

RTI SURGICAL, INC.  
Form 10-Q/A  
November 03, 2014

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q/A**  
**(Amendment No. 1)**

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

**For the quarterly period ended June 30, 2014**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number 0-31271**

**RTI SURGICAL, INC.**

<b>Delaware</b> <b>(State or other jurisdiction of</b>	<b>59-3466543</b> <b>(I.R.S. Employer</b>
<b>incorporation or organization)</b>	<b>Identification Number)</b>
<b>11621 Research Circle</b>	
<b>Alachua, Florida 32615</b>	
<b>(386) 418-8888</b>	

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  No

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that registrant was required to submit and post such files.) Yes  No

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

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

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

Shares of common stock, \$0.001 par value, outstanding on October 28, 2014: 56,897,994

**EXPLANATORY NOTE**

RTI Surgical, Inc. (the Company) is filing this Amendment No. 1 (this Form 10-Q/A) to our Quarterly Report on Form 10-Q for the period ended June 30, 2014 to submit a restated footnote for Property, Plant and Equipment (footnote 8) in Part I, Item I. The Company discovered that a line item was inadvertently omitted from this footnote in its Quarterly Report on Form 10-Q for the three months ended June 30, 2014. A restated version of Part I, Item I for Form 10-Q is included below with the inadvertently omitted line item in italics. This Form 10-Q/A does not otherwise update or amend any financial information or any other exhibits as originally filed. Accordingly, this Form 10-Q/A should be read in conjunction with the original filing of our Quarterly Report for the period ended June 30, 2014, which was filed on August 1, 2014.

**Part I Financial Information****Item 1. Condensed Consolidated Financial Statements (Unaudited)**  
**RTI SURGICAL, INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Comprehensive Income (Loss)****(In thousands, except share and per share data)****(Unaudited)**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Revenues	\$ 66,029	\$ 42,309	\$ 126,774	\$ 82,731
Costs of processing and distribution	30,975	23,073	65,522	44,299
Gross profit	35,054	19,236	61,252	38,432
Expenses:				
Marketing, general and administrative	27,302	15,695	53,156	30,718
Research and development	3,342	3,341	7,174	6,452
Litigation settlement		3,000		3,000
Acquisition expenses		1,495		1,495
Total operating expenses	30,644	23,531	60,330	41,665
Operating income (loss)	4,410	(4,295)	922	(3,233)
Other (expense) income:				
Interest expense	(440)		(776)	
Interest income	3	3	6	9
Foreign exchange loss	(48)		(70)	(6)
Total other (expense) income - net	(485)	3	(840)	3
Income (loss) before income tax (expense) benefit	3,925	(4,292)	82	(3,230)
Income tax (expense) benefit	(1,564)	1,293	(31)	1,693
Net income (loss)	2,361	(2,999)	51	(1,537)
Convertible preferred dividend	(784)		(1,534)	
Net income (loss) applicable to common shares	1,577	(2,999)	(1,483)	(1,537)

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Other comprehensive income (loss):				
Unrealized foreign currency translation (loss) gain	(137)	296	(88)	(315)
Comprehensive income (loss)	\$ 1,440	\$ (2,703)	\$ (1,571)	\$ (1,852)
Net income (loss) per common share - basic	\$ 0.03	\$ (0.05)	\$ (0.03)	\$ (0.03)
Net income (loss) per common share - diluted	\$ 0.03	\$ (0.05)	\$ (0.03)	\$ (0.03)
Weighted average shares outstanding - basic	56,714,512	56,272,327	56,584,579	56,146,608
Weighted average shares outstanding - diluted	57,077,552	56,272,327	56,584,579	56,146,608

See notes to condensed consolidated financial statements.

**RTI SURGICAL, INC. AND SUBSIDIARIES**
**Condensed Consolidated Balance Sheets**
**(In thousands, except share data)**
**(Unaudited)**

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 15,802	\$ 18,721
Accounts receivable - less allowances of \$740 at June 30, 2014 and \$492 at December 31, 2013	34,091	31,752
Inventories - net	108,111	106,126
Prepaid and other current assets	6,366	5,483
Deferred tax assets - net	24,022	24,577
<b>Total current assets</b>	<b>188,392</b>	<b>186,659</b>
Property, plant and equipment - net	76,773	74,738
Deferred tax assets - net	5,910	5,452
Goodwill	54,887	54,887
Other intangible assets - net	32,005	33,786
Other assets - net	13,624	14,332
<b>Total assets</b>	<b>\$ 371,591</b>	<b>\$ 369,854</b>
<b>Liabilities and Stockholders Equity</b>		
Current Liabilities:		
Accounts payable	\$ 26,163	\$ 23,231
Accrued expenses	17,475	22,478
Deferred tax liabilities	160	195
Current portion of deferred revenue	4,908	5,109
Current portion of short and long-term obligations	5,632	1,344
<b>Total current liabilities</b>	<b>54,338</b>	<b>52,357</b>
Long-term obligations - less current portion	69,682	67,706
Other long-term liabilities	12,678	13,446
Deferred revenue	15,950	18,755
<b>Total liabilities</b>	<b>152,648</b>	<b>152,264</b>
Preferred stock Series A, \$.001 par value: 5,000,000 shares authorized; 50,000 shares issued and outstanding	51,163	49,537
Stockholders equity:		
Common stock, \$.001 par value: 150,000,000 shares authorized; 56,814,794 and 56,388,063 shares issued and outstanding, respectively	57	56
Additional paid-in capital	415,311	415,426

