

GLOBUS MEDICAL INC
Form 10-Q
May 05, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended March 31, 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 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 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 (as defined in Rule 12b-2 of the Exchange Act):

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer (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

The number of shares outstanding of the issuer's common stock (par value \$0.001 per share) as of April 20, 2015 was 94,908,608 shares.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

GLOBUS MEDICAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)	March 31, 2015 (Unaudited)	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$75,006	\$82,265
Restricted cash	23,370	23,370
Short-term marketable securities	138,274	146,439
Accounts receivable, net of allowances of \$1,567 and \$1,647, respectively	73,174	75,430
Inventories	98,947	90,945
Prepaid expenses and other current assets	5,054	5,742
Income taxes receivable	529	5,772
Deferred income taxes	41,341	40,062
Total current assets	455,695	470,025
Property and equipment, net of accumulated depreciation of \$123,430 and \$118,544, respectively	87,916	69,475
Long-term marketable securities	71,513	75,347
Intangible assets, net	34,342	34,529
Goodwill	93,573	53,196
Other assets	1,090	975
Total assets	\$744,129	\$703,547
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$19,384	\$15,904
Accounts payable to related-party	—	5,359
Accrued expenses	57,817	61,499
Income taxes payable	9,557	569
Business acquisition liabilities, current	6,553	6,081
Total current liabilities	93,311	89,412
Business acquisition liabilities, net of current portion	25,802	20,195
Deferred income taxes	7,520	5,166
Other liabilities	3,332	3,320
Total liabilities	129,965	118,093
Commitments and contingencies (Note 12)		
Equity:		
Class A common stock; \$0.001 par value. Authorized 500,000 shares; issued and outstanding 71,022 and 70,828 shares at March 31, 2015 and December 31, 2014, respectively	71	71
Class B common stock; \$0.001 par value. Authorized 275,000 shares; issued and outstanding 23,878 at March 31, 2015 and December 31, 2014, respectively	24	24
Additional paid-in capital	179,482	175,242
Accumulated other comprehensive loss	(1,835) (1,657)

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Retained earnings	436,422	411,774
Total equity	614,164	585,454
Total liabilities and equity	\$744,129	\$703,547
See accompanying notes to consolidated financial statements.		

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

(In thousands, except per share amounts)	Three Months Ended	
	March 31, 2015	March 31, 2014
Sales	\$131,604	\$114,210
Cost of goods sold	32,107	25,312
Gross profit	99,497	88,898
Operating expenses:		
Research and development	8,656	7,443
Selling, general and administrative	52,289	46,678
Provision for litigation	32	2,535
Total operating expenses	60,977	56,656
Operating income	38,520	32,242
Other income/(expense), net		
Interest income, net	278	201
Foreign currency transaction loss	(677	) (30
Other income	52	74
Total other income/(expense), net	(347	) 245
Income before income taxes	38,173	32,487
Income tax provision	13,525	11,348
Net income	\$24,648	\$21,139
Earnings per share:		
Basic	\$0.26	\$0.23
Diluted	\$0.26	\$0.22
Weighted average shares outstanding:		
Basic	94,788	93,715
Dilutive stock options	1,117	1,457
Diluted	95,905	95,172
Anti-dilutive stock equivalents excluded from weighted average calculation	2,721	1,235

See accompanying notes to consolidated financial statements.

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

(In thousands)	Three Months Ended	
	March 31, 2015	March 31, 2014
Net income	\$24,648	\$21,139
Other comprehensive income/(loss):		
Unrealized gain on marketable securities, net of tax	65	1
Foreign currency translation loss	(243	) (3
Total other comprehensive loss	(178	) (2
Comprehensive income	\$24,470	\$21,137

See accompanying notes to consolidated financial statements.

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

(In thousands)	Three Months Ended	
	March 31, 2015	March 31, 2014
Cash flows from operating activities:		
Net income	\$24,648	\$21,139
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,674	5,297
Amortization of premium on marketable securities	640	801
Provision for excess and obsolete inventories	2,529	1,813
Stock-based compensation	2,131	1,927
Allowance for doubtful accounts	47	89
Change in deferred income taxes	(2,217	) (2,415
(Increase)/decrease in:		
Accounts receivable	1,888	(812
Inventories	(7,361	) (3,993
Prepaid expenses and other assets	896	(562
Increase/(decrease) in:		
Accounts payable	835	(1,096
Accounts payable to related-party	(5,359	) 1,184
Accrued expenses and other liabilities	(3,904	) (2,015
Income taxes payable/receivable	14,223	7,875
Net cash provided by operating activities	34,670	29,232
Cash flows from investing activities:		
Purchases of marketable securities	(72,874	) (75,343
Maturities of marketable securities	64,574	46,250
Sales of marketable securities	19,764	14,280
Purchases of property and equipment	(7,228	) (6,164
Acquisition of businesses, net of cash acquired	(48,015) —
Net cash used in investing activities	(43,779	) (20,977
Cash flows from financing activities:		
Payment of business acquisition liabilities	(300	) (200
Proceeds from issuance of common stock	1,425	3,855
Excess tax benefit related to nonqualified stock options	684	2,786
Net cash provided by financing activities	1,809	6,441
Effect of foreign exchange rate on cash	41	(56
Net increase/(decrease) in cash and cash equivalents	(7,259	) 14,640
Cash and cash equivalents, beginning of period	82,265	89,962
Cash and cash equivalents, end of period	\$75,006	\$104,602
Supplemental disclosures of cash flow information:		
Interest paid	—	13
Income taxes paid	\$509	\$3,168

See accompanying notes to consolidated financial statements.

