

GLOBUS MEDICAL INC
Form 10-Q
November 09, 2016
Table of Contents

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 September 30, 2016
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 October 31, 2016 was 95,825,128 shares.

Table of ContentsGLOBUS MEDICAL, INC. AND SUBSIDIARIES
TABLE OF CONTENTS

	Page
<u>PART I.</u>	<u>FINANCIAL INFORMATION</u>
<u>Item 1.</u>	<u>Financial Statements</u>
	<u>Consolidated Balance Sheets (Unaudited)</u> September 30, 2016 and December 31, 2015 <u>3</u>
	<u>Consolidated Statements of</u> <u>Income (Unaudited)</u> Three and nine months ended September 30, 2016 and September 30, 2015 <u>4</u>
	<u>Consolidated Statements of Comprehensive</u> <u>Income (Unaudited)</u> Three and nine months ended September 30, 2016 and September 30, 2015 <u>5</u>
	<u>Consolidated Statements of Cash</u> <u>Flows (Unaudited)</u> Nine months ended September 30, 2016 and September 30, 2015 <u>6</u>
	<u>Notes to Consolidated Financial</u> <u>Statements (Unaudited)</u> <u>7</u>
<u>Item 2.</u>	Management's Discussion and Analysis of Financial Condition and Results of Operations <u>24</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures</u> <u>About Market Risk</u> <u>37</u>
Item 4.	<u>Controls and Procedures</u> <u>37</u>
<u>PART II.</u>	<u>OTHER INFORMATION</u> <u>39</u>
<u>Item 1.</u>	<u>Legal Proceedings</u> <u>39</u>
Item 1A.	Risk Factors <u>39</u>
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds <u>39</u>
Item 3.	Defaults Upon Senior Securities <u>39</u>
Item 4.	Mine Safety Disclosures <u>39</u>

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Item 5.	Other Information	<u>39</u>
Item 6.	<u>Exhibits</u>	<u>40</u>
	<u>SIGNATURES</u>	<u>41</u>
	<u>Exhibit Index</u>	<u>42</u>

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

GLOBUS MEDICAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except par value)	September 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 90,192	\$ 60,152
Restricted cash	477	26,119
Short-term marketable securities	167,727	220,877
Accounts receivable, net of allowances of \$2,694 and \$2,513, respectively	86,708	77,681
Inventories	115,606	105,260
Prepaid expenses and other current assets	11,605	7,351
Income taxes receivable	5,895	8,672
Deferred income taxes	—	38,687
Total current assets	478,210	544,799
Property and equipment, net of accumulated depreciation of \$159,314 and \$139,114, respectively	127,084	114,743
Long-term marketable securities	64,451	48,762
Note receivable	25,000	—
Intangible assets, net	67,438	33,242
Goodwill	110,250	91,964
Other assets	1,015	590
Deferred income taxes	28,295	—
Total assets	\$ 901,743	\$ 834,100
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 13,936	\$ 15,971
Accrued expenses	43,287	53,769
Income taxes payable	3,696	763
Business acquisition liabilities, current	4,888	12,188
Total current liabilities	65,807	82,691
Business acquisition liabilities, net of current portion	15,020	21,126
Deferred income taxes	9,013	13,260
Other liabilities	1,784	1,699
Total liabilities	91,624	118,776
Commitments and contingencies (Note 13)		
Equity:		
Class A common stock; \$0.001 par value. Authorized 500,000 shares; issued and outstanding 71,928 and 71,442 shares at September 30, 2016 and December 31, 2015, respectively	72	71
Class B common stock; \$0.001 par value. Authorized 275,000 shares; issued and outstanding 23,878 at September 30, 2016 and December 31, 2015, respectively	24	24
Additional paid-in capital	207,182	192,629

