Agreement, the Agreements) with Osiris. Under the terms of these Agreements, NuVasive was obligated to make payments of up to $50 million in addition to the amount paid at closing, including milestone-based contingent payments not to exceed $20.0 million and non-contingent payments in the amount of $30.0 million.

As of September 30, 2009, the Company has paid $5 million in cash and made additional payments of $12.5 million in the form of the issuance of 293,331 shares of NuVasive common stock on June 30, 2009 and $12.5 million in the form of the issuance of 307,814 shares of NuVasive common stock on September 30, 2009, as payment in full for the non-contingent payments.

During March 2009, the Company made a $5 million cash payment towards the milestone-based contingent payments. At September 30, 2009, the Company determined that the achievement of the specified sales amount required for the payment of the remaining $15 million milestone-based contingent payment will likely be achieved and accordingly, has recorded the $15 million as a liability at September 30, 2009. This payment may be made in cash or through the delivery of NuVasive common stock of equivalent value, at the Company s election.

The Company s purchase price allocation was updated in 2009 to reflect the milestone-based payments made in 2009 and to reflect the impact of the amendments made to the Agreements in March 2009, which eliminated the performance contingencies applicable to $30 million of the $45 million in then-remaining milestones. The Goodwill balance related to the Osteocel® Biologics Business Acquisition was $33.7 million as of September 30, 2009. Goodwill represents the excess of the purchase price over the fair value of tangible and identifiable intangible assets acquired.

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Acquisition of Pedicle Screw Technology

In March 2008, NuVasive completed a buy-out of royalty obligations on SpheRx® pedicle screw and related technology products and acquired new pedicle screw intellectual property for cash payments aggregating $6.3 million. Of the aggregate purchase price, $2.1 million, representing the present value of the expected future cash flows associated with the terminated royalty obligations, was allocated to intangible assets to be amortized on a straight-line basis over a seven-year period. The remaining $4.2 million was allocated to in-process research and development (IPR&D) as the associated projects had not yet reached technological feasibility and had no alternative future uses.

4. Balance Sheet Reserves

The balances of the reserves for accounts receivable and inventory are as follows *(in thousands)*:

	September 30, 2009	December 31, 2008
Reserves for accounts receivable	$ 3,140	$ 1,952
Reserves for excess and obsolete inventory	4,405	2,778

The Company s inventory consists primarily of finished goods, disposables and specialized implants. Inventory is stated at the lower of cost or market and is recorded in cost of goods sold based on a method that approximates cost. The Company reviews the components of its inventory on a periodic basis for excess, obsolete or impaired inventory, and records a reserve for the identified items.

5. Goodwill and Intangible Assets

A summary of adjustments to the Goodwill balance for the nine months ended September 30, 2009 is as follows (*in thousands*):

Balance at December 31, 2008	$ 2,332
Progentix Investment (Note 3)	12,654
Cervitech Acquisition (Note 3)	54,825
First payment under the Osteocel March 2009 Amendments (Note 3)	5,000
Record non-contingent payment pursuant to Osteocel March 2009 Amendments (Note 3)	12,454
Record milestone-based payment pursuant to Osteocel March 2009 Amendments (Note 3)	14,999
Balance at September 30, 2009	$ 102,264

Identifiable intangible assets consisted of the following as of September 30, 2009 *(in thousands)*:

	Weighted-Average Amortization (in years)	Gross Carrying Amount	Accumulated Amortization	Intangible Assets, net
Intangible Assets Subject to Amortization:				
Trade name and trademarks	14	$ 5,900	$ (412)	$ 5,488
Customer relationships	14	9,730	(2,008)	7,722
Developed technology	14	31,975	(5,039)	26,936
Manufacturing know-how and trade secrets	13	20,408	(1,953)	18,455
In-process research and development		46,000		46,000
		$ 114,013	$ (9,412)	$ 104,601

Intangible Assets Not Subject to Amortization:

Goodwill	102,264
Total Intangible assets	$ 206,865

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Future estimated amortization expense related to acquired intangible assets subject to amortization is as follows *(in thousands)*:

Remaining 2009	$ 1,417
2010	5,777
2011	8,840
2012	8,817
2013	8,810
2014	8,775
Thereafter	62,165
	$ 104.601

Amortization expense was $1.4 million and $0.9 million for the three months ended September 30, 2009 and 2008, respectively, and $4.1 million and $1.8 million for the nine months ended September 30, 2009 and 2008, respectively. In-process research and development will be amortized beginning with the first sale of the respective acquired products over its estimated useful life of 13years. Through September 30, 2009, no amortization expense has been recorded for IPR&D.

6. Convertible Senior Notes

In March 2008, the Company issued $230.0 million principal amount of 2.25% Convertible Senior Notes (the Notes), which includes the subsequent exercise of the initial purchasers option to purchase an additional $30.0 million aggregate principal amount of the Notes. The net proceeds from the offering, after deducting the initial purchasers discount and costs directly related to the offering, were approximately $208.4 million. The Company wil