GLOBUS MEDICAL INC
Form 10-Q
October 31, 2013
Table of Contents

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

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2013
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 No. 001-35621

GLOBUS MEDICAL, INC.
(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	04-3744954 (I.R.S. Employer Identification No.)
2560 General Armistead Avenue, Audubon, PA 19403 (Address of principal executive offices) (Zip Code)	(610) 930-1800 (Registrant's telephone number, including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:
Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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 x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act):

Large Accelerated Filer ¨	Accelerated Filer ¨
Non-accelerated Filer x (Do not check if a smaller reporting company)	Smaller Reporting Company ¨

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

The number of shares outstanding of the issuer's Common Stock (par value $0.001 per share) as of October 28, 2013 was 93,243,819 shares.

Table of Contents

GLOBUS MEDICAL, INC. AND SUBSIDIARIES
TABLE OF CONTENTS

2

Table of Contents

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

GLOBUS MEDICAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)	September 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$101,907	$212,400
Short-term marketable securities	111,239	—
Accounts receivable, net of allowances of $1,238 and $961, respectively	55,274	53,496
Inventories	71,199	62,310
Prepaid expenses and other current assets	6,086	3,020
Income taxes receivable	6,660	5,105
Deferred income taxes	32,399	23,779
Total current assets	384,764	360,110
Property and equipment, net	63,614	61,089
Long-term marketable securities	50,653	—
Intangible assets, net	9,189	9,585
Goodwill	15,372	15,372
Other assets	1,080	977
Total assets	$524,672	$447,133
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$8,876	$9,991
Accounts payable to related party	3,286	2,556
Accrued expenses	44,411	25,003
Income taxes payable	255	523
Business acquisition liabilities, current	1,652	1,435
Total current liabilities	58,480	39,508
Business acquisition liabilities, net of current portion	9,055	9,909
Deferred income taxes	5,191	7,714
Other liabilities	3,570	3,500
Total liabilities	76,296	60,631
Commitments and contingencies (Note 11)		
Equity:		
Common stock; $0.001 par value. Authorized 785,000 shares; issued and outstanding 93,225 and 91,270 shares at September 30, 2013 and December 31, 2012	93	91
Additional paid-in capital	151,104	136,501
Accumulated other comprehensive loss	(1,125)	(767)
Retained earnings	298,304	250,677
Total equity	448,376	386,502
Total liabilities and equity	$524,672	$447,133

See accompanying notes to consolidated financial statements.

3

Table of Contents

GLOBUS MEDICAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(In thousands, except per share amounts)	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Sales	$107,187	$94,764	$319,214	$285,458
Cost of goods sold	25,315	18,872	72,309	55,642
Provision for litigation loss	—	—	1,260	—
Gross profit	81,872	75,892	245,645	229,816
Operating expenses:				
Research and development	6,568	7,022	20,452	20,698
Selling, general and administrative	45,702	41,780	136,849	124,236
Provision for litigation loss/(income)	99	30	18,418	(801)
Total operating expenses	52,369	48,832	175,719	144,133
Operating income	29,503	27,060	69,926	85,683
Other income/(expense), net	197	(45)	255	(124)
Income before income taxes	29,700	27,015	70,181	85,559
Income tax provision	9,390	10,528	22,554	32,495
Net income	$20,310	$16,487	$47,627	$53,064
Earnings per share:				
Basic	$0.22	$0.18	$0.52	$0.60
Diluted	$0.22	$0.18	$0.51	$0.58
Weighted average shares outstanding:				
Basic	93,028	90,111	92,418	88,900
Dilutive stock options	1,394	2,586	1,626	2,663
Diluted	94,422	92,697	94,044	91,563
Anti-dilutive stock equivalents excluded from weighted average calculation	1,622	2,705	2,084	2,331

See accompanying notes to consolidated financial statements.

Table of Contents

GLOBUS MEDICAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Net income	$20,310	$16,487	$47,627	$53,064
Other comprehensive income/(loss):				
Unrealized gain on marketable securities, net of tax	72	—	13	—
Foreign currency translation gain/(loss)	175	313	(371)	387
Total other comprehensive income/(loss)	247	313	(358)	387
Comprehensive income	$20,557	$16,800	$47,269	$53,451

See accompanying notes to consolidated financial statements.

Table of Contents

GLOBUS MEDICAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In thousands)	Nine Months Ended September 30, 2013	September 30, 2012
Cash flows from operating activities:		
Net income	$47,627	$53,064
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	14,211	13,500
Provision for excess and obsolete inventories	6,405	5,386
Stock-based compensation	3,865	3,682
Allowance for doubtful accounts	234	336
Deferred income taxes	(11,138)	(5,057)
(Increase)/decrease in:		
Accounts receivable	(2,143)	(5,277)
Inventories	(15,715)	(14,587)
Prepaid expenses and other assets	(2,111)	(326)
Increase/(decrease) in:		
Accounts payable	1,022	34
Accounts payable to related party	730	3,659
Accrued expenses and other liabilities	19,639	(707)
Income taxes payable/receivable	(1,813)	(1,926)
Net cash provided by operating activities	60,813	51,781
Cash flows from investing activities:		
Purchases of marketable securities	(186,748)	—
Maturities of marketable securities	19,000	—
Sales of marketable securities	4,979	—
Purchases of property and equipment	(18,475)	(17,032)
Acquisition of business	—	(6,031)
Net cash used in investing activities	(181,244)	(23,063)
Cash flows from financing activities:		
Payment of business acquisition liabilities	(1,000)	(800)
Net proceeds from initial public offering	—	20,963
Net proceeds from issuance of common stock	6,221	1,046
Excess tax benefit related to nonqualified stock options	4,519	2,644
Net cash provided by financing activities	9,740	23,853
Effect of foreign exchange rate on cash	198	(83)
Net increase/(decrease) in cash and cash equivalents	(110,493)	52,488
Cash and cash equivalents, beginning of period	212,400	142,668
Cash and cash equivalents, end of period	$101,907	$195,156
Supplemental disclosures of cash flow information:		
Interest paid	42	39
Income taxes paid	$30,956	$36,317

See accompanying notes to consolidated financial statements.