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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 a medical device company focused on the design, development and commercialization of musculoskeletal implants. We are currently focused on implants that promote healing in patients with spine disorders. We are an engineering-driven company with a history of rapidly developing and commercializing advanced products and procedures 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 130 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, as well as within North, Central & South America, Europe, Asia, Africa and Australia. Our 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 consolidated subsidiaries.

(b) Basis of Presentation

The accompanying interim unaudited condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (“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, 2014.

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-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.

(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 financial interest is held. 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

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

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) Restricted Cash

In December 2014, we set aside \$23.4 million in cash for the payment of a portion of the Synthes and Bianco litigations. We classified this cash as restricted, as the amount was placed in escrow to be used for payment of the litigation obligations, should we not be successful with our appeals. See "Note 12. Commitments and Contingencies" below for more details regarding these litigations.

(f) Marketable Securities

Our marketable securities include municipal bonds, corporate debt securities, commercial paper, securities of U.S. government-sponsored agencies and asset-backed securities, and are classified as available-for-sale as of March 31, 2015. 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.

(g) 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)

(h) 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.

NOTE 2. ACQUISITIONS

On February 25, 2015, we entered into an agreement to acquire Branch Medical Group, Inc. ("BMG"), a related-party manufacturer of high precision medical devices located in Audubon, PA. We closed this acquisition on March 11, 2015, for \$57.0 million in cash, \$5.3 million in deferred consideration, and an estimated \$0.9 million payable upon finalization of closing adjustments. The amount payable to BMG on the date of acquisition of \$5.2 million was also settled in connection with the acquisition.

As previously disclosed in our definitive proxy statement, BMG had been a related-party supplier since 2005. As of February 24, 2015, David C. Paul's wife, David D. Davidar's wife, and David M. Demski collectively owned approximately 49% of the outstanding stock of BMG. In addition, since February 2010, Mr. Paul's wife and Mr. Davidar's wife had served as directors of BMG. Prior to the acquisition, we purchased products and services from BMG pursuant to a standard Supplier Quality Agreement entered into in September 2010.

We accounted for the acquisition under the purchase method of accounting, and as a result, recorded preliminary goodwill of \$40.6 million. The results of operations of BMG have been included in our results of operations from the date of acquisition. Amounts recognized for assets acquired and liabilities assumed are based on preliminary purchase price allocations and on certain management judgments. These preliminary allocations are based on an analysis of the estimated fair values of assets acquired and liabilities assumed, including identifiable tangible assets, and estimates of the useful lives of tangible assets. The final purchase price allocations will be completed after we finalize our third-party appraisal, review all available data, and complete our own internal assessments. We expect to complete our final purchase price allocations by the end of June 2015. Any additional adjustments resulting from finalization of the purchase price allocations for BMG will affect the amount assigned to goodwill. The goodwill from this acquisition is not deductible for tax purposes.

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

As of March 31, 2015, we recorded the following purchase price allocation for the identifiable tangible and intangible assets and liabilities of BMG:

(In thousands)

Consideration:

Cash paid at closing	\$57,042
Deferred consideration	5,290
Estimated closing adjustments payable	948
Fair value of consideration	\$63,280

Identifiable assets acquired and liabilities assumed:

Cash acquired	\$9,027
Accounts receivable	88
Inventory	3,156
Other assets	444
Property and equipment	14,862
Accounts payable and accrued expenses	(1,581)
Deferred tax liability, net	(3,293)
Total identifiable net assets	22,703

Goodwill

Total allocated purchase price \$63,280

The following unaudited pro forma information is based on historical data, and gives effect to our acquisition of BMG as if the acquisition had occurred on January 1, 2014. These unaudited pro forma results include adjustments having a continuing impact on our consolidated statements of income. These adjustments consist of: elimination of intercompany sales/purchase transactions and the related profit, adjustments to depreciation for the fair value and depreciable lives of property and equipment, adjustments in the capitalization of overhead costs and adjustments to tax expense based on consolidated pro forma results. These results have been prepared using assumptions our management believes are reasonable, are not necessarily indicative of the actual results that would have occurred if the acquisition had occurred on January 1, 2014, and are not necessarily indicative of the results that may be achieved in the future, including but not limited to operating synergies that we may realize as a result of the acquisition.

(In thousands)	Three Months Ended	
	March 31, 2015	March 31, 2014
	(unaudited pro forma)	
Net sales	\$131,702	\$114,314
Net income	24,608	21,105
Earnings per share:		
Basic	\$0.26	\$0.23
Diluted	\$0.26	\$0.22

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

On October 23, 2014, we entered into an equity interest purchase agreement with Transplant Technologies of Texas, Ltd. (“TTOT”), an allograft tissue processor located in San Antonio, Texas, pursuant to which we acquired 100% of the equity interests for \$36.1 million. In addition to the initial purchase price, we may be obligated to make milestone payments of up to \$15.0 million over the next three years based primarily on sales thresholds from the product lines we acquired. We accounted for the acquisition under the purchase method of accounting in the fourth quarter of 2014. We completed our final purchase price allocation during March 2015 and the final purchase price adjustments subsequent to December 31, 2014 were not material.