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Accumulated other comprehensive loss	(900)	(812)
Accumulated deficit	(246,499)	(246,550)
Less treasury stock, 180,898 and 146,957 shares, at cost	(189)	(67)
Total stockholders' equity	167,780	168,053
Total liabilities and stockholders' equity	\$ 371,591	\$ 369,854

See notes to condensed consolidated financial statements.

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**RTI SURGICAL, INC. AND SUBSIDIARIES**
**Condensed Consolidated Statement of Stockholders Equity****For the Six Months Ended June 30, 2014****(In thousands)****(Unaudited)**

	<b>Common Stock</b>	<b>Additional Paid-In Capital</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Accumulated Deficit</b>	<b>Treasury Stock</b>	<b>Total</b>
Balance, December 31, 2013	\$ 56	\$ 415,426	\$ (812)	\$ (246,550)	\$ (67)	\$ 168,053
Net income				51		51
Foreign currency translation adjustment			(88)			(88)
Exercise of common stock options	1	532				533
Stock-based compensation		1,023				1,023
Purchase of treasury stock					(122)	(122)
Amortization of preferred stock Series A issuance costs		(92)				(92)
Preferred stock Series A dividend		(1,534)				(1,534)
Change in tax benefit from stock-based compensation		(44)				(44)
Balance, June 30, 2014	\$ 57	\$ 415,311	\$ (900)	\$ (246,499)	\$ (189)	\$ 167,780

See notes to condensed consolidated financial statements.



## RTI SURGICAL, INC. AND SUBSIDIARIES

## Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
<b>Cash flows from operating activities:</b>				
Net income (loss)	\$ 2,361	\$ (2,999)	\$ 51	\$ (1,537)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization expense	3,863	2,095	7,527	4,123
Provision for bad debts and product returns	258	132	311	163
Provision for inventory write-downs	597	589	1,911	1,346
Amortization of deferred revenue	(1,207)	(1,132)	(3,006)	(4,047)
Deferred income tax provision (benefit)	1,416	(972)	377	(1,926)
Stock-based compensation	533	584	1,023	1,069
Other	72	3,019	87	3,229
Change in assets and liabilities:				
Accounts receivable	(2,330)	(549)	(2,629)	(438)
Inventories	(4,225)	(1,482)	(3,144)	(4,310)
Accounts payable	4,580	2,902	3,930	1,631
Accrued expenses	(3,138)	662	(6,108)	(6,755)
Deferred revenue				3,000
Other operating assets and liabilities	(158)	430	(1,015)	(332)
Net cash provided by (used in) operating activities	2,622	3,279	(685)	(4,784)
<b>Cash flows from investing activities:</b>				
Purchases of property, plant and equipment	(3,536)	(2,164)	(8,472)	(4,872)
Patent and acquired intangible asset costs	(59)	(136)	(276)	(234)
Net cash used in investing activities	(3,595)	(2,300)	(8,748)	(5,106)
<b>Cash flows from financing activities:</b>				
Proceeds from exercise of common stock options	241	128	533	213
Proceeds from long-term obligations	1,000		5,000	
Net proceeds from short-term obligations	75		1,308	
Payments on long-term obligations	(12)	(11)	(32)	(93)
Other financing activities	6	(496)	(116)	(519)
Net cash provided by (used in) financing activities	1,310	(379)	6,693	(399)
Effect of exchange rate changes on cash and cash equivalents		(9)	(179)	(14)

Net increase (decrease) in cash and cash equivalents	337	591	(2,919)	(10,303)
Cash and cash equivalents, beginning of period	15,465	38,802	18,721	49,696
Cash and cash equivalents, end of period	\$ 15,802	\$ 39,393	\$ 15,802	\$ 39,393

**Supplemental cash flow disclosure:**

Cash paid for interest	\$ 448	\$ 1	\$ 800	\$ 3
Cash paid for income taxes, net of refunds	262	1,417	183	3,554
Change in accrual for purchases of property, plant and equipment	56	150	1,003	800
Change in accrual for acquired intangible asset costs		61		140
Change in tax benefit from stock-based compensation		12		12

See notes to condensed consolidated financial statements.