GLOBUS MEDICAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) The Company

Globus Medical, Inc., together with its subsidiaries, is an engineering-driven medical device company focused exclusively on the design, development and commercialization of products that promote healing in patients with spine disorders. Since our inception in 2003, we have launched over 120 products and offer a product portfolio addressing a broad array of spinal pathologies.

We are headquartered in Audubon, Pennsylvania and market and sell our products through our exclusive sales force in the United States, Europe, India, South Africa, Australia, Central & South America and the Middle East. The sales force consists of direct sales representatives and distributor sales representatives employed by exclusive independent distributors.

The terms “the Company,” “Globus,” “we,” “us” and “our” refer to Globus Medical, Inc. and, where applicable, our consolidat subsidiaries.

(b) Basis of Presentation

The accompanying interim unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in complete financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). As such, the information included in this Quarterly Report on Form 10-Q should be read in conjunction with the consolidated financial statements and accompanying footnotes included in our Annual Report on Form 10-K for the year ended December 31, 2012.

In the opinion of management, the statements include all adjustments necessary, which are of a normal and recurring nature, for the fair presentation of our financial position and of the results for the three- and nine-month periods presented. The results of operations for any interim period are not indicative of results for the full year. Certain reclassifications have been made to prior period statements to conform to the current year presentation.

During the three months ended September 30, 2013, we identified a $5.3 million error in connection with reporting of cash flows for excess tax benefit related to nonqualified stock options and income taxes payable/receivable for the nine months ended September 30, 2012. The error resulted in the understatement of net cash provided by financing activities by $5.3 million and the offsetting overstatement of net cash provided by operating activities by $5.3 million. There was no impact to our results of operations, financial position, or overall cash flows for our previously filed quarterly financial statements. Accordingly, the Consolidated Statement of Cash Flows for the nine months ended September 30, 2012 included herein has been revised to correct this error.

(c) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Globus and its wholly-owned subsidiaries. Our consolidation policy requires the consolidation of entities where a controlling

GLOBUS MEDICAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

financial interest is held as well as the consolidation of variable interest entities in which we are the primary beneficiary. All intercompany balances and transactions are eliminated in consolidation.

(d) Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. We base our estimates, in part, on historical experience that management believes to be reasonable under the circumstances. Actual results could differ materially from those estimates. Estimates and assumptions are periodically reviewed and the effects of revisions are reflected in the consolidated financial statements in the period they are determined to be necessary.

Significant areas that require management's estimates include intangible assets, contingent payment liabilities, allowance for doubtful accounts, stock-based compensation, provision for excess and obsolete inventory, useful lives of assets, the outcome of litigation, and income taxes. We are subject to risks and uncertainties due to changes in the healthcare environment, regulatory oversight, competition, and legislation that may cause actual results to differ from estimated results.

(e) Marketable Securities

Our marketable securities include municipal bonds, corporate debt securities, commercial paper and asset-backed securities, and are classified as available-for-sale as of September 30, 2013. Available-for-sale securities are recorded at fair value in both short-term and long-term marketable securities on our consolidated balance sheets. The change in fair value for available-for-sale securities is recorded, net of taxes, as a component of accumulated other comprehensive income on our consolidated balance sheets. Premiums and discounts are recognized over the life of the related security as an adjustment to yield using the straight-line method. Realized gains or losses from the sale of our marketable securities are determined on a specific identification basis. Realized gains and losses, along with interest income and the amortization/accretion of premiums/discounts are included as a component of other income, net, on our consolidated statements of income. Interest receivable is recorded as a component of prepaid expenses and other current assets on our consolidated balance sheets.

We maintain a portfolio of various holdings, types and maturities, though most of the securities in our portfolio could be liquidated at minimal cost at any time. We invest in securities that meet or exceed standards as defined in our investment policy. Our policy also limits the amount of credit exposure to any one issue, issuer or type of security. We review our securities for other-than-temporary impairment at each reporting period. If an unrealized loss for any security is considered to be other-than-temporary, the loss will be recognized in our consolidated statement of income in the period the determination is made.

(f) Inventories

Inventories are stated at the lower of cost or market. Cost is determined on a first-in, first-out basis. The majority of our inventories are finished goods as we mainly utilize third-party suppliers to source our products. We periodically evaluate the carrying value of our inventories in relation to our estimated forecast of product demand, which takes into consideration the estimated life cycle of product releases. When quantities on hand exceed estimated sales forecasts, we record a reserve for such excess inventories.

GLOBUS MEDICAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

(g) Revenue Recognition

Revenue is recognized when persuasive evidence of an arrangement exists, product delivery has occurred, pricing is fixed or determinable, and collection is reasonably assured. A significant portion of our revenue is generated from consigned inventory maintained at hospitals or with sales representatives. For these products, revenue is recognized at the time the product is used or implanted. For all other transactions, we recognize revenue when title to the goods and risk of loss transfer to customers, provided there are no remaining performance obligations that will affect the customer's final acceptance of the sale. Our policy is to classify shipping and handling costs billed to customers as sales and the related expenses as cost of goods sold.