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Accumulated other comprehensive loss	(1,760) (1,958)
Retained earnings	604,601	524,558	
Total equity	810,119	715,324	
Total liabilities and equity	\$ 901,743	\$ 834,100	
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, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Sales	\$ 135,651	\$ 136,992	\$ 412,404	\$ 402,166
Cost of goods sold	31,453	32,927	95,703	97,393
Gross profit	104,198	104,065	316,701	304,773
Operating expenses:				
Research and development	10,265	9,250	30,889	26,640
Selling, general and administrative	54,207	52,170	161,317	157,439
Provision for litigation	—	27	3,056	433
Amortization of intangibles	884	393	1,673	1,172
Acquisition related costs	1,192	1,550	1,347	2,864
Total operating expenses	66,548	63,390	198,282	188,548
Operating income	37,650	40,675	118,419	116,225
Other income, net				
Interest income, net	795	342	1,893	898
Foreign currency transaction gain/(loss)	284	(205)	83	(869)
Other income	126	116	407	318
Total other income, net	1,205	253	2,383	347
Income before income taxes	38,855	40,928	120,802	116,572
Income tax provision	12,628	14,447	40,759	41,389
Net income	\$ 26,227	\$ 26,481	\$ 80,043	\$ 75,183
Earnings per share:				
Basic	\$ 0.27	\$ 0.28	\$ 0.84	\$ 0.79
Diluted	\$ 0.27	\$ 0.28	\$ 0.83	\$ 0.78
Weighted average shares outstanding:				
Basic	95,739	95,138	95,575	94,970
Dilutive stock options	753	981	829	1,056
Diluted	96,492	96,119	96,404	96,026
Anti-dilutive stock options excluded from weighted average calculation	5,457	3,234	5,378	3,118

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, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net income	\$26,227	\$ 26,481	\$80,043	\$ 75,183
Other comprehensive income/(loss):				
Unrealized gain/(loss) on marketable securities, net of tax	(165)	75	119	103
Foreign currency translation gain/(loss)	141	(124)	79	(184)
Total other comprehensive income/(loss)	(24)	(49)	198	(81)
Comprehensive income	\$26,203	\$ 26,432	\$80,241	\$ 75,102

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, 2016	September 30, 2015
Cash flows from operating activities:		
Net income	\$80,043	\$ 75,183
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	21,536	17,669
Amortization of premium on marketable securities	3,067	2,352
Write-down for excess and obsolete inventories	6,919	7,122
Stock-based compensation expense	8,437	6,935
Excess tax benefit related to nonqualified stock options	(1,484)	(1,973)
Allowance for doubtful accounts	320	957
Change in deferred income taxes	(1,356)	(4,115)
(Increase)/decrease in:		
Restricted cash	25,642	(2,015)
Accounts receivable	3,111	(3,468)
Inventories	(6,609)	(16,998)
Prepaid expenses and other assets	7,332	(1,368)
Increase/(decrease) in:		
Accounts payable	(3,426)	(2,812)
Accounts payable to related-party	—	(5,359)
Accrued expenses and other liabilities	(30,178)	6,042
Income taxes payable/receivable	6,643	(275)
Net cash provided by operating activities	119,997	77,877
Cash flows from investing activities:		
Purchases of marketable securities	(223,623)	(207,407)
Maturities of marketable securities	211,138	131,318
Sales of marketable securities	47,109	46,064
Purchases of property and equipment	(26,701)	(36,606)
Issuance of note receivable	(25,000)	—
Acquisition of businesses, net of cash acquired	(76,068)	(48,513)
Net cash used in investing activities	(93,145)	(115,144)
Cash flows from financing activities:		
Payment of business acquisition liabilities	(400)	(900)
Proceeds from exercise of stock options	4,428	4,313
Excess tax benefit related to nonqualified stock options	1,484	1,973
Net cash provided by financing activities	5,512	5,386
Effect of foreign exchange rate on cash	(2,324)	117
Net increase/(decrease) in cash and cash equivalents	30,040	(31,764)
Cash and cash equivalents, beginning of period	60,152	82,265
Cash and cash equivalents, end of period	\$90,192	\$ 50,501

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Supplemental disclosures of cash flow information:

Interest paid	23	9
Income taxes paid	\$37,009	\$ 45,955

See accompanying notes to consolidated financial statements.