NOTE 3. INTANGIBLE ASSETS

A summary of intangible assets is presented below:

(In thousands)	Weighted Average Amortization Period (in years)	March 31, 2015		
		Gross Carrying Amount	Accumulated Amortization	Intangible Assets, net
In-process research & development	—	\$24,560	\$—	\$24,560
Supplier network	10.0	4,000	(167	) 3,833
Customer relationships & other intangibles	7.3	5,525	(1,616	) 3,909
Patents	17.0	2,420	(380	) 2,040
Total intangible assets		\$36,505	\$(2,163	) \$34,342
		December 31, 2014		
(In thousands)	Weighted Average Amortization Period (in years)	Gross Carrying Amount	Accumulated Amortization	Intangible Assets, net
In-process research & development	—	\$24,560	\$—	\$24,560
Supplier network	10.0	3,800	(88	) 3,712
Customer relationships & other intangibles	7.3	5,525	(1,344	) 4,181
Patents	17.0	2,420	(344	) 2,076
Total intangible assets		\$36,305	\$(1,776	) \$34,529

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 is as follows:

(In thousands)	Contractual Maturity (in years)	March 31, 2015				Fair Value
		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		
Short-term:						
Municipal bonds	Less than 1	\$38,065	\$6	\$(11)	)	\$38,060
Corporate debt securities	Less than 1	57,622	18	(13)	)	57,627
Commercial paper	Less than 1	37,420	9	—		37,429
Securities of U.S. government-sponsored agencies	Less than 1	2,999	1	—		3,000
Asset-backed securities	Less than 1	2,159	—	(1)	)	2,158
Total short-term marketable securities		\$138,265	\$34	\$(25)	)	\$138,274
Long-term:						
Municipal bonds	1-2	\$27,150	\$4	\$(35)	)	\$27,119
Corporate debt securities	1-2	16,863	13	(2)	)	16,874
Asset-backed securities	1-2	19,921	9	(3)	)	19,927
Securities of U.S. government-sponsored agencies	1-2	7,586	7	—		7,593
Total long-term marketable securities		\$71,520	\$33	\$(40)	)	\$71,513
(In thousands)	Contractual Maturity (in years)	December 31, 2014				Fair Value
		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		
Short-term:						
Municipal bonds	Less than 1	\$28,684	\$2	\$(3)	)	\$28,683
Corporate debt securities	Less than 1	73,066	7	(42)	)	73,031
Commercial paper	Less than 1	44,663	8	—		44,671
Asset-backed securities	Less than 1	54	—	—		54
Total short-term marketable securities		\$146,467	\$17	\$(45)	)	\$146,439
Long-term:						
Municipal bonds	1-2	\$26,005	\$3	\$(36)	)	\$25,972
Corporate debt securities	1-2	19,617	3	(22)	)	19,598
Asset-backed securities	1-2	21,236	1	(8)	)	21,229
Securities of U.S. government-sponsored agencies	1-2	8,564	—	(16)	)	8,548
Total long-term marketable securities		\$75,422	\$7	\$(82)	)	\$75,347

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

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

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.

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

(In thousands)	Balance at March 31, 2015	Level 1	Level 2	Level 3
Assets				
Cash equivalents	\$12,475	\$375	\$12,100	\$—
Municipal bonds	65,179	—	65,179	—
Corporate debt securities	74,501	—	74,501	—
Commercial paper	37,429	—	37,429	—
Asset-backed securities	22,085	—	22,085	—
Securities of U.S. government-sponsored agencies	10,593	—	10,593	—
Liabilities				
Contingent consideration	24,843	—	—	24,843
(In thousands)	Balance at December 31, 2014	Level 1	Level 2	Level 3
Assets				
Cash equivalents	\$9,802	\$1,302	\$8,500	\$—
Municipal bonds	54,655	—	54,655	—
Corporate debt securities	92,629	—	92,629	—
Commercial paper	44,671	—	44,671	—
Asset-backed securities	21,283	—	21,283	—
Securities of U.S. government-sponsored agencies	8,548	—	8,548	—
Liabilities				
Contingent consideration	24,335	—	—	24,335

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

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. INVENTORIES

(In thousands)	March 31, 2015	December 31, 2014
Raw materials	\$10,514	\$8,847
Work in process	5,452	2,490
Finished goods	82,981	79,608
Total inventories	\$98,947	\$90,945

NOTE 7. ACCRUED EXPENSES

(In thousands)	March 31, 2015	December 31, 2014
Compensation and other employee-related costs	\$14,756	\$19,933
Legal and other settlements and expenses	27,042	27,686
Accrued non-income taxes	5,236	4,720
Other	10,783	9,160
Total accrued expenses	\$57,817	\$61,499

NOTE 8. DEBT

Line of Credit

In May 2011, we entered into a credit agreement with Wells Fargo Bank related to a revolving credit facility that provided 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. 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 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 March 31, 2015, 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. We may terminate the credit agreement at any time on ten days' notice without premium or penalty. Subsequent to March 31, 2015, we amended the above credit agreement with Wells Fargo Bank, extending the term of the revolving credit facility from May 2015 to May 2016. No other terms were modified.

GLOBUS MEDICAL, INC. AND SUBSIDIARIES
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 (Unaudited)

NOTE 9. EQUITY

Our amended and restated Certificate of Incorporation provides for a total of 785,000,000 authorized shares of common stock. Of the authorized number of shares of common stock, 500,000,000 shares are designated as Class A common stock ("Class A Common"), 275,000,000 shares are designated as Class B common stock ("Class B Common") and 10,000,000 shares are designated as Class C common stock ("Class C Common").