(h) Reverse Stock Split and Initial Public Offering

In anticipation of our initial public offering ("IPO"), on March 13, 2012, our Board of Directors ("Board") approved a reverse stock split of our common stock such that each two to five shares of issued common stock would be reclassified into one share of common stock, with the exact ratio within the two to five range to be subsequently determined by the Board. The stockholders approved the range of the reverse stock split on June 8, 2012. On July 9, 2012, our Board approved a ratio of one share for every 3.25 shares previously held. The reverse stock split became effective on July 31, 2012. All common stock share and per-share amounts for all periods presented in these financial statements have been adjusted retroactively to reflect the reverse stock split. See "Note 8. Equity" below for more details regarding the IPO.

(i) Medical Device Excise Tax

Effective as of January 1, 2013, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Affordability Reconciliation Act (collectively "PPACA") imposes a medical device excise tax ("MDET") of 2.3% on any entity that manufactures or imports certain medical devices offered for sale in the United States. We account for the MDET as a component of our cost of goods sold. For the three and nine months ended September 30, 2013 we recognized $1.9 million and $5.3 million, respectively, of MDET in our consolidated statements of income.

(j) Recently Issued Accounting Pronouncements

In February 2013, we adopted Financial Accounting Standards Board ("FASB") ASU 2013-2 "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income," which adds new disclosure requirements for items reclassified out of accumulated other comprehensive income. The new standard requires entities to prospectively disclose additional information about reclassification adjustments, including changes in accumulated other comprehensive income balances by component and significant items reclassified out of accumulated other comprehensive income. The adoption of the new standard did not have an impact on our financial position, results of operations or cash flows.

NOTE 2. ACQUISITIONS

On July 18, 2012, we entered into an asset purchase agreement with a global medical device company, pursuant to which we acquired substantially all of its assets for $6.0 million. In addition to the initial purchase price, we may be obligated to make revenue sharing payments based upon a percentage of net sales of products we acquired from it. We accounted for this purchase as a business combination and, as a result, recorded goodwill of $5.6 million.

GLOBUS MEDICAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

This acquisition, which expanded our product pipeline, did not have a material effect on our consolidated net sales or operating income for the year ended December 31, 2012 or for the three and nine months ended September 30, 2013. The assets acquired and liabilities assumed as a result of the acquisition were included in our consolidated balance sheet as of the acquisition date. The purchase price for this acquisition was primarily allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values on the acquisition date. The fair value assigned to identifiable intangible assets acquired was determined primarily by using the income approach, which discounts expected future cash flows to present value using estimates and assumptions determined by management. Purchased identifiable intangible assets are amortized on a straight-line basis over their respective estimated useful lives. The excess purchase price over the value of the net tangible and identifiable intangible assets was recorded as goodwill.

NOTE 3. INTANGIBLE ASSETS

A summary of intangible assets as of September 30, 2013 is presented below:

(In thousands)	Weighted Average Amortization Period (in years)	Gross Carrying Amount	Accumulated Amortization	Intangible Assets, net
In-process research & development	—	$4,100	$—	$4,100
Customer relationships & other intangibles	9.7	3,603	(768)	2,835
Patents	17	2,420	(166)	2,254
Total intangible assets		$10,123	$(934)	$9,189

A summary of intangible assets as of December 31, 2012 is presented below:

(In thousands)	Weighted Average Amortization Period (in years)	Gross Carrying Amount	Accumulated Amortization	Intangible Assets, net
In-process research & development	—	$4,100	$—	$4,100
Customer relationships & other intangibles	9.7	3,603	(479)	3,124
Patents	17	2,420	(59)	2,361
Total intangible assets		$10,123	$(538)	$9,585

GLOBUS MEDICAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

NOTE 4. MARKETABLE SECURITIES

The composition of our short-term and long-term marketable securities as of September 30, 2013 is as follows:

(In thousands)	Contractual Maturity (in years)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term:					
Municipal bonds	Less than 1	$71,854	$21	$(20)	$71,855
Corporate debt securities	Less than 1	16,440	7	—	16,447
Commercial paper	Less than 1	22,932	5	—	22,937
Total short-term marketable securities		$111,226	$33	$(20)	$111,239
Long-term:					
Municipal bonds	1-2	$19,771	$11	$(10)	$19,772
Corporate debt securities	1-2	23,380	11	(2)	23,389
Asset backed securities	1-2	7,493	—	(1)	7,492
Total long-term marketable securities		$50,644	$22	$(13)	$50,653

We had no short-term or long-term marketable securities as of December 31, 2012.

NOTE 5. FAIR VALUE MEASUREMENTS

Under the accounting for fair value measurements and disclosures, fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or the liability in an orderly transaction between market participants on the measurement date. Additionally, a fair value hierarchy was established that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable inputs. The level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Our assets and liabilities measured at fair value on a recurring basis are classified and disclosed in one of the following three categories:

Level 1—quoted prices (unadjusted) in active markets for identical assets and liabilities;

Level 2—observable inputs other than quoted prices in active markets for identical assets and liabilities; and

Level 3—unobservable inputs in which there is little or no market data available, which require the reporting entity to use significant unobservable inputs or valuation techniques.