6

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 have also recently begun to develop a robotic surgical navigation device and products to treat patients who have experienced orthopedic traumas, although those development efforts are still ongoing and we currently have no robotic or orthopedic trauma products that are cleared by the U.S. Food and Drug Administration for sale. 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 160 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 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, 2015.

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.

(c) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Globus and its wholly-owned subsidiaries. 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

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

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 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, write-down 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 cash for the payment of a portion of the DePuy Synthes and Bianco litigation. 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. On January 13, 2016, we settled our litigation with DePuy Synthes and made a payment of \$7.9 million and recovered approximately \$8.4 million related to that settlement shortly thereafter. As of September 30, 2016, we have \$0.5 million of restricted cash remaining related to the Bianco matter. See "Note 13. 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 September 30, 2016. 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 loss 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

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

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 write-down for such excess inventories.

(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.

(i) Recently Issued Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"). ASU 2014-09 amends the guidance in former Topic 605, Revenue Recognition, and most other existing revenue guidances in US GAAP. Under the new standard, an entity will recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the payment to which the entity expects to be entitled in exchange for those goods or services and provide additional disclosures. As amended, the effective date for public entities is annual reporting periods beginning after December 15, 2017 and interim periods therein. Early adoption is not permitted prior to the first quarter of 2017. Entities can transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. We are currently evaluating the timing and impact of the new standard on our financial position, results of operations, and disclosures.

In July 2015, the FASB released ASU 2015-11, Simplifying the Measurement of Inventory (Topic 330) ("ASU 2015-11") as part of the FASB's Simplification Initiative. This update is intended to more closely align the measurement of inventory under GAAP with the measurement of inventory under International Financial Reporting Standards. Within the scope of the update, an entity is required to measure inventory at the lower of cost or net realizable value. Net realizable value is defined as the estimated selling price in the ordinary course of business, less reasonable and predictable costs of completion, disposal and transportation. ASU 2015-11 is effective for all public entities for fiscal years beginning after December 31, 2016, including interim reporting periods within that period, and is required to be applied prospectively, with early adoption permitted. We are currently evaluating the impact of the new standard on our financial position, results of operations, and disclosures.

In September 2015, the FASB released ASU 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments ("ASU 2015-16"). ASU 2015-16 requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. Prior to the issuance of the standard, entities were required to retrospectively apply adjustments made to provisional amounts recognized in a business combination. The amendments in ASU 2015-16 require an entity to present separately on the face of the income statement, or disclose in the notes, the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. ASU 2015-16 is effective for fiscal years, and interim

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

periods within those years, beginning after December 15, 2015, with early adoption permitted. The update is not expected to have a material impact on our financial position, results of operations, and disclosures.

In November 2015, the FASB released ASU 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes (“ASU 2015-17”). ASU 2015-17 simplifies the presentation of deferred income taxes by requiring that all deferred income taxes are classified as noncurrent in a classified statement of financial position. The amendments in ASU 2015-17 also aligns the presentation of deferred taxes with that of International Financial Reporting Standards. This update is effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods, with earlier application permitted for all entities as of the beginning of an interim or annual reporting period. We adopted ASU 2015-17 prospectively effective March 31, 2016, therefore prior periods were not adjusted.

In February 2016, the FASB released ASU 2016-02, Leases (Topic 842) (“ASU 2016-02”). Under ASU 2016-02, a right-of-use asset and lease obligation will be recorded for all leases with terms greater than 12 months, whether operating or financing, while the income statement will reflect lease expense for operating leases and amortization/interest expense for financing leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted, and requires the use of the modified retrospective method, which will require adjustment to all comparative periods presented in the consolidated financial statements. We are currently evaluating the impact of this new accounting standard on our financial position, results of operations, and disclosures.