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

(Shares)	Class A Common	Class B Common	Total
March 31, 2015	71,022,427	23,877,556	94,899,983
December 31, 2014	70,828,187	23,877,556	94,705,743

The following table summarizes changes in total equity:

(In thousands)	Three Months Ended March 31, 2015
Total equity, beginning of period	\$585,454
Net income	24,648
Stock-based compensation	2,131
Exercise of stock options	1,425
Excess tax benefit of nonqualified stock options	684
Other comprehensive loss	(178)
Total equity, end of period	\$614,164

The tables below present the changes in each component of accumulated other comprehensive income/(loss), including current period other comprehensive income/(loss) and reclassifications out of accumulated other comprehensive income/(loss):

(In thousands)	Unrealized gain/(loss) on marketable securities, net of tax	Foreign currency translation adjustments	Accumulated other comprehensive loss
Accumulated other comprehensive loss, net of tax, at December 31, 2014	\$(64)	\$(1,593)	\$(1,657)
Other comprehensive income/(loss) before reclassifications	64	(243)	(179)
Amounts reclassified from accumulated other comprehensive income, net of tax	1	—	1
Other comprehensive income/(loss), net of tax	65	(243)	(178)
Accumulated other comprehensive income/(loss), net of tax, at March 31, 2015	\$1	\$(1,836)	\$(1,835)

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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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(In thousands)	Unrealized gain/(loss) on marketable securities, net of tax	Foreign currency translation adjustments	Accumulated other comprehensive loss
Accumulated other comprehensive income/(loss), net of tax, at December 31, 2013	\$32	\$(1,041)	\$(1,009)
Other comprehensive loss before reclassifications	(5)	(3)	(8)
Amounts reclassified from accumulated other comprehensive loss, net of tax	6	—	6
Other comprehensive income/(loss), net of tax	1	(3)	(2)
Accumulated other comprehensive income/(loss), net of tax, at March 31, 2014	\$33	\$(1,044)	\$(1,011)

NOTE 10. STOCK-BASED COMPENSATION

We have three stock plans: our Amended and Restated 2003 Stock Plan, our 2008 Stock Plan, and our 2012 Equity Incentive Plan (the “2012 Plan”). The 2012 Plan is the only remaining active stock plan. The purpose of these stock plans was, and the 2012 Plan is, to provide incentive to employees, directors, and consultants of Globus. The Plans are administered by the Board of Directors of Globus (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 in varying installments over a four-year period.

The 2012 Plan was approved by our Board in March 2012, and by our stockholders in June 2012. Under the 2012 Plan, the aggregate number of shares of Class A Common stock that may be issued subject to options and other awards is equal to the sum of (i) 3,076,923 shares, (ii) any shares available for issuance under the 2008 Plan as of March 13, 2012, (iii) 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 (iv) 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 our Board. 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 stock covered by the 2012 Plan are authorized but unissued shares, treasury shares or shares of common stock purchased on the open market.

As of March 31, 2015, there were 4,958,899 shares of Class A Common stock available for future grants under the 2012 Plan.

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

	Three Months Ended	
	March 31, 2015	March 31, 2014
Weighted average grant date per share fair value	\$9.42	\$10.34

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Stock option activity during the three months ended March 31, 2015 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, 2014	4,854	\$14.50		
Granted	1,159	23.98		
Exercised	(194)	7.34		
Forfeited	(98)	16.23		
Outstanding at March 31, 2015	5,721	\$16.63	7.6	\$49,236
Exercisable at March 31, 2015	2,569	\$10.77	5.7	\$37,164
Expected to vest at March 31, 2015	3,152	\$21.41	9.1	\$12,073

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

(In thousands)	Three Months Ended	
	March 31, 2015	March 31, 2014
Compensation expense related to stock options	\$2,131	\$1,927
Intrinsic value of stock options exercised	3,260	11,283

As of March 31, 2015, there was \$24.2 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 11. 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.

	Three Months Ended		
	March 31, 2015	March 31, 2014	
Effective income tax rate	35.4	% 34.9	%

The nominal change in the effective income tax rate between the current year and prior year periods is due primarily to changes in the components of taxable income.

NOTE 12. 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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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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.

N-Spine, Synthes and DePuy 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. In January 2014, the USPTO ruled on the appeal finding certain claims rejected in view of the prior art and affirming certain other claims. 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 a related matter, on January 8, 2014, Depuy Synthes Products, LLC (“Depuy Synthes”) filed suit against us in the U.S. District Court for the District of Delaware for patent infringement. Depuy Synthes alleges that we infringe one or more claims of the asserted patent by making, using, offering for sale or selling our TRANSITION® stabilization system product. Depuy Synthes seeks injunctive relief and an unspecified amount in damages. 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.

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, allege 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 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.

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This verdict does not impact our ability to conduct our business or 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 are seeking to overturn the verdict through the appeals process.

For the year ended December 31, 2013, we recorded \$19.5 million in damages and other litigation-related costs related to this case, of which \$1.3 million was included in provision for litigation - 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 (operating expense). During the year ended December 31, 2014, we accrued an additional \$0.6 million in interest included in provision for litigation related to this litigation.

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 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 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 sought injunctive relief and an unspecified amount in damages. This matter was settled on February 12, 2015 for an undisclosed amount that was not material.

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 its contracts with those employees, and with prospective business relationships, as well as aiding and abetting the breach of fiduciary duty. NuVasive sought compensatory damages, permanent injunction, punitive damages and attorneys' fees. This matter was settled on February 12, 2015 for an undisclosed amount that was not material.