GLOBUS MEDICAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

The fair value of our assets and liabilities measured at fair value on a recurring basis was as follows:

(In thousands)	Balance at September 30, 2013	Level 1	Level 2	Level 3
Cash equivalents	$23,825	$23,825	—	—
Municipal bonds	91,627	91,627	—	—
Corporate debt securities	39,836	39,836	—	—
Commercial paper	22,937	22,937	—	—
Asset-backed securities	7,492	7,492	—	—
Contingent consideration	7,368	—	—	7,368

(In thousands)	Balance at December 31, 2012	Level 1	Level 2	Level 3
Cash equivalents	$96,585	$96,585	—	—
Contingent consideration	7,358	—	—	7,358

Contingent consideration represents our contingent milestone, performance and revenue-sharing payment obligations related to our acquisitions and is measured at fair value, based on significant inputs not observable in the market, which represents a Level 3 measurement within the fair value hierarchy. The valuation of contingent consideration uses assumptions we believe would be made by a market participant. We assess these estimates on an ongoing basis as additional data impacting the assumptions is obtained. Changes in the fair value of contingent consideration related to updated assumptions and estimates are recognized within research and development and selling, general and administrative expenses in the consolidated statements of income.

NOTE 6. ACCRUED EXPENSES

(In thousands)	September 30, 2013	December 31, 2012
Compensation and other employee-related costs	$16,372	$16,733
Royalties	1,919	1,805
Legal and other settlements and expenses	19,600	1,924
Other	6,520	4,541
Total accrued expenses	$44,411	$25,003

NOTE 7. DEBT

Line of Credit

In May 2011, and as amended in March 2012 and May 2013, we entered into a credit agreement with Wells Fargo Bank related to a revolving credit facility that provides for borrowings up to $50.0 million. At our request, and with the approval of the bank, the amount of borrowings available under the revolving credit facility can be increased to $75.0 million. The revolving credit facility includes up to a $25.0 million sub-limit for letters of credit. The revolving credit facility expires in May 2015. Cash advances bear interest at our option either at a fluctuating rate per annum equal to the daily LIBOR in effect for a one-month period plus 0.75%, or a fixed rate for a one- or three-month period equal to LIBOR plus 0.75%. The credit agreement

GLOBUS MEDICAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

governing the revolving credit facility also subjects us to various restrictive covenants, including the requirement to maintain maximum consolidated leverage. The covenants also include limitations on our ability to repurchase shares, to pay cash dividends or to enter into a sale transaction. As of September 30, 2013, we were in compliance with all covenants under the credit agreement, there were no outstanding borrowings under the revolving credit facility and available borrowings were $50.0 million. The revolving credit facility is subject to an unused commitment fee of 0.10% of the unused portion. We may terminate the credit agreement at any time on ten days' notice without premium or penalty.

NOTE 8. EQUITY

Prior to June 21, 2012, of the authorized number of shares of common stock, we had 360,000,000 shares designated as Class A common stock ("Class A Common"), 309,178,636 shares designated as Class B common stock ("Class B Common") and 10,000,000 shares designated as Class C common stock ("Class C Common"). On June 21, 2012, we amended and restated our Certificate of Incorporation, and as a result, amended the number of authorized shares. As of the amendment date, of the authorized number of shares of common stock, we had 500,000,000 shares designated as Class A Common, 275,000,000 shares designated as Class B Common and 10,000,000 shares designated as Class C Common.

The holders of Class A Common are entitled to one vote for each share of Class A Common held. The holders of Class B Common are entitled to 10 votes for each share of Class B Common held. The holders of Class A Common and Class B Common vote together as one class of common stock. The Class C Common is nonvoting. Except for voting rights, the Class A Common, Class B Common and Class C Common have the same rights and privileges.

In August 2012, we completed our IPO. We sold 2,083,333 shares of our Class A Common at an offering price of $12.00 per share. For the period ended September 30, 2012, we recognized gross proceeds of $25.0 million and our net proceeds received after underwriting fees and offering expenses were $21.0 million.

All common stock share and per-share amounts for all periods presented in these financial statements have been adjusted retroactively to reflect the reverse stock split that became effective July 31, 2012.

Immediately prior to the closing of our IPO, we effectuated the following conversion:

- the automatic conversion of all shares of our Series E preferred stock to 15,597,300 shares of our Class B Common;
- the subsequent automatic conversion of 49,655,411 shares of our Class B Common (which reflects all such shares of Class B Common held by those who beneficially owned less than 10% of the aggregate number of all outstanding shares of our common stock) to 49,655,411 shares of our Class A Common;
- the automatic conversion of all shares of our Class C Common to 73,554 shares of our Class A Common; and
- the automatic conversion of 3,039,385 shares of Class B Common to 3,039,385 shares of Class A Common upon their sale by the selling stockholders.

Although the number of outstanding shares of our Series E preferred stock did not change due to the reverse stock split, the rate at which shares of our Series E preferred stock converted into shares of Class B Common decreased proportionally to the reverse stock split ratio. The reverse stock split did not affect the

GLOBUS MEDICAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

number of shares of capital stock we are authorized to issue. As a result of the reverse stock split, the number of unreserved and issuable shares of authorized common stock increased.