In March 2016, the FASB released ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (“ASU 2016-09”), which will simplify the income tax consequences, accounting for forfeitures, and classification on the statements of cash flows. ASU 2016-09 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016, with early adoption permitted, and will be applied either prospectively, retrospectively or using a modified retrospective transition method, depending on the area covered in this update. We are currently evaluating the impact of this new accounting standard on our financial position, results of operations, and disclosures.

NOTE 2. ACQUISITIONS

Alphatec International

On September 1, 2016 (the “Closing Date”), Globus Medical Ireland, Ltd. (“Globus Ireland”), a private limited company existing under the laws of Ireland and an indirect wholly-owned subsidiary of Globus, acquired from Alphatec Holdings, Inc., a Delaware corporation (“Alphatec”) (i) substantially all of the assets and certain liabilities of Alphatec’s subsidiaries in the United Kingdom, Italy, the Netherlands, Germany and Hong Kong and (ii) all of the outstanding equity interests of Alphatec’s subsidiaries in Japan, Brazil, China, Singapore and Australia (“Alphatec International”) pursuant to a Purchase and Sale Agreement entered into on July 25, 2016 (the “Purchase Agreement” and the “Acquisition”). The aggregate consideration for the transaction was approximately \$80.1 million in cash, subject to customary adjustment after closing for certain working capital items as provided in the Purchase Agreement. In addition, in connection with the Acquisition, Globus Ireland entered into a supply agreement with Alphatec, pursuant to which Alphatec will supply products to Globus Ireland and its newly-acquired subsidiaries for up to five years after the Closing Date.

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

We accounted for the acquisition under the purchase method of accounting, and as a result, recorded preliminary goodwill of approximately \$18.3 million. The results of operations of Alphatec International 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 in early 2017. Any additional adjustments resulting from finalization of the purchase price allocations for Alphatec International will affect the amount assigned to goodwill. Based on our preliminary purchase price allocations, we estimate that \$2.4 million of the goodwill from this acquisition is deductible for tax purposes.

As of September 30, 2016, we recorded the following preliminary purchase price allocation for the identifiable tangible and intangible assets and liabilities of Alphatec International:

(In thousands)

Consideration:

Cash paid at closing	\$80,000
Preliminary working capital adjustment	78
Fair value of consideration	\$80,078

Identifiable assets acquired and liabilities assumed:

Cash acquired	\$4,010
Accounts receivable	12,402
Inventory	10,839
Customer relationships	38,800
Property and equipment	5,848
Deferred tax assets	1,193
Other assets	6,620
Accounts payable and accrued expenses	(8,907)
Deferred tax liabilities	(9,013)
Total identifiable net assets	61,792

Goodwill	18,286
Total allocated purchase price	\$80,078

The following unaudited pro forma information is based on our historical data and our assumptions for consolidated results of operations, and gives effect to our acquisition of Alphatec International as if the acquisition had occurred on January 1, 2015. These unaudited pro forma results include adjustments having a continuing impact on our consolidated statements of income. These adjustments primarily consist of: adjustments to the fair value of inventory, adjustments to depreciation for the fair value and depreciable lives of property and equipment, amortization of intangibles, interest income 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, 2015, and are not necessarily indicative of the results that may be

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

achieved in the future, including but not limited to operating synergies that we may realize as a result of the acquisition.

(pro forma, in thousands, except per share amounts)	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net sales	\$143,577	\$ 150,400	\$444,109	\$ 442,391
Net income	27,393	26,613	84,101	77,448
Earnings per share:				
Basic	\$0.29	\$ 0.28	\$0.89	\$ 0.82
Diluted	\$0.28	\$ 0.28	\$0.88	\$ 0.81

Branch Medical Group, Inc.