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**RTI SURGICAL, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**(In thousands, except share and per share data)**

**1. Operations and Organization**

The company is a leader in the use of natural tissues, metals and synthetics to produce orthopedic and other surgical implants that repair and promote the natural healing of human bone and other human tissues and improve surgical outcomes. The Company processes donated human musculoskeletal tissue and procured bovine and porcine animal tissue in producing allograft and xenograft implants utilizing its proprietary BIOCLEANSE® and TUTOPLAST® sterilization processes, for distribution to hospitals and surgeons. The Company processes natural tissue at two facilities in Alachua, Florida and one facility in Neunkirchen, Germany and manufactures metal and synthetic products in Marquette, Michigan and Greenville, North Carolina. The Company distributes its implants and products in all 50 states and in over 45 countries worldwide.

**2. Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements include all adjustments, consisting of normal recurring accruals, which the Company considers necessary for a fair presentation of the results of operations for the periods shown. The condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X, and, therefore, do not include all information and footnotes necessary for a fair presentation of consolidated financial position, results of operations, comprehensive income (loss) and cash flows in conformity with accounting principles generally accepted in the United States of America ( GAAP ). All intercompany balances and transactions have been eliminated in consolidation. The results of operations for any interim period are not necessarily indicative of the results to be expected for the full year. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

The condensed consolidated financial statements include the accounts of RTI Surgical, Inc. and its wholly owned subsidiaries, Pioneer Surgical Technology, Inc. ( Pioneer ), Tutogen Medical, Inc. ( TMI ), RTI Surgical, Inc. Cardiovascular (inactive), Biological Recovery Group, Inc. (inactive) and RTI Services, Inc. (inactive). The condensed consolidated financial statements also include the accounts of RTI Donor Services, Inc. ( RTIDS ), which is a controlled entity.

**3. Summary of Significant Accounting Policies**

**Revenue from Contracts with Customers** In May 2014, the FASB issued Accounting Standards Update ( ASU ) No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in Accounting Standards Codification ( ASC ) Topic 605, *Revenue Recognition*. This ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs

incurred to obtain or fulfill a contract. The effective date will be annual reporting periods beginning after December 15, 2016 using one of two retrospective application methods. The Company has not yet determined the potential effects, if any, on its unaudited condensed consolidated financial statements.

**4. Merger with Pioneer Surgical Technology, Inc.**

On July 16, 2013, the Company completed its acquisition of Pioneer. Under the terms of the merger agreement dated June 12, 2013, the Company acquired Pioneer for \$126,307 in cash. The transaction was funded through a combination of cash on hand, a new credit facility and a concurrent private placement of convertible preferred equity. The Company obtained from Toronto-Dominion Bank, N.A., TD Securities USA LLC ( TD Bank ) and Regions Bank, a 5 year, \$80,000 senior secured facility, which includes a \$60,000 term loan and a \$20,000 revolving credit facility, that matures on July 16, 2018 with a variable interest rate between 100 and 300 basis points in excess of the one month London Interbank Offered Rate ( LIBOR ). The \$20,000 revolving credit facility replaced the Company s previous \$15,000 U.S. credit facility.

Additionally, the Company received \$50,000 in gross proceeds from a private placement of convertible preferred equity to WSHP Biologics Holdings, LLC, an affiliate of Water Street Healthcare Partners, a leading healthcare-focused private equity firm ( Water Street ). The convertible preferred stock is convertible into shares of the Company s common stock. The convertible preferred stock accrues dividends at a rate of 6% per year. In 2013, the Company capitalized \$1,989 in financing costs associated with the preferred stock issuance and the debt issuance. The capitalized financing costs are being amortized over the respective lives of the preferred stock issuance and debt issuance agreements.

The Company has accounted for the acquisition of Pioneer under Accounting Standards Codification ( ASC ) 805, *Business Combinations*. Pioneer s results of operations are included in the consolidated financial statements for periods ending after July 16, 2013, the acquisition date.

The purchase price was financed as follows:

Cash proceeds from term loan	\$ 60,000
Net cash proceeds from preferred share issuance	48,710
Cash from RTI Surgical	17,597
Total purchase price	\$ 126,307

The table below represents an allocation of the total consideration to Pioneer s tangible and intangible assets and liabilities based on management s estimate of their respective fair values as of July 16, 2013.

Inventories	\$ 35,972
Accounts receivable	10,567
Other current assets	6,059
Property, plant and equipment	15,258
Other assets	13,260
Current liabilities	(10,893)
Other long-term liabilities	(19,841)
Net tangible assets acquired	50,382
Other intangible assets	23,100
Goodwill	52,825
Total net assets acquired	\$ 126,307

Total net assets acquired as of July 16, 2013 are all part of the Company s only operating segment. Fair values are based on management s estimates and assumptions including variations of the income approach, the cost approach and the market approach.