Our issued and outstanding common shares by Class were as follows:

(Shares)	Class A Common	Class B Common	Total
December 31, 2012	63,892,508	27,377,556	91,270,064
September 30, 2013	65,847,539	27,377,556	93,225,095

The following table summarizes changes in total stockholders' equity:

(In thousands)	Nine Months Ended September 30, 2013
Total stockholders' equity, beginning of period	$386,502
Net income	47,627
Stock-based compensation	3,865
Exercise of stock options	6,221
Excess tax benefit of nonqualified stock options	4,519
Other comprehensive loss	(358)
Total stockholders' equity, end of period	$448,376

The table below presents the changes in each component of accumulated other comprehensive loss, including current period other comprehensive loss and reclassifications out of accumulated other comprehensive loss:

(In thousands)	Unrealized gain/(loss) on marketable securities, net of tax	Foreign currency translation adjustment	Accumulated Other Comprehensive Loss
Accumulated other comprehensive loss, net of tax, at December 31, 2012	$—	$(767)	$(767)
Other comprehensive income/(loss) before reclassifications	17	(371)	(354)
Amounts reclassified from accumulated other comprehensive income/(loss), net of tax	(4)	—	(4)
Other comprehensive income/(loss), net of tax	13	(371)	(358)
Accumulated other comprehensive income/(loss), net of tax, at September 30, 2013	$13	$(1,138)	$(1,125)

For the year ended December 31, 2012, our accumulated other comprehensive loss consisted solely of foreign currency translation and no amounts were reclassified out of accumulated other comprehensive loss during the year ended December 31, 2012.

GLOBUS MEDICAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

NOTE 9. STOCK-BASED COMPENSATION

We have three Stock Plans (the "Plans"), the purpose of which is to provide incentive to employees, directors, and consultants of Globus. We have reserved an aggregate of 5,459,510 shares of Class A Common and 4,153,846 shares of Class B Common pursuant to our Amended and Restated 2003 Stock Plan (the "2003 Plan") and our 2008 Stock Plan (the "2008 Plan") as of September 30, 2013. The Plans are administered by the Board or its delegates. The number, type of option, exercise price, and vesting terms are determined by the Board or its delegates in accordance with the terms of the Plans. The options granted expire on a date specified by the Board, but generally not more than ten years from the grant date. Option grants to employees generally vest monthly over a four-year period.

The Board approved the 2012 Equity Incentive Plan (the "2012 Plan") in March 2012, and our stockholders subsequently approved the 2012 Plan in June 2012. Under the terms of the 2012 Plan, the aggregate number of shares of Class A Common that may be issued subject to options and other awards is equal to the sum of (1) 3,076,923 shares, (2) any shares available for issuance under the 2008 Plan as of March 13, 2012, (3) any shares underlying awards outstanding under the 2008 Plan as of March 13, 2012 that, on or after that date, are forfeited, terminated, expired or lapse for any reason, or are settled for cash without delivery of shares and (4) starting January 1, 2013, an annual increase in the number of shares available under the 2012 Plan equal to up to 3% of the number of shares of our common and preferred stock outstanding at the end of the previous year, as determined by the Board. We have reserved 6,201,667 shares of Class A Common pursuant to the 2012 Plan as of September 30, 2013. The number of shares that may be issued or transferred pursuant to incentive stock options under the 2012 Plan is limited to 10,769,230 shares. The shares of Class A Common covered by the 2012 Plan are authorized but unissued shares, treasury shares or shares of common stock purchased on the open market.

As of September 30, 2013, there were 5,214,829 shares of common stock available for future grants under the Plans.

The weighted average grant date per share fair values of the options awarded to employees were as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Weighted average grant date per share fair value	$7.17	$6.57	$6.05	$6.19

Stock option activity during the nine months ended September 30, 2013, is summarized as follows:

	Option Shares(thousands)	Weighted average exercise price	Weighted average remaining contractual life (years)	Aggregate intrinsic value (thousands)
Outstanding at December 31, 2012	6,253	$6.99		
Granted	1,052	14.11		
Exercised	(1,955)	3.18		
Forfeited	(314)	10.25		
Outstanding at September 30, 2013	5,036	$9.64	7.0	$39,380
Exercisable at September 30, 2013	2,853	$6.98	5.5	$29,916

GLOBUS MEDICAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Compensation expense related to stock options granted to employees and non-employees under the Plans and the intrinsic value of stock options exercised was as follows:

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Compensation expense related to stock options	$1,387	$1,545	$3,865	$3,682
Intrinsic value of stock options exercised	5,027	8,684	22,326	11,070

As of September 30, 2013, there was $10.6 million of unrecognized compensation expense related to unvested employee stock options that are expected to vest over a weighted average period of three years.

NOTE 10. INCOME TAXES

In computing our income tax provision we make certain estimates and management judgments, such as estimated annual taxable income or loss, annual effective tax rate, the nature and timing of permanent and temporary differences between taxable income for financial reporting and tax reporting, and the recoverability of deferred tax assets. Our estimates and assumptions may change as new events occur, additional information is obtained, or as the tax environment changes. Should facts and circumstances change during a quarter causing a material change to the estimated effective income tax rate, a cumulative adjustment is recorded.

For the nine-month periods ended September 30, 2013 and 2012, our effective income tax rates were 32.1% and 38.0%, respectively. The effective rate for the nine months ended September 30, 2013 was favorably affected by the domestic production activities deduction, an increase in disqualifying dispositions from incentive stock option exercises, an adjustment to the provisional rate due to the prior quarter litigation loss, the timing of the American Taxpayer Relief Act of 2012 (“ATRA,” which unfavorably impacted the prior year period due to the inability to recognize the effect of the reinstated credit in the period of qualifying activity and favorably affected the current year) and other changes to the components of the annual effective tax rate calculation. On January 2, 2013, the ATRA was signed into law and reinstated the research and experimentation credit from January 1, 2012 through December 31, 2013. However, as the passage of the ATRA occurred in 2013, the entire reinstated credit for the year ended December 31, 2012 of $0.9 million was recognized in 2013 accordance with accounting guidance.