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 \$0.9 million of closing working capital adjustments. The amount payable to BMG on the date of acquisition of \$5.2 million was also settled in connection with the acquisition. The deferred consideration was a holdback of a portion of the sale price, to allow time to properly account for all working capital adjustments in the event of an unfavorable adjustment to the sellers. The full holdback amount of \$5.3 million was paid in cash in July 2016.

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 goodwill of \$39.0 million. We recorded the deferred consideration as a component of business acquisition liabilities, current, in our balance sheet. 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 purchase price allocations and on certain management judgments. These 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. We completed our final purchase price allocations during September 2015. The goodwill from this acquisition is not deductible for tax purposes.

NOTE 3. NOTE RECEIVABLE

On September 1, 2016, in connection with the Acquisition, we entered into a Credit, Security and Guaranty Agreement (the “Credit Agreement”) with Alphatec and Alphatec Spine, Inc. (“Alphatec Spine” and together with Alphatec, the “Alphatec Borrowers”), pursuant to which we made available to the Alphatec Borrowers a senior secured term loan facility in an amount not to exceed \$30.0 million. On the Closing Date, we made an initial loan of \$25.0 million and the Alphatec Borrowers issued a note for such amount to us.

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

The Credit Agreement contains customary operational and financial covenants, including a fixed charge coverage ratio to be maintained by the Alphatec Borrowers, and provides us with a security interest in all of the assets of the Alphatec Borrowers. The Credit Agreement has a scheduled maturity date five years from the Closing Date. The term loan interest rate for the first two years following the Closing Date will be priced at the London Interbank Offered Rate (“LIBOR”) plus 8.0%, subject to a 9.5% floor. The term loan interest rate thereafter will be LIBOR plus 13.0%. Interest accrues on the note receivable based on the contractual terms of the note. We consider a note to be impaired when, based on current information or factors (such as payment history, value of collateral and assessment of the borrower’s current creditworthiness), it is probable that the principal and interest payments will not be collected according to the note agreement. As of September 30, 2016, we do not consider this note to be impaired. We believe that the note’s carrying value approximates its fair value.

NOTE 4. INTANGIBLE ASSETS

A summary of intangible assets is presented below:

(In thousands)	Weighted Average Amortization Period (in years)	September 30, 2016		
		Gross Carrying Amount	Accumulated Amortization	Intangible Assets, net
In-process research & development	—	\$21,089	\$ —	\$ 21,089
Supplier network	10.0	4,000	(767)	3,233
Customer relationships & other intangibles	6.8	44,325	(3,633)	40,692
Patents	16.1	3,035	(611)	2,424
Total intangible assets		\$72,449	\$ (5,011)	\$ 67,438
		December 31, 2015		
(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	4,000	(467)	3,533
Customer relationships & other intangibles	7.3	5,525	(2,384)	3,141
Patents	17.0	2,495	(487)	2,008
Total intangible assets		\$36,580	\$ (3,338)	\$ 33,242

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

NOTE 5. MARKETABLE SECURITIES

The composition of our short-term and long-term marketable securities is as follows:

(In thousands)	Contractual Maturity (in years)	September 30, 2016			
		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term:					
Municipal bonds	Less than 1	\$109,539	\$ 3	\$ (56)	\$109,486
Corporate debt securities	Less than 1	44,222	15	(5)	44,232
Commercial paper	Less than 1	13,465	2	(1)	13,466
Asset-backed securities	Less than 1	543	—	—	543
Total short-term marketable securities		\$167,769	\$ 20	\$ (62)	\$167,727
Long-term:					
Municipal bonds	1-2	\$24,174	\$ 6	\$ (36)	\$24,144
Corporate debt securities	1-2	20,938	61	—	20,999
Asset-backed securities	1-2	14,294	16	—	14,310
Securities of U.S. government-sponsored agencies	1-2	5,002	—	(4)	4,998
Total long-term marketable securities		\$64,408	\$ 83	\$