



To our Shareowners, Customers, and Shareholders:

The year 2012 marked another year of industry leading growth for NuVasive, driven by the execution of our market share-taking strategy. Our innovative XLIF® platform and our comprehensive spine portfolio fueled revenue growth of over 15% within a global spine market that grew at only a low single digit pace. We made progress against our profitability goals and generated over \$130 million in cash from operations.

The shift toward minimally invasive spine surgery continues to unfold, providing a backdrop of growth for companies like NuVasive that are driving that shift. Minimally invasive solutions now represent an estimated 25% of the U.S. spine market. And we believe that as superior patient outcomes and clinical evidence continue to drive surgeon adoption, less invasive solutions will become the standard of care in spine. Unfortunately, dynamics within the US spine market have offset much of that growth over the last few years, and 2012 was no exception. Commercial insurance providers continue to push back against lumbar fusion procedures by denying or delaying coverage for legitimate treatment and negatively impacting procedure volumes. That being said, surgeons and societies are learning how best to navigate these obstacles to provide appropriate care for their patients.

Our solid results in 2012 in spite of the market challenges are a testament to our market share-taking strategy. That strategy has driven us to where we are today and is what we expect will sustain NuVasive's differentiation and industry leading growth in the future. We are focused on delivering surgeries that result in the best possible patient outcomes. NuVasive is changing spine surgery, and to be disruptive, we are taking a long term vision and executing to a long term plan. The NuVasive share-taking strategy is built upon three pillars: Superior Patient Outcomes, Absolute Responsiveness, and Speed of Innovation.

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SUPERIOR OUTCOMES

We are building a body of clinical and economic evidence specific to NuVasive solutions, a unique and effective tool in winning over hospitals, surgeons, and insurers. Our decade of experience in minimally invasive surgery is definitely facilitating that process, especially in lateral where we are using data to distinguish XLIF from the other lateral products on the market. As of the end of 2012, there have been 110 journal articles and over 60 book chapters published on the XLIF procedure, whereas competitive lateral approaches have yet to publish results in peer-reviewed literature. We are using data to distinguish XLIF at L4-L5, where the majority of spine fusion procedures happen. XLIF can be safely employed at L4-L5 because unlike other lateral solutions, XLIF is a platform fully integrated with neuromonitoring. Over 3500 XLIF L4-L5 cases have been reported in literature and the research shows that complication rates with XLIF are consistently lower than other procedures. We have the evidence to help hospitals and surgeons appreciate that XLIF is faster, better, and cheaper, and we are using it to take market share.

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ABSOLUTELY RESPONSIVE CULTURE

Our Absolutely Responsive culture is another pillar of our share taking strategy. Our sales force is the face of NuVasive’s differentiation in the field, and we finished 2012 well on track to progress toward the 500 member team that we envision as a \$1 billion company. Our state of the art surgeon training facilities and programs are also differentiators, and in 2012, we hosted a record number of surgeons in training sessions. As well, we continued the domestic and international expansion of SOLAS, the Society of Lateral Access Surgeons that we founded six years ago. SOLAS is a fantastic forum for surgeons to collaborate and its focus on research, education, and best practices is increasingly having an impact on industry outcomes and on our ability to stay at the forefront of innovation and surgeon training. SOLAS closed 2012 with 700 surgeon members and we expect it will continue to grow.

We are establishing Absolute Responsiveness internationally and ended 2012 with a footprint in close to 40 countries. The year marked our first sales into Japan, the world’s second largest spine market, as well as the continued penetration of markets like Germany, the United Kingdom, China, Australia, Singapore, Brazil, and Puerto Rico. Following several years of investment, our international operations positively contributed to profitability in 2012, and we look forward to an improving profitability in the years ahead as our investments come to fruition.

Our patient driven education efforts are excellent examples of how Absolute Responsiveness differentiates us at the patient level. Our Better Way Back program is a way for spine patients to connect and discuss their experiences, offering a resource not previously available. We ended 2012 with over 1000 patient ambassadors, up significantly from last year. Spine Care Alliance, which we helped develop for patients who have exhausted the appellate process for medically indicated spine surgery, is also expanding its impact. Our commitment to being responsive to our surgeon customers and their patients is helping us take market share.

SPEED OF INNOVATION

Speed of Innovation, our commitment to changing spine surgery with game-changing solutions, is a true differentiator for NuVasive, and also fundamental to our market share-taking strategy. We view ourselves as a procedure company; not a product company. And consistent with that vision, we offer surgeons a comprehensive portfolio of both minimally invasive and traditional fully integrated procedural solutions capable of treating any level of the spine and of addressing any spine pathology.

Our representatives introduced an array of exciting new solutions to surgeon customers in 2012. We rolled out Precept, a multi-level percutaneous posterior MIS solution, which quickly became the fastest growing product in NuVasive's history. We also introduced MAS PLIF, a less disruptive approach for a conventional surgery. We received FDA approval for our PCM cervical disc, enabling our foray into a \$100 million market that we believe will be one of the fastest growing segments in spine. We continue to integrate Impulse, our intra-operative monitoring (IOM) solution onto the NuVasive platform. The combination is introducing NuVasive to new accounts and converting surgeons that were using competitive lateral solutions to XLIF and NeuroVision. In 2012, we signed contracts with over 50 new IOM customers and renewed contracts to retain and expand our relationship with Impulse's pre-existing customer base.

We ended 2012 with a comprehensive portfolio of over 80 products, and you can expect another year of game-changing, market share taking innovation from us in 2013.

CONCLUSION

Over the last decade, NuVasive has positively changed the lives of over 100,000 spine patients with XLIF and that number is increasing quickly. Positive patient outcomes are what drives and motivates us; and we have only just begun to disrupt the global spine industry with better medicine! We are executing to a long term plan to drive our evolution into a \$1 billion company with steadily increasing profitability. There will be no shortage of challenges to address along the way, but we are committed to a proven, share taking strategy of Superior Outcomes, Absolute Responsiveness, and Speed of Innovation. We believe that focus will drive us to our next stop in the journey, which is the #3 spot in the spine industry.

Onward and Upward!



Alexis V. Lukianov
Chairman and Chief Executive Officer

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