NOTE 11. COMMITMENTS AND CONTINGENCIES

We are involved in a number of proceedings, legal actions, and claims. Such matters are subject to many uncertainties, and the outcomes of these matters are not within our control and may not be known for prolonged periods of time. In some actions, the claimants seek damages, as well as other relief, including injunctions prohibiting us from engaging in certain activities, which, if granted, could require significant expenditures and/or result in lost revenues. We record a liability in the consolidated financial statements for these actions when a loss is known or considered probable and the amount can be reasonably estimated. If the reasonable estimate of a known or probable loss is a range, and no amount within the range is a better estimate than any other, the minimum amount of the range is accrued. If a loss is possible but not known or probable, and can be reasonably estimated, the estimated loss or range of loss is disclosed. In most cases, significant judgment is required to estimate the amount and timing of a loss to be recorded. While it is not possible to predict the outcome for most of the matters discussed, we believe it is possible that costs associated with them could have a material adverse impact on our consolidated earnings, financial position or cash flows.

GLOBUS MEDICAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

N-Spine and Synthes Litigation

In April 2010, N-Spine, Inc. and Synthes USA Sales, LLC filed suit against us in the U.S. District Court for the District of Delaware for patent infringement. N-Spine, the patent owner, and Synthes USA, a licensee of the subject patent, allege that we infringe one or more claims of the patent by making, using, offering for sale or selling our TRANSITION® stabilization system product. N-Spine and Synthes USA seek injunctive relief and an unspecified amount in damages. We intend to defend our rights vigorously. This matter was stayed on July 14, 2011 pending the resolution of an inter partes reexamination on the asserted patent granted by the U.S. Patent and Trademark Office ("USPTO") in February 2011. In December 2011, the examiner withdrew the original grounds of rejection of the asserted patent and we have appealed the examiner's decision. As of October 2013, the appeal is still pending at the USPTO. The probable outcome of this litigation cannot be determined, nor can we estimate a range of potential loss. Therefore, in accordance with authoritative guidance on the evaluation of loss contingencies, we have not recorded an accrual related to this litigation.

Synthes USA, LLC, Synthes USA Products, LLC and Synthes USA Sales, LLC Litigation

In July 2011, Synthes USA, LLC, Synthes USA Products, LLC and Synthes USA Sales, LLC filed suit against us in the U.S. District Court for the District of Delaware for patent infringement. Synthes USA, LLC, the patent owner, Synthes USA Products, LLC, a licensee to manufacture products of the subject patents, and Synthes USA Sales LLC, a licensee to sell products of the subject patents, alleged that we infringed one or more claims of three patents by making, using, offering for sale or selling our COALITION®, INDEPENDENCE® and INTERCONTINENTAL® products. As a result of the acquisition of Synthes, Inc. by Johnson & Johnson, a motion was filed to change the plaintiff in this matter to DePuy Synthes Products, LLC ("DePuy Synthes") in February 2013. On June 14, 2013, the jury in this case returned a verdict, finding that prior versions of the three products we previously sold did infringe on DePuy Synthes' patents and awarding monetary damages in the amount of $16.0 million. The jury also upheld the validity of DePuy Synthes' patents. There was no finding of willful infringement by Globus.

We do not expect the verdict to impact our ability to conduct our business or to have any material impact on our future revenues. As this lawsuit involved only three products that are no longer part of our product portfolio, this verdict is not expected to impair our ability to sell any of our future products.

We believe the facts and the law do not support the jury's findings of infringement and patent validity and will seek to overturn the verdict in post-trial motions with the District Court and, if necessary, through the appeals process.

For the nine months ending September 30, 2013, we accrued $19.5 million in damages and other litigation-related costs, of which $1.3 million was included in provision for litigation loss (cost of goods sold, due to a write off of certain inventory which will not be sold due to the verdict) and $18.2 million was included in provision for litigation loss (operating expense).

L5 Litigation

In December 2009, we filed suit in the Court of Common Pleas of Montgomery County, Pennsylvania against our former exclusive independent distributor L5 Surgical, LLC and its principals, seeking an injunction and declaratory judgment concerning certain restrictive covenants made to L5 by its sales representatives. L5 brought counterclaims against us alleging tortious interference, unfair competition and conspiracy. The injunction phase was resolved in September 2010, and this matter is now in the discovery phase of litigation on the underlying damages claims. We intend to defend our rights vigorously. The probable outcome of this

GLOBUS MEDICAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

litigation cannot be determined, nor can we estimate a range of potential loss. Therefore, in accordance with authoritative guidance on the evaluation of loss contingencies, we have not recorded an accrual related to this litigation.

NuVasive Infringement Litigation

In October 2010, NuVasive, Inc. filed suit against us in the U.S. District Court for the District of Delaware for patent infringement. NuVasive, the patent owner, alleges that we infringe one or more claims of three patents by making, using, offering for sale or selling our MARS 3V™ retractor for use in certain lateral fusion procedures. NuVasive seeks injunctive relief and an unspecified amount in damages. The litigation is currently in the discovery phase. We intend to defend our rights vigorously. Additionally, we sought inter partes reexaminations of the three patents asserted by NuVasive in the U.S. Patent and Trademark Office, which were granted in April 2012. In August 2012, the examiner withdrew the original grounds of rejection of the patents asserted by NuVasive, and we are in the process of appealing the examiner's decision. The probable outcome of this litigation cannot be determined, nor can we estimate a range of potential loss. Therefore, in accordance with authoritative guidance on the evaluation of loss contingencies, we have not recorded an accrual related to this litigation.