The Company believes that the acquisition of Pioneer offers the potential for substantial strategic and financial benefits. The transaction will enhance the Company s existing core competency in biologics processing with the addition of Pioneer s core competency in metals and synthetics. The Company believes the acquisition will enhance stockholder value through, among other things, enabling the Company to capitalize on the following strategic advantages and opportunities:

Diversification of its implant portfolio.

Expansion of its direct distribution and marketing organizations.

Enhancement of its current international business.

Improvement of its margin profile and additional revenue opportunities.

These potential benefits resulted in the Company paying a premium for Pioneer resulting in the recognition of goodwill. The \$52,825 of goodwill was assigned to the Company's only operating segment.

The fair value of receivables acquired is \$10,567, with the gross contractual amount being \$11,712, of which \$1,145 was not expected to be collected.

The following unaudited pro forma information shows the results of the Company's operations as though the acquisition had occurred as of the beginning of the respective periods (in thousands, except per share data):

	<b>For the Three Months Ended June 30, 2013</b>	<b>For the Six Months Ended June 30, 2013</b>
Revenues	\$ 62,394	\$ 124,844
Net loss	(4,665)	(4,188)
Basic net loss per share	(0.08)	(0.07)
Diluted net loss per share	(0.08)	(0.07)

The pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the actual results of operations had the merger taken place as of the beginning of the periods presented, or the results that may occur in the future.

These amounts have been calculated to reflect the additional depreciation, amortization and interest expense that would have been incurred assuming the fair value of adjustments and borrowings occurred on January 1, 2013, together with the consequential tax effects. In addition, these amounts exclude costs incurred which are directly attributable to the acquisition, and which do not have a continuing impact on the combined companies' operating results.

The Company completed its analysis of the purchase price allocation in the second quarter of 2014 with no significant changes from management's estimate of their respective fair values as of July 16, 2013.

## 5. Stock-Based Compensation

The Company has five stock-based compensation plans under which employees, consultants and outside directors have received stock options and restricted stock awards. The Company's policy is to grant stock options at an exercise price equal to 100% of the market value of a share of common stock at closing on the date of the grant. The Company's stock options generally have ten-year contractual terms and vest over a one to five year period from the date of grant. The Company's policy is to grant restricted stock awards at a fair value equal to 100% of the market value of a share of common stock at closing on the date of the grant. The Company's restricted stock awards generally vest over one to three year periods.

**1998 Stock Option Plan, 2004 Equity Incentive Plan and 2010 Equity Incentive Plan** The Company adopted equity incentive plans in 1998 (the 1998 Plan), 2004 (the 2004 Plan) and 2010 (the 2010 Plan), which provide for the grant of incentive and nonqualified stock options and restricted stock to key employees, including officers and directors of the Company and consultants and advisors. The 2004 Plan and 2010 Plan allow for up to 2,000,000 and 5,000,000 shares, respectively, of common stock to be issued with respect to awards granted. New stock options may no longer be awarded under the 1998 Plan.

**TMI 1996 Stock Option Plan and TMI 2006 Incentive and Non-Statutory Stock Option Plan** In connection with the merger with TMI in 2008, the Company assumed the TMI 1996 Stock Option Plan and the TMI 2006 Incentive and Non-Statutory Stock Option Plan. The TMI 2006 Incentive and Non-Statutory Stock Option Plan allows for

1,830,000 shares of common stock which may be issued with respect to stock options granted to former TMI employees or employees of the Company hired subsequent to the TMI acquisition. New stock options may no longer be awarded under the TMI 1996 Stock Option Plan.

***Stock Options***

As of June 30, 2014, there was \$2,868 of total unrecognized stock-based compensation related to nonvested stock options. That expense is expected to be recognized over a weighted-average period of 3.50 years.



Stock options outstanding, exercisable and available for grant at June 30, 2014 are summarized as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2014	5,518,604	\$ 4.63		
Granted	933,500	3.79		
Exercised	(161,000)	3.31		
Forfeited or expired	(642,700)	5.90		
Outstanding at June 30, 2014	5,648,404	\$ 4.38	6.09	\$ 3,277
Vested or expected to vest at June 30, 2014	4,961,214	\$ 4.47	5.69	\$ 2,847
Exercisable at June 30, 2014	3,329,404	\$ 4.86	4.47	\$ 1,732
Available for grant at June 30, 2014	1,915,122			

Other information concerning stock options are as follows:

	Six Months Ended June 30,	
	2014	2013
Weighted average fair value of stock options granted	\$ 1.85	\$ 1.72
Aggregate intrinsic value of stock options exercised	142	90

The aggregate intrinsic value in the tables above represents the total pre-tax intrinsic value of stock options for which the fair market value of the underlying common stock exceeds, or exceeded the respective stock option exercise price.

### ***Restricted Stock Awards***

During the first quarter of 2014, the Company granted 145,000 shares of restricted stock with a weighted-average grant date fair value of \$3.78 which vest over a three year period. During the second quarter of 2014, the Company granted 120,731 shares of restricted stock with a weighted-average grant date fair value of \$4.10 per share which vest over a one year period. As of June 30, 2014, there was \$1,031 of total unrecognized stock-based compensation related to time-based, nonvested restricted stock. That expense is expected to be recognized on a straight-line basis over a weighted-average period of 1.55 years.

For the three and six months ended June 30, 2014 and 2013, the Company recognized stock-based compensation as follows:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Stock-based compensation:				
Costs of processing and distribution	\$ 33	\$ 33	\$ 66	\$ 66
Marketing, general and administrative	485	536	927	973
Research and development	15	15	30	30
<b>Total</b>	<b>\$ 533</b>	<b>\$ 584</b>	<b>\$ 1,023</b>	<b>\$ 1,069</b>

**6. Net Income (Loss) Per Common Share**

A reconciliation of the number of shares of common stock used in the calculation of basic and diluted net income (loss) per common share is presented below:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Basic shares	56,714,512	56,272,327	56,584,579	56,146,608
Effect of dilutive securities:				
Stock options	363,040			
Diluted shares	57,077,552	56,272,327	56,584,579	56,146,608

For the three months ended June 30, 2014 and 2013, approximately 4,418,272 and 4,170,035, respectively, and for the six months ended June 30, 2014 and 2013, approximately 4,297,143 and 3,987,828, respectively, of issued stock options were not included in the computation of diluted net income or loss per common share because they were anti-dilutive since their exercise price exceeded the market price. For the six months ended June 30, 2014 and 2013, and for the three months ended June 30, 2013, options to purchase 333,852, 283,578 and 298,381 shares respectively of common stock were not included in the computation of diluted loss per share because dilutive shares are not factored into the calculation of earnings per share when a net loss is reported.

For the three and six months ended June 30, 2014, 50,000 shares of convertible preferred stock were anti-dilutive on an as if-converted basis and were not included in the computation of diluted net loss per common share.

**7. Inventories**

Inventories by stage of completion are as follows:

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
Unprocessed tissue and raw materials	\$ 30,933	\$ 31,468
Tissue and work in process	41,460	39,417
Implantable tissue and finished goods	33,505	33,102
Supplies	2,213	2,139
	<b>\$ 108,111</b>	<b>\$ 106,126</b>

For the three months ended June 30, 2014 and 2013, the Company had inventory write-downs of \$597 and \$589, respectively, and for the six months ended June 30, 2014 and 2013, the Company had inventory write-downs of \$1,911 and \$1,346, respectively, relating primarily to product obsolescence.

**8. Property, Plant and Equipment**

Property, plant and equipment are as follows:

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
Land	\$ 2,608	\$ 2,618
Buildings and improvements	49,696	50,106
Processing equipment	45,636	43,309
Surgical instruments	7,043	5,012
<i>Office equipment, furniture and fixtures</i>	4,072	3,994
Computer equipment and software	6,703	6,152
Construction in process	18,679	16,156
Equipment under capital leases:		
Processing equipment	396	396
Computer equipment	744	744
Office equipment	152	152
	135,729	128,639
Less accumulated depreciation	(58,956)	(53,901)
	\$ 76,773	\$ 74,738

Depreciation expense of property, plant and equipment was \$2,738 and \$1,568 for the three months ended June 30, 2014 and 2013, respectively, and \$5,274 and \$3,071 for the six months ended June 30, 2014 and 2013, respectively.

**9. Goodwill**

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
Balance at January 1	\$ 54,887	\$ 2,062
Goodwill acquired during the period		52,825
	\$ 54,887	\$ 54,887

**10. Other Intangible Assets**

Other intangible assets are as follows:

<b>June 30, 2014</b>		<b>December 31, 2013</b>	
<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>

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Patents	\$ 11,063	\$ 2,303	\$ 10,637	\$ 1,935
Acquired exclusivity rights			2,941	2,787
Acquired licensing rights	10,850	5,932	10,850	5,326
Marketing and procurement intangible assets	21,418	3,091	22,098	2,692
<b>Total</b>	<b>\$ 43,331</b>	<b>\$ 11,326</b>	<b>\$ 46,526</b>	<b>\$ 12,740</b>

Marketing and procurement intangible assets include the following: procurement contracts, trademarks, selling and marketing relationships, customer lists and non-compete agreements.

Amortization expense of other intangible assets for the three months ended June 30, 2014 and 2013 was \$1,125 and \$527, respectively, and for the six months ended June 30, 2014 and 2013 was \$2,253 and \$1,052, respectively. At June 30, 2014, management's estimates of future amortization expense for the next five years are as follows:

	<b>Amortization Expense</b>
2014	\$ 2,200
2015	4,000
2016	3,400
2017	3,300
2018	3,300
	\$ 16,200

## 11. Other Assets

Other assets are as follows:

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
Indemnification asset	\$ 12,275	\$ 13,000
Other	1,349	1,332
	\$ 13,624	\$ 14,332

Under the acquisition agreement, Pioneer deposited \$13,000 in an escrow account and indemnified the Company for up to \$13,000 for various outstanding legal issues. At acquisition, the Company recorded a \$13,000 indemnification asset and a corresponding \$13,000 indemnification liability. At June 30, 2014, other assets include \$12,275 of remaining long-term indemnification assets. Under the acquisition agreement, the Company may submit claims against the escrow account during an initial escrow period of 15 months commencing on the closing date. Under certain provisions of the agreement, the claims period for certain claims may be extended to 30 months after the closing date.

Interest expense associated with the amortization of debt issuance costs for the three months ended June 30, 2014 and 2013 was \$36 and \$4, respectively, and for the six months ended June 30, 2014 and 2013 was \$71 and \$7, respectively. The remaining unamortized debt issuance costs are included in Other in the table above.

## 12. Accrued Expenses

Accrued expenses are as follows:

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	<b>June 30, 2014</b>	<b>December 31, 2013</b>
Accrued compensation	\$ 5,288	\$ 3,817
Accrued donor recovery fees	1,921	5,771
Accrued restructuring charges	673	2,609
Accrued distributor commissions	1,927	2,059
Accrued taxes	92	200
Contingent consideration		39
Other	7,574	7,983
	\$ 17,475	\$ 22,478

The Company accrues for the estimated donor recovery fees due to third party recovery agencies as tissue is received.

**13. Short and Long-Term Obligations**

Short and long-term obligations are as follows:

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
Term loan	\$ 60,000	\$ 60,000
Credit facilities	15,207	8,911
Capital leases	107	139
<b>Total</b>	<b>75,314</b>	<b>69,050</b>
Less current portion	(5,632)	(1,344)
<b>Long-term portion</b>	<b>\$ 69,682</b>	<b>\$ 67,706</b>

On July 16, 2013, the Company obtained from TD Bank and Regions Bank, a 5-year, \$80,000 senior secured facility, which includes a \$60,000 term loan and a \$20,000 revolving credit facility, that matures on July 16, 2018 with a variable interest rate between 100 and 300 basis points in excess of the one month LIBOR rate. At June 30, 2014, the interest rate for the term loan and revolving credit facility is 2.41%. The facility is secured by substantially all the assets of the Company and its subsidiaries and guaranteed by the Company's domestic subsidiaries, other than RTIDS. The \$20,000 revolving credit facility replaced the Company's previous \$15,000 U.S. credit facility. As of June 30, 2014, there was \$13,250 outstanding on the revolving credit facility. The term loan facility includes an interest only period of September 30, 2013 through December 31, 2014 with a final balloon principal payment at the end of the loan agreement. The new credit agreement also contains various restrictive covenants which limit, among other things, indebtedness and liens, as well as payment of dividends, while requiring a minimum cash balance on hand of \$10,000 and certain financial covenant ratios.

In addition to the credit facility with TD Bank and Regions Bank, the Company has three credit facilities with German banks as of June 30, 2014. Under the terms of the revolving credit facilities with three German banks, the Company may borrow up to 1,700 Euro, or approximately \$2,320, for working capital needs. The 1,000 Euro revolving credit facility is secured by a mortgage on the Company's German facility. The 500 Euro revolving credit facility is secured by accounts receivable of the Company's German subsidiary. The 200 Euro revolving credit facility is unsecured. The current interest rates for these lines of credit vary from 3.30% to 4.43%. As of June 30, 2014, there was \$1,957 outstanding on revolving credit facilities with German banks.

The total available credit on the Company's four revolving credit facilities at June 30, 2014 was \$7,113. The Company was in compliance with all covenants related to its revolving credit facilities as of June 30, 2014.

The Company has capital leases with interest rates ranging from 1.49% to 8.46% and maturity dates through 2017. The \$107 representing future maturities of capital leases includes interest in the amount of \$2 at June 30, 2014. The present value of minimum lease payments as of June 30, 2014 was \$105.

As of June 30, 2014, contractual maturities of long-term obligations are as follows:

	<b>Term Loan</b>	<b>Credit Facilities</b>	<b>Capital Leases</b>	<b>Total</b>
2014	\$ 625	\$ 1,957	\$ 26	\$ 2,608



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2015	5,250		45	5,295
2016	4,500		32	4,532
2017	5,250		4	5,254
2018	44,375	13,250		57,625
	\$ 60,000	\$ 15,207	\$ 107	\$ 75,314

**14. Other Long-Term Liabilities**

Other long-term liabilities are as follows:

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
Indemnification liability	\$ 12,275	\$ 13,000
Other	403	446
	<b>\$ 12,678</b>	<b>\$ 13,446</b>

As described in Note 11, the Company recorded a \$13,000 indemnification liability on the date of the acquisition of Pioneer.

**15. Income Taxes**

The Company expects its deferred tax assets of \$29,772, net of the valuation allowance at June 30, 2014 of \$469, to be realized through the generation of future taxable income and the reversal of existing taxable temporary differences.

Valuation allowances are established when necessary to reduce deferred tax assets to amounts which are more likely than not to be realized. As such, valuation allowances of \$469 have been established at both June 30, 2014 and December 31, 2013, against a portion of the Company's deferred tax assets relating to certain state net operating loss carryforwards.

U.S. income taxes have not been provided on the undistributed earnings of the Company's foreign subsidiaries. It is not practicable to estimate the amount of tax that might be payable. The Company's intention is to permanently reinvest earnings in its foreign subsidiaries.

As of June 30, 2014, the Company's deferred tax assets were primarily attributable to U.S. federal net operating loss and credit carryforwards. The Company evaluates the need for deferred tax asset valuation allowances based on a more likely than not standard. The ability to realize deferred tax assets depends on the ability to generate sufficient taxable income within the carryback or carryforward periods provided for in the tax law for each applicable tax jurisdiction. The assessment regarding whether a valuation allowance is required or should be adjusted also considers all available positive and negative evidence factors. It is difficult to conclude a valuation allowance is not required when there is significant objective and verifiable negative evidence, such as cumulative losses in recent years. The Company utilizes a rolling three years of actual results as the primary measure of cumulative losses in recent years.

When evaluating whether the Company has overcome the significant negative evidence that resulted from cumulative losses in recent years, the Company adjusted its historical loss for items that the Company determined were not indicative of its ability to generate taxable income in future years. The Company is in a cumulative income position after adjusting for the items that were not indicative of its ability to generate taxable income in future years. The Company considers this objectively verifiable evidence that its current operations existing on June 30, 2014 have consistently demonstrated the ability to operate at a profit. The Company believes that this evidence is sufficient to overcome the unadjusted cumulative losses in recent years. The Company has a history of utilizing 100 percent of its deferred tax assets before they expire and the forecasts of taxable earnings project a complete realization of all federal deferred tax assets before they expire, including under various stressed scenarios.

Upon considering all of the available positive and negative evidence, and the extent to which that evidence was objectively verifiable, the Company determined that the positive evidence outweighed the negative evidence and the deferred tax assets are more-likely-than-not realizable, as of June 30, 2014. The Company will continue to regularly assess the realizability of its deferred tax assets. Changes in historical earnings performance and future earnings projections, among other factors, may cause the Company to adjust its valuation allowance, which would impact the Company's income tax expense in the period the Company determines that these factors have changed.

The Company completed an examination during the three months ended March 31, 2014 by the Internal Revenue Service ( IRS ). The IRS examination covered the 2010 tax year and resulted in no material adjustments. In addition, one of the Company's foreign subsidiaries is undergoing an examination by the German tax authorities. The foreign examination covers the foreign subsidiary's 2006 through 2009 tax years.

**16. Preferred Stock**

On June 12, 2013, the Company and Water Street entered into an investment agreement. Pursuant to the terms of the investment agreement, the Company issued \$50,000 of convertible preferred equity to Water Street in a private placement which closed on July 16, 2013.

Preferred stock is as follows:

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
Preferred shares issuance	\$ 50,000	\$ 50,000
Preferred shares issuance costs	(1,290)	(1,290)
Net proceeds	48,710	48,710
Amortization of preferred shares issuance costs	169	77
Accrued dividend payable	2,284	750
	<b>\$ 51,163</b>	<b>\$ 49,537</b>

**17. Restructuring Charges**

The Company instituted a restructuring plan primarily related to termination of employees and a location closure as a result of the integration activities following the acquisition of Pioneer, which resulted in \$2,881 of expenses for the year ended December 31, 2013. The total estimated restructuring charges are expected to be paid in full prior to February 28, 2015. Severance payments are made to terminated employees over periods ranging from one month to twelve months and will not have a material impact on cash flows of the Company in any quarterly period. The following table includes a rollforward of restructuring charges included in accrued expenses, see Note 12.

Accrued restructuring charges at January 1, 2014	\$ 2,609
Cash payments	(1,936)
Accrued restructuring charges at June 30, 2014	\$ 673

**18. Legal Actions**

The Company is, from time to time, involved in litigation relating to claims arising out of its operations in the ordinary course of business. The Company believes that none of these claims that were outstanding as of June 30, 2014 will have a material adverse impact on its financial position or results of operations.

**Biomedical Tissue Service, Ltd. ( BTS )** The Company was named as a party, along with a number of other recovery and processor defendants, in lawsuits relating to the tissue recovery practices of BTS, an unaffiliated recovery agency. The Company settled a majority of the BTS cases in 2012. The remaining cases were settled in 2013 for a payment of \$2,700 with a contingent interest in any recovery in the Company's litigation with its insurer, in the amount of \$300. Accordingly, the Company recorded a litigation settlement charge of \$3,000 in the second quarter of 2013.

**Lanx, Inc. ( Lanx )** Lanx, a subsidiary of Biomet, Inc. filed suit in the second quarter of 2013 against Pioneer in the U.S. District Court, District of Colorado, alleging that one of the Company's medical devices infringed certain of Lanx's U.S. intellectual property rights, and sought monetary damages and threatened injunctive relief. In the second quarter of 2014, the parties resolved the claim with no material financial impact to the Company or its operations. As part of the resolution of the claim, a settlement payment of \$325 was made to Lanx from the indemnification escrow account, see Note 11 Other Assets.

**Coloplast** The Company is presently named as co-defendant along with other companies in a small number of the transvaginal surgical mesh ( TSM ) mass tort claims being brought in various state and federal courts. The TSM litigation has as its catalyst various Public Health Notifications issued by the U.S. Food and Drug Administration ( FDA ) with respect to the placement of certain TSM implants that were the subject of 510k regulatory clearance prior to their distribution. The Company does not process or otherwise manufacture for distribution in the U.S. any implants that were the subject of these FDA Public Health Notifications. The Company denies any allegations against it and intends to vigorously defend itself.

In addition to claims made directly against the Company, Coloplast, a distributor of TSM s and certain allografts processed and private labeled for them under a contract with the Company, has also been named as a defendant in individual TSM cases in various federal and state courts. Coloplast has requested that the Company indemnify or defend Coloplast in those claims which allege injuries caused by the Company s allograft implants, which the Company is currently considering. If the Company determines such indemnification and defense to be required by the Company, it is anticipated that such defense and indemnification will be afforded coverage under the Company s insurance policy subject to a reservation of rights by the insurer.

Based on the current information available to the Company, it is not possible to evaluate and estimate with reasonable certainty the impact that current or any future TSM litigation may have on the Company.

The Company s accounting policy is to accrue for legal costs as they are incurred.

### 19. Segment Data

The Company distributes natural tissues, metals and synthetic implants through various distribution channels. The Company operates in one reportable segment comprised of six lines of business. The Company s six lines of business are comprised of: spine, sports medicine, bone graft substitutes ( BGS ) and general orthopedic, ortho fixation, surgical specialties and dental. Discrete financial information is not available for these six lines of business. The following table presents revenues from these six categories and other revenues for the three and six months ended June 30, 2014 and 2013, respectively:

	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
	2014	2013	2014	2013
Revenues:				
Spine	\$ 21,346	\$ 11,221	\$ 40,409	\$ 21,320
Sports medicine	11,459	11,657	22,819	22,168
BGS and general orthopedic	9,088	6,050	17,235	11,401
Ortho fixation	8,866		16,361	
Surgical specialties	7,182	6,875	14,460	13,829
Dental	5,140	5,006	9,786	9,179
Other revenues	2,948	1,500	5,704	4,834
<b>Total revenues</b>	<b>\$ 66,029</b>	<b>\$ 42,309</b>	<b>\$ 126,774</b>	<b>\$ 82,731</b>
Domestic revenues	59,006	37,413	113,821	73,527
International revenues	7,023	4,896	12,953	9,204
<b>Total revenues</b>	<b>\$ 66,029</b>	<b>\$ 42,309</b>	<b>\$ 126,774</b>	<b>\$ 82,731</b>

The following table presents percentage of total revenues derived from the Company s largest distributors and international distribution:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Percent of revenues derived from:</b>				
<b>Distributor</b>				
Zimmer, Inc.	16%	15%	16%	14%
Medtronic, Inc.	12%	18%	13%	19%
Davol, Inc.	5%	10%	6%	11%
International	11%	12%	10%	11%

The following table presents property, plant and equipment - net by significant geographic location:

	June 30, 2014	December 31, 2013
Property, plant and equipment - net:		
Domestic	\$ 61,395	\$ 58,458
International	15,378	16,280
Total	\$ 76,773	\$ 74,738

## 20. Subsequent Events

The Company evaluated subsequent events as of the issuance date of the condensed consolidated financial statements as defined by FASB ASC 855 *Subsequent Events*, and identified no subsequent events that require adjustment to, or disclosure of, in these condensed consolidated financial statements.

## Item 6. Exhibits

31.1	Certification of the President and Chief Executive Officer Under Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Executive Vice President and Chief Financial Officer Under Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Periodic Financial Report by President and Chief Executive Officer Under Section 906 of the Sarbanes-Oxley Act of 2002.
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101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document



**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RTI SURGICAL, INC. (Registrant)

By: */s/ Brian K. Hutchison*  
**Brian K. Hutchison**

**President and Chief Executive  
Officer**

By: */s/ Robert P. Jordheim*  
**Robert P. Jordheim**

**Executive Vice President and  
Chief Financial Officer**

Date: November 3, 2014

**EXHIBIT INDEX**

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