

WRIGHT MEDICAL GROUP INC

Form 10-Q

July 30, 2015

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(Mark One)

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

For the quarterly period ended June 30, 2015

or

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

For the transition period from _____ to _____

Commission file number: 001-35823
WRIGHT MEDICAL GROUP, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction
of Incorporation or Organization)

13-4088127
(IRS Employer
Identification Number)

1023 Cherry Road
Memphis, Tennessee
(Address of Principal Executive Offices)

38117
(Zip Code)

(901) 867-9971
(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 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 the 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, 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 Accelerated filer Non-accelerated filer Smaller reporting company
(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 No

As of July 27, 2015, there were 51,418,279 shares of common stock outstanding.

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WRIGHT MEDICAL GROUP, INC.

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SAFE-HARBOR STATEMENT

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This Quarterly Report may contain “forward-looking statements” as defined under United States federal securities laws. These statements reflect management's current knowledge, assumptions, beliefs, estimates, and expectations and express management's current view of future performance, results, and trends. Forward-looking statements may be identified by their use of terms such as anticipate, believe, could, estimate, expect, intend, may, plan, predict, project, will, and other similar terms. Forward-looking statements are subject to a number of risks and uncertainties that could cause actual results to materially differ from those described in the forward-looking statements. The reader should not place undue reliance on forward-looking statements. Such statements are made as of the date of this Quarterly Report, and we undertake no obligation to update such statements after this date. Risks and uncertainties that could cause our actual results to materially differ from those described in forward-looking statements are discussed in our filings with the Securities and Exchange Commission (including in our Annual Report on Form 10-K for the year ended December 31, 2014 and in our Quarterly Reports on Form 10-Q, including this Quarterly Report for the quarter ended June 30, 2015, in each case under the heading “Risk Factors” and elsewhere in such filings). By way of example and without implied limitation, such risks and uncertainties include:

- future actions of the SEC, the United States Attorney's office, the FDA, the Department of Health and Human Services or other U.S. or foreign government authorities, including those resulting from increased scrutiny under the Foreign Corrupt Practices Act and similar laws, that could delay, limit or suspend our development, manufacturing, commercialization and sale of products, or result in seizures, injunctions, monetary sanctions or criminal or civil liabilities;
- completion of our proposed business combination with Tornier N.V. (Tornier) is subject to several closing conditions, including the expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act, as amended (HSR Act), the failure of which could delay or prevent completion or reduce anticipated benefits;
- cash costs associated with our proposed business combination with Tornier may negatively impact our financial condition, operating results, and cash flow;
- in connection with the proposed business combination with Tornier, our and Tornier's business may not be combined successfully, or such combination may take longer, be more difficult, time-consuming or costly to accomplish than expected;
- the proposed business combination with Tornier may not achieve the intended benefits or may disrupt our operations;
- the shares issued to our stockholders in connection with the proposed business combination with Tornier are subject to a fixed exchange ratio, and will have different rights and may be impacted by different factors as compared to our existing shares;
- continued liability for product liability claims on hip/knee (OrthoRecon) products sold prior to the divestiture of our OrthoRecon business;
- failure to realize the anticipated benefits from our acquisitions or from the divestiture of our OrthoRecon business;
- adverse outcomes in existing product liability litigation;
- new product liability claims;
- inadequate insurance coverage;
- copyright claims against our modular hip systems resulting from a competitor's recall of its modular hip product;
- failure or delay in obtaining FDA approval of Augment[®] Bone Graft for commercial sale in the United States;
- challenges to our intellectual property rights or inability to defend our products against the intellectual property rights of others;
- loss of key suppliers;
- failures of, interruptions to, or unauthorized tampering with, our information technology systems;
- failure or delay in obtaining FDA or other regulatory approvals for our products;
- any actual or alleged breach of the Corporate Integrity Agreement to which we are subject through September 2015, which could expose us to significant liability, including exclusion from Medicare, Medicaid and other federal healthcare programs, potential criminal prosecution, and civil and criminal fines or penalties;

the potentially negative effect of our ongoing compliance enhancements on our relationships with customers and on our ability to deliver timely and effective medical education, clinical studies, and new products;

the possibility of private securities litigation or shareholder derivative suits;

insufficient demand for and market acceptance of our new and existing products;

recently enacted healthcare laws and changes in product reimbursements, which could generate downward pressure on our product pricing;

potentially burdensome tax measures;

lack of suitable business development opportunities;

inability to capitalize on business development opportunities;

product quality or patient safety issues;

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geographic and product mix impact on our sales;
inability to retain key sales representatives, independent distributors and other personnel or to attract new talent;
inventory reductions or fluctuations in buying patterns by wholesalers or distributors;
ability to generate sufficient cash flow to satisfy our existing debt, including the conversion feature of the 2017 Notes
and 2020 Notes, or refinance our existing debt as it matures; and
the negative impact of the commercial and credit environment on us, our customers and our suppliers.

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (unaudited).

WRIGHT MEDICAL GROUP, INC.
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (In thousands, except share data)
 (unaudited)

	June 30, 2015	December 31, 2014
Assets:		
Current assets:		
Cash and cash equivalents	\$427,865	\$227,326
Marketable securities	—	2,575
Accounts receivable, net	51,135	57,190
Inventories	110,184	88,412
Prepaid expenses	8,940	11,161
Deferred income taxes	4,560	3,437
Other current assets	53,978	50,355
Total current assets	656,662	440,456
Property, plant and equipment, net	120,583	104,235
Goodwill	186,748	190,966
Intangible assets, net	62,755	69,025
Deferred income taxes	752	815
Other assets	144,318	87,179
Total assets	\$1,171,818	\$892,676
Liabilities and Stockholders' Equity:		
Current liabilities:		
Accounts payable	\$23,075	\$16,729
Accrued expenses and other current liabilities	184,337	170,204
Current portion of long-term obligations	684	718
Total current liabilities	208,096	187,651
Long-term debt and capital lease obligations	559,022	280,612
Deferred income taxes	12,700	11,566
Other liabilities	180,819	134,044
Total liabilities	960,637	613,873
Commitments and contingencies (<u>Note 12</u>)		
Stockholders' equity:		
Common stock, \$.01 par value, authorized: 100,000,000 shares; issued and outstanding: 51,409,861 shares at June 30, 2015 and 51,326,696 shares at December 31, 2014	511	509
Additional paid-in capital	783,212	751,061
Accumulated other comprehensive income	(3,314) 2,398
Accumulated deficit	(569,228) (475,165)
Total stockholders' equity	211,181	278,803

Total liabilities and stockholders' equity	\$1,171,818	\$892,676
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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WRIGHT MEDICAL GROUP, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 (In thousands, except per share data)
 (unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Net sales	\$80,420	\$72,364	\$158,354	\$143,426
Cost of sales ¹	21,635	20,006	40,760	37,423
Gross profit	58,785	52,358	117,594	106,003
Operating expenses:				
Selling, general and administrative ¹	82,605			