NuVasive Employee Litigation

We have hired several employees who were formerly employed by NuVasive, Inc. In July 2011, NuVasive filed suit against us in the District Court of Travis County, Texas alleging that our hiring of one named former employee and other unnamed former employees constitutes tortious interference with their contract with employees, and with prospective business relationships, as well as aiding and abetting the breach of fiduciary duty. NuVasive is seeking compensatory damages, permanent injunction, punitive damages and attorneys' fees. Trial is currently scheduled for January 2014. We intend to defend our rights vigorously. The probable outcome of this litigation cannot be determined, nor can we estimate a range of potential loss. Therefore, in accordance with authoritative guidance on the evaluation of loss contingencies, we have not recorded an accrual related to this litigation.

Bianco Litigation

On March 21, 2012, Sabatino Bianco filed suit against us in the Federal District Court for the Eastern District of Texas claiming that we misappropriated his trade secret and confidential information and improperly utilized it in developing our CALIBER® product. Bianco alleges that we engaged in misappropriation of trade secrets, breach of contract, unfair competition, fraud and theft and seeks correction of inventorship, injunctive relief and exemplary damages. On April 20, 2012, Bianco filed a motion for a preliminary injunction, seeking to enjoin us from making, using, selling, importing or offering for sale our CALIBER® product. On November 15, 2012, the court denied Bianco's motion for preliminary injunction. On October 1, 2013, Bianco amended his complaint to claim that his trade secrets and confidential information were also used improperly in developing our RISE® product. This matter is now in the discovery phase of litigation on the underlying damages claims and trial is currently scheduled for January 2014. We intend to defend our rights vigorously. The probable outcome of this litigation cannot be determined, nor can we estimate a range of potential loss. Therefore, in accordance with authoritative guidance on the evaluation of loss contingencies, we have not recorded an accrual related to this litigation.

Altus Partners, LLC Litigation

On February 20, 2013, Altus Partners, LLC filed suit against us in the U.S. District Court for the Eastern District of Pennsylvania for patent infringement. Altus Partners, LLC alleges that we infringe one

GLOBUS MEDICAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

or more claims of U.S. Patent No. 8,162,989, which issued on April 24, 2012, by making, using, offering for sale or selling our pedicle screws associated with the REVERE®, TRANSITION® and REVOLVE® products. Altus Partners seeks injunctive relief and an unspecified amount in damages. The litigation is currently in the discovery phase and trial has been set for June 2014. We intend to defend our rights vigorously. The probable outcome of this litigation cannot be determined, nor can we estimate a range of potential loss. Therefore, in accordance with authoritative guidance on the evaluation of loss contingencies, we have not recorded an accrual related to this litigation.

In addition, we are subject to legal proceedings arising in the ordinary course of business.

NOTE 12. RELATED-PARTY TRANSACTIONS

We have contracted with a third-party manufacturer in which certain of our senior management and significant stockholders have or had ownership interests and leadership positions. This supplier had been consolidated through December 29, 2009, and the effect of this entity in our consolidated statements of income was not material for the three and nine months ended September 30, 2013 and 2012, respectively, due to the sale or write-off of inventory purchased when the entity was consolidated and our inventory cost reflected the entity's cost to produce rather than invoice price.

We have purchased the following amounts of products and services from the supplier:

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Purchases from related-party supplier	$4,478	$6,894	$15,987	$15,418

As of September 30, 2013 and December 31, 2012, we had $3.3 million and $2.6 million of accounts payable due to the supplier.

NOTE 13. SEGMENT AND GEOGRAPHIC INFORMATION

Operating segments are defined as components of an enterprise for which separate financial information is available and evaluated regularly by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. We globally manage the business within one reportable segment. Segment information is consistent with how management reviews the business, makes investing and resource allocation decisions and assesses operating performance. Products are sold principally in the United States. Segmentation of operating income and identifiable assets is not applicable since our sales outside the United States are export sales, and we do not have significant operating assets outside the United States.

The following table represents total sales by geographic area, based on the location of the customer:

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
United States	$98,109	$87,140	$292,487	$263,710
International	9,078	7,624	26,727	21,748
Total sales	$107,187	$94,764	$319,214	$285,458

GLOBUS MEDICAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

We classify our products into two categories: innovative fusion products and disruptive technology products. The following table represents total sales by product category:

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Innovative Fusion	$62,620	$57,828	$186,929	$180,549
Disruptive Technology	44,567	36,936	132,285	104,909
Total sales	$107,187	$94,764	$319,214	$285,458

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read together with our consolidated financial statements and related notes included elsewhere in this report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. You should review the cautionary statements under the heading "Part II; Item 1A. Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q and in our other Securities and Exchange Commission filings, including "Part I; Cautionary Note Concerning Forward-Looking Statements," "Part I; Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, and "Part II; Item 1A. Risk Factors" in our Quarterly Reports on Form 10-Q filed during 2013 for a discussion of certain of the important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements described in the following discussion and analysis. Certain amounts and percentages in this discussion and analysis have been rounded for convenience of presentation. Unless otherwise noted, the figures in the following discussions are unaudited.