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

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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® and CALIBER-L® products.

On January 17, 2014, the jury in this case returned a verdict in favor of Bianco on a claim of misappropriation of trade secret. We accrued the verdict amount of \$4.3 million as of December 31, 2013. The jury found against Bianco on the claims of breach of contract and disgorgement of profits. The court granted our motion for judgment as a matter of law and dismissed Bianco's claims for unfair competition, fraud, and exemplary damages, and Bianco abandoned the claim of misappropriation of confidential information. Bianco's claims of correction of inventorship, unjust enrichment, and permanent injunctive relief were not submitted to the jury. On March 7, 2014, the court denied Bianco's claim for correction of inventorship and ruled he is not entitled to be named as a co-inventor on any of the patents at issue, and also denied his claim for unjust enrichment. On March 17, 2014, the court denied Bianco's claim for permanent injunctive relief. On July 2, 2014, the court awarded Bianco an ongoing royalty of 5% of the net sales of the CALIBER®, CALIBER®-L, and RISE® products, or products that are not colorably different from those products, for a fifteen year period on sales starting on January 18, 2014. The court entered final judgment on the jury verdict on July 17, 2014. Post-trial motions were denied on October 27, 2014 and the matter is currently on appeal. We do not expect the verdict to impact our ability to conduct our business or to have any material impact on our future revenues. We believe the facts and the law do not support the jury's findings of misappropriation of trade secret and are seeking to overturn the verdict through the appeals process.

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. On April 7, 2014, we settled the litigation with Altus Partners and recognized a provision for litigation of \$2.0 million.

Bonutti Skeletal Innovations, LLC Litigation

On November 19, 2014, Bonutti Skeletal Innovations, LLC filed suit against us in the U.S. District Court for the Eastern District of Pennsylvania for patent infringement. Bonutti Skeletal, a non-practicing entity, alleges that Globus willfully infringes one or more claims of six patents by making, using, offering for sale or selling the CALIBER®, CALIBER®-L, COALITION®, CONTINENTAL®, FORGE®, FORTIFY®, INDEPENDENCE®, INTERCONTINENTAL®, MONUMENT®, NIKO®, RISE®, SIGNATURE®, SUSTAIN®, and TRANSCONTINENTAL® products. Bonutti Skeletal seeks an unspecified amount in damages and injunctive relief. 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.

Flexuspine, Inc. Litigation

On March 11, 2015, Flexuspine, Inc. filed suit against us in the U.S. District Court for the Eastern District of Texas for patent infringement. Flexuspine, Inc. alleges that Globus willfully infringes one or more claims of five patents by making, using, offering for sale or selling the CALIBER®, CALIBER®-L, RISE®, RISE®-L, RISE® INTRALIF®, and ALTERA® products. Flexuspine seeks an unspecified amount in damages and injunctive relief. The probable outcome of this litigation cannot be determined, nor can we estimate a

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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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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 13. RELATED-PARTY TRANSACTIONS

Prior to March 11, 2015, we had contracted with BMG, which at the time was a related-party manufacturer. We have purchased the following amounts of products and services from BMG:

	Period Ended March 11, 2015	Three Months Ended March 31, 2014
(In thousands)		
Purchases from related-party supplier	\$5,304	\$4,850

On March 11, 2015, BMG was acquired by Globus, and therefore as of March 31, 2015, there are no further amounts payable to BMG. As of December 31, 2014, we had \$5.4 million of accounts payable due to BMG. The amount payable to BMG on the date of acquisition of \$5.2 million was settled in connection with the acquisition.

NOTE 14. 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.

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

	Three Months Ended	
(In thousands)	March 31, 2015	March 31, 2014
United States	\$119,983	\$101,705
International	11,621	12,505
Total sales	\$131,604	\$114,210

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

	Three Months Ended	
(In thousands)	March 31, 2015	March 31, 2014
Innovative Fusion	\$70,370	\$66,770
Disruptive Technology	61,234	47,440
Total sales	\$131,604	\$114,210

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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 unaudited interim consolidated financial statements and related notes included elsewhere in this report.

Unless otherwise noted, the figures in the following discussions are unaudited.

Overview

We are a medical device company focused on the design, development and commercialization of musculoskeletal implants. We are currently focused on implants that promote healing in patients with spine disorders. We are an engineering-driven company with a history of rapidly developing and commercializing advanced products and procedures 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 130 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 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 three months ended March 31, 2015, our international sales accounted for approximately 8.8% of our total sales. We sell our products in 33 countries outside the United States through a combination 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.

On February 25, 2015, we entered into an agreement to acquire Branch Medical Group, Inc. ("BMG"), a related-party manufacturer of high precision medical devices located in Audubon, PA. We closed this

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acquisition on March 11, 2015, for \$57.0 million in cash, \$5.3 million in deferred consideration, and an estimated \$0.9 million payable upon finalization of closing adjustments.

Results of Operations

Three Months Ended March 31, 2015 Compared to the Three Months Ended March 31, 2014

Sales

The following tables set 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		
	March 31, 2015	March 31, 2014	\$	%	
Innovative Fusion	\$70,370	\$66,770	\$3,600	5.4	%
Disruptive Technology	61,234	47,440	13,794	29.1	%
Total sales	\$131,604	\$114,210	\$17,394	15.2	%

Product launches continue to be a driving force in our sales growth, particularly from products launched during the last three years. The growth in Disruptive Technology of \$13.8 million was due primarily to sales of minimally invasive, biologic, artificial disc and interventional pain management products launched during the past three years in addition to the sales from TTOT since the acquisition in late 2014. Innovative Fusion sales increased by \$3.6 million due primarily to strong sales of legacy and new pedicle screw systems.

(In thousands, except percentages)	Three Months Ended		Change		
	March 31, 2015	March 31, 2014	\$	%	
United States	\$119,983	\$101,705	\$18,278	18.0	%
International	11,621	12,505	(884)	(7.1)	%
Total sales	\$131,604	\$114,210	\$17,394	15.2	%

In the United States, the increase in sales of \$18.3 million was due primarily to expansion into new territories and increased penetration in existing territories. We saw strong sales in both Disruptive Technology and Innovative Fusion products, led by sales of legacy and new pedicle screw systems and our expandable interbody products.

Internationally, the decrease in sales of \$0.9 million was due primarily to changes in exchange rates. Though in US dollar terms our sales declined in the three-month period ended March 31, 2015, we expanded our footprint into five new countries since the corresponding period in 2014.

Cost of Goods Sold

(In thousands, except percentages)	Three Months Ended		Change		
	March 31, 2015	March 31, 2014	\$	%	
Cost of goods sold	\$32,107	\$25,312	\$6,795	26.8	%
Percentage of sales	24.4	% 22.2	%		

The increase in cost of goods sold was due primarily to an increase of \$4.4 million from increased sales volume and mix, including costs for TTOT, an increase of \$0.9 million for royalties, an increase of \$0.7

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million in freight costs, and an increase of \$0.6 million for inventory reserves and write-offs.

Research and Development Expenses

(In thousands, except percentages)	Three Months Ended		Change		
	March 31, 2015	March 31, 2014	\$	%	
Research and development	\$8,656	\$7,443	\$1,213	16.3	%
Percentage of sales	6.6	% 6.5	%		

The increase in research and development expenses was due primarily to an increase of \$0.9 million related to employee compensation and an increase of \$0.4 million of project and clinical trial costs.

Selling, General and Administrative Expenses

(In thousands, except percentages)	Three Months Ended		Change		
	March 31, 2015	March 31, 2014	\$	%	
Selling, general and administrative	\$52,289	\$46,678	\$5,611	12	%
Percentage of sales	39.7	% 40.9	%		

The increase in selling, general and administrative expenses was due primarily to an increase of \$3.8 million related to increased compensation costs in the United States to support increased sales volume and company growth, and an increase of \$1.8 million in acquisition-related expenses, meeting and training expenses, legal expenses and other selling, general and administrative costs.

Provision for Litigation

(In thousands, except percentages)	Three Months Ended		Change		
	March 31, 2015	March 31, 2014	\$	%	
Provision for litigation	\$32	\$2,535	\$(2,503)	(98.7))%
Percentage of sales	—	% 2.2	%		

The provision for litigation, which includes settlement and verdict costs, was nominal in the current quarter. In the prior year quarter, we recognized the Altus settlement and an adjustment for interest expense relating to the DePuy Synthes litigation.

Other Income/(Expense), Net

(In thousands, except percentages)	Three Months Ended		Change		
	March 31, 2015	March 31, 2014	\$	%	
Other income/(expense), net	\$(347)	\$245	\$(592)	(241.6))%
Percentage of sales	(0.3)	% 0.2	%		

The change in other expense, net is primarily attributable to increases in foreign exchange transaction losses, partially offset by increases in interest income.

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Income Tax Provision

(In thousands, except percentages)	Three Months Ended		Change		
	March 31, 2015	March 31, 2014	\$	%	
Income tax provision	\$13,525	\$11,348	\$2,177	19.2	%
Effective income tax rate	35.4	% 34.9	%		

Our tax provision for the three months ended March 31, 2015 was higher than the prior year period due primarily to the changes in the components of pre-tax income.

Non-GAAP Financial Measures

To supplement our financial statements prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”), management uses certain non-GAAP financial measures. For example, Adjusted EBITDA, which represents net income before interest income, net and other non-operating expenses, provision for income taxes, depreciation and amortization, stock-based compensation, changes in the fair value of contingent consideration in connection with business acquisitions and other acquisition related costs, and provision for litigation, is useful as an additional measure of operating performance, and particularly as a measure of comparative operating performance from period to period, as it is reflective of changes in pricing decisions, cost controls and other factors that affect operating performance, and it removes the effect of our capital structure, asset base, income taxes and interest income and expense. Our management also uses Adjusted EBITDA for planning purposes, including the preparation of our annual operating budget and financial projections.

The following is a reconciliation of Adjusted EBITDA to net income for the periods presented:

(In thousands, except percentages)	Three Months Ended		
	March 31, 2015	March 31, 2014	
Net Income	\$24,648	\$21,139	
Interest income, net	(278)	(201))
Provision for income taxes	13,525	11,348	
Depreciation and amortization	5,674	5,297	
EBITDA	43,569	37,583	
Stock-based compensation	2,131	1,927	
Provision for litigation	32	2,535	
Change in fair value of contingent consideration and other acquisition related costs	584	10	
Adjusted EBITDA	\$46,316	\$42,055	
Adjusted EBITDA as a percentage of sales	35.2	% 36.8	%

In addition, for the period ended March 31, 2015 and for other comparative periods, we are presenting a non-GAAP measure of Diluted Earnings Per Share, which represents diluted earnings per share before provision for litigation, which is net of the tax effects of such provision. We believe this non-GAAP measure is also a useful indicator of our operating performance, and particularly as an additional measure of comparative operating performance from period to period as it removes the effects of litigation, which we believe is not reflective of underlying business trends.

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The following is a reconciliation of non-GAAP Diluted Earnings Per Share to Diluted Earnings Per Share as computed in accordance with U.S. GAAP for the periods presented.

(Per share amounts)	Three Months Ended	
	March 31, 2015	March 31, 2014
Diluted earnings per share, as reported	\$0.26	\$0.22
Provision for litigation (net of taxes)	—	0.02
Non-GAAP diluted earnings per share	\$0.26	\$0.24

We also define the non-GAAP measure of Free Cash Flow as the net cash provided by operating activities, adjusted for the impact of restricted cash, less the cash impact of purchases of property and equipment. We believe that this financial measure provides meaningful information for evaluating our overall financial performance for comparative periods as it facilitates an assessment of funds available to satisfy current and future obligations and fund acquisitions. Below is a reconciliation of Free Cash Flow to net cash provided by operating activities as computed in accordance with U.S. GAAP for the periods presented.

(In thousands)	Three Months Ended	
	March 31, 2015	March 31, 2014
Net cash provided by operating activities	\$34,670	\$29,232
Purchases of property and equipment	(7,228	) (6,164
Free cash flow	\$27,442	\$23,068

Adjusted EBITDA, non-GAAP Diluted Earnings Per Share and Free Cash Flow are not calculated in conformity with U.S. GAAP within the meaning of Item 10 of Regulation S-K. Non-GAAP financial measures have limitations as analytical tools and should not be considered in isolation or as a substitute for financial measures prepared in accordance with U.S. GAAP. These measures do not include certain expenses that may be necessary to evaluate our liquidity or operating results. Our definitions of Adjusted EBITDA, non-GAAP Diluted Earnings Per Share and Free Cash Flow may differ from that of other companies and therefore may not be comparable.

Cash Flows

The following table summarizes, for the periods indicated, cash flows from operating, investing and financing activities:

(In thousands)	Three Months Ended		Change
	March 31, 2015	March 31, 2014	
Net cash provided by operating activities	\$34,670	\$29,232	\$5,438
Net cash used in investing activities	(43,779	) (20,977	) (22,802
Net cash provided by financing activities	1,809	6,441	(4,632
Effect of foreign exchange rate changes on cash	41	(56	) 97
Increase/(decrease) in cash and cash equivalents	\$(7,259	) \$14,640	\$(21,899

During the three months ended March 31, 2015, our cash and cash equivalents decreased due primarily to the acquisition of BMG for \$48.0 million, net of cash acquired.

Table of Contents**Cash Provided by Operating Activities**

The increase in net cash provided by operating activities of \$5.4 million was due primarily to the \$2.7 million increase in the change in accounts receivable, the \$2.7 million decrease in income tax payments over the prior year period, the \$1.9 million increase in adjusted net income (excluding \$1.6 million change in provision for litigation from the corresponding period in 2014, net of taxes), partially offset by a \$3.4 million increase in the change in inventories, and the \$4.6 million net decrease in the change in accounts payable and accounts payable to related parties.

Cash Used in Investing Activities

The increase in net cash used in investing activities of \$22.8 million was due primarily to the BMG acquisition, offset partially by the \$26.3 million decrease in the amount of cash invested in marketable securities in the three-month period ended March 31, 2015 compared to the prior period. During the three-month period ended March 31, 2015, we had a net inflow of \$11.5 million of cash from maturities and sales exceeding purchases, whereas in the corresponding period in 2014, we had a net cash outflow of \$14.8 million as purchases of marketable securities exceeded maturities and sales.

Cash Provided by Financing Activities

The decrease in cash provided by financing activities of \$4.6 million was due primarily to the decrease in the proceeds from the exercise of stock options of \$2.4 million, along with the decrease in the related excess tax benefit of \$2.1 million.

Liquidity and Capital Resources

The following table highlights certain information related to our liquidity and capital resources:

(In thousands)	March 31, 2015	December 31, 2014
Cash and cash equivalents	\$75,006	\$82,265
Short-term marketable securities	138,274	146,439
Long-term marketable securities	71,513	75,347
Total cash, cash equivalents and marketable securities	\$284,793	\$304,051
Available borrowing capacity under revolving credit facility	50,000	50,000
Working capital	\$362,384	\$380,613

In May 2011, we entered into a credit agreement with Wells Fargo Bank related to a revolving credit facility that provided 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. 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 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 March 31, 2015, 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. We may terminate the credit agreement at any time on ten days' notice without premium or penalty.

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Subsequent to March 31, 2015, we amended the above credit agreement with Wells Fargo Bank, extending the term of the revolving credit facility from May 2015 to May 2016. No other terms were modified.

On February 25, 2015, we entered into an agreement to acquire BMG, a related-party manufacturer of high precision medical devices located in Audubon, PA. We closed this acquisition on March 11, 2015, for \$57.0 million in cash, \$5.3 million in deferred consideration, and an estimated \$0.9 million payable upon finalization of closing adjustments. For additional information regarding this transaction, please refer to “Part I; Item 1. Financial Statements; Notes to Consolidated Financial Statements; Note 2. Acquisitions” above.

In addition to our existing cash and marketable securities balances, our principal sources of liquidity are our cash flows from operating activities and our revolving credit facility, which was fully available as of March 31, 2015. We believe these sources will provide sufficient liquidity for us to meet our liquidity requirements for the foreseeable future. Our principal liquidity requirements are to meet our working capital, research and development, including clinical trials, capital expenditure needs, principally for our surgical sets required to maintain and expand our business, and potential future business or intellectual property acquisitions. We expect to continue to make investments in surgical sets as we launch new products, increase the size of our U.S. sales force, and expand into international markets. We may, however, require additional liquidity as we continue to execute our business strategy. Our liquidity may be negatively impacted as a result of a decline in sales of our products, including declines due to changes in our customers’ ability to obtain third-party coverage and reimbursement for procedures that use our products; increased pricing pressures resulting from intensifying competition, cost increases and slower product development cycles resulting from a changing regulatory environment; and unfavorable results from litigation which will affect our cash flow. We anticipate that to the extent that we require additional liquidity, it will be funded through the incurrence of indebtedness, additional equity financings or a combination of these potential sources of liquidity. The sale of additional equity may result in dilution to our stockholders. There is no assurance that we will be able to secure such additional funding on terms acceptable to us, or at all.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Seasonality and Backlog

Our business is generally not seasonal in nature. However, our sales may be influenced by summer vacation and winter holiday periods during which we have experienced fewer spine surgeries taking place. Our sales generally consist of products that are in stock in our warehouse facilities or maintained at hospitals or with our sales representatives. Accordingly, we do not have a backlog of sales orders.

Cautionary Note Concerning Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements other than statements of historical fact are forward-looking statements. We have tried to identify forward-looking statements by using words such as “believe,” “may,” “might,” “could,” “will,” “aim,” “estimate,” “continue,” “anticipate,” “intend,” “expect,” similar words. These forward-looking statements are based on our current assumptions, expectations and estimates of future events and trends. Forward-looking statements are only predictions and are subject to many risks, uncertainties and other factors that may affect our businesses and operations and could cause actual results to differ materially

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from those predicted. These risks and uncertainties include, but are not limited to, factors affecting our quarterly results, our ability to manage our growth, our ability to sustain our profitability, demand for our products, our ability to compete successfully (including without limitation our ability to convince surgeons to use our products and our ability to attract and retain sales and other personnel), our ability to rapidly develop and introduce new products, our ability to develop and execute on successful business strategies, our ability to comply with changes and applicable laws and regulations that are applicable to our businesses, our ability to safeguard our intellectual property, our success in defending legal proceedings brought against us, trends in the medical device industry, and general economic conditions, and other risks set forth throughout our Annual Report on Form 10-K for the year ended December 31, 2014 (the "Form 10-K"), particularly those set forth under "Item 1A, Risk Factors" of the Form 10-K, and those discussed in other documents we file with the Securities and Exchange Commission (the "SEC"). Moreover, we operate in an evolving environment. New risk factors and uncertainties emerge from time to time and it is not possible for us to predict all risk factors and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Given these risks and uncertainties, readers are cautioned not to place undue reliance on any forward-looking statements. Forward-looking statements contained in this Quarterly Report speak only as of the date of this Quarterly Report. We undertake no obligation to update any forward-looking statements as a result of new information, events or circumstances or other factors arising or coming to our attention after the date hereof.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

We have evaluated the information required under this item that was disclosed under Item 7A in our Annual Report on Form 10-K and there have been no significant changes to this information.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer ("CEO") and our Chief Operating Officer ("COO"), evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2015. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Based on their evaluation of our disclosure controls and procedures as of March 31, 2015, our CEO and COO concluded that, as of such date, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the three months ended March 31, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including our CEO and COO, believes that our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of achieving their objectives and are effective at the reasonable assurance level. However, our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only

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reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. For example, these inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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. For further details on the material legal proceedings to which we are currently a party, please refer to “Part I; Item 1. Financial Statements; Notes to Consolidated Financial Statements; Note 12. Commitments and Contingencies” above. In addition, we are subject to legal proceedings arising in the ordinary course of business.

Item 1A. Risk Factors

We are affected by risks specific to us as well as factors that affect all businesses operating in a global market. For a discussion of the specific risks that could materially adversely affect our business, financial condition or operation results, please see our Form 10-K under the heading “Part I; Item 1A. Risk Factors.” There has been no material change to our risk factors disclosed in our Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

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Item 6. Exhibits

The following is a list of exhibits filed as part of this Quarterly Report on Form 10-Q. Where so indicated, exhibits that were previously filed are incorporated by reference. For exhibits incorporated by reference, the location of the exhibit in the previous filing is indicated in parentheses.

Exhibit No.	Item
10.1*	Executive Employment Agreement, dated June 26, 2014 by and between Globus Medical, Inc. and Anthony L. Williams.
10.2	Agreement and Plan of Merger, dated as of February 24, 2015, by and among Branch Medical Group, Inc., Globus Medical, Inc., BM Acquisition, Inc. and Spine Therapy Technologies, Inc. (incorporated by reference to Exhibit 2.1 of Globus Medical, Inc.'s Current Report on Form 8-K filed on March 2, 2015)
31.1*	Certification by Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification by Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32**	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
*	Filed herewith.
**	Furnished herewith.

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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.

GLOBUS MEDICAL, INC.

Dated: May 5, 2015

/s/ DAVID C. PAUL

David C. Paul
Chairman
Chief Executive Officer
(Principal Executive Officer)

Dated: May 5, 2015

/s/ DAVID D. DEMSKI

David D. Demski
President
Chief Operating Officer
(Principal Financial Officer)

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