Overview

We are a medical device company focused exclusively on the design, development and commercialization of products that promote healing in patients with spine disorders. We are an engineering-driven company with a history of rapidly developing and commercializing products that assist surgeons in effectively treating their patients, respond to evolving surgeon needs and address new treatment options. Since our inception in 2003, we have launched over 120 products and offer a comprehensive product portfolio of innovative and differentiated products addressing a broad array of spinal pathologies, anatomies and surgical approaches.

We sell implants and related disposables to our customers, primarily hospitals, for use by surgeons to treat spine disorders. All of our products fall into one of two categories: Innovative Fusion or Disruptive Technologies. Spinal fusion is a surgical procedure to correct problems with the individual vertebrae, the interlocking bones making up the spine, by preventing movement of the affected bones. Our Innovative Fusion products are used in cervical, thoracolumbar, sacral, and interbody/corpectomy fusion procedures to treat degenerative, deformity, tumor, and trauma conditions.

We define Disruptive Technologies as those that represent a significant shift in the treatment of spine disorders by allowing for novel surgical procedures, improvements to existing surgical procedures, the treatment of spine disorders by new physician specialties, and surgical intervention earlier in the continuum of care. Our current portfolio of approved and pipeline products includes a variety of Disruptive Technology products, which we believe offer material improvements to fusion procedures, such as minimally invasive surgical ("MIS") techniques, as well as new treatment alternatives including motion preservation technologies, such as dynamic stabilization, total disc replacement and interspinous process spacer products, and advanced biomaterials technologies, as well as interventional pain management solutions, including treatments for vertebral compression fractures.

To date, the primary market for our products has been the United States, where we sell our products through a combination of direct sales representatives employed by us and distributor sales representatives employed by our exclusive independent distributors, who distribute our products on our behalf for a commission that is generally based on a percentage of sales. We believe there is significant opportunity to strengthen our position in the U.S. market by increasing the size of our U.S. sales force and we intend to continue to add additional direct and distributor sales representatives in the future.

During the nine months ended September 30, 2013, our international sales accounted for approximately 8% of our total sales. We sell our products outside the United States through a combination

Table of Contents

of direct sales representatives employed by us and international distributors. We believe there are significant opportunities for us to increase our presence in both existing and new international markets through the continued expansion of our direct and distributor sales forces and the commercialization of additional products.

Results of Operations

Three Months Ended September 30, 2013 Compared to the Three Months Ended September 30, 2012

Sales

The following table sets forth, for the periods indicated, our sales by product category and geography expressed as dollar amounts and the changes in sales between the specified periods expressed in dollar amounts and as percentages:

(In thousands, except percentages)	Three Months Ended		Change		
	September 30, 2013	September 30, 2012	$	%	
United States	$98,109	$87,140	$10,969	12.6	%
International	9,078	7,624	1,454	19.1	%
Total sales	$107,187	$94,764	$12,423	13.1	%

Sales growth in the United States was primarily due to increased sales of our Disruptive Technology products and increased market penetration in new and existing territories. We believe there is significant opportunity to strengthen our position in existing markets and in new sales territories by increasing the size of our U.S. sales force.

The increase in international sales was attributable to increased market penetration in existing sales territories while also entering six additional countries in the three months ended September 30, 2013 in which we had no sales in the three months ended September 30, 2012. We believe there is significant opportunity for us to expand our international presence through increased market penetration in existing territories, expansion into new territories, expansion of our direct and distributor sales force and the commercialization of additional products.

(In thousands, except percentages)	Three Months Ended		Change		
	September 30, 2013	September 30, 2012	$	%	
Innovative Fusion	$62,620	$57,828	$4,792	8.3	%
Disruptive Technology	44,567	36,936	7,631	20.7	%
Total sales	$107,187	$94,764	$12,423	13.1	%

The increase in total sales was primarily attributable to an increase in sales of our Disruptive Technology products, led by new products launched in 2011 and 2012.

Table of Contents

Cost of Goods Sold

(In thousands, except percentages)	Three Months Ended September 30, 2013		September 30, 2012		Change $	Change %	
Cost of goods sold	$25,315		$18,872		$6,443	34.1	%
Percentage of sales	23.6	%	19.9	%			

The increase in cost of goods sold was due to $2.0 million of increased sales volume and mix, an increase of $1.9 million (or 1.8% as a percentage of consolidated sales) related to the medical device excise tax ("MDET") that went into effect on January 1, 2013, an increase of $1.0 million of costs relating to new systems launched and an increase of $1.5 million of distribution, depreciation, and other costs.

Research and Development Expenses

(In thousands, except percentages)	Three Months Ended September 30, 2013		September 30, 2012		Change $	Change %	
Research and development	$6,568		$7,022		$(454)	(6.5)	%
Percentage of sales	6.1	%	7.4	%			

The decrease in research and development expenses was primarily due to decreases in costs for supplies and outside services.

Selling, General and Administrative Expenses

(In thousands, except percentages)	Three Months Ended September 30, 2013		September 30, 2012		Change $	Change %	
Selling, general and administrative	$45,702		$41,780		$3,922	9.4	%
Percentage of sales	42.6	%	44.1	%			

The increase in selling, general and administrative expenses was primarily due to an increase of $3.3 million in compensation costs in the United States. This was to support increased sales volume and company growth, including hiring of additional sales representatives, and general administrative personnel. Additionally, the costs to support international sales growth and expansion into new international territories and other selling, general and administrative costs increased by $0.6 million.

Provision for Litigation Loss

(In thousands, except percentages)	Three Months Ended September 30, 2013		September 30, 2012	Change $	Change %	
Provision for litigation loss	$99		$30	$69	230.0	%
Percentage of sales	0.1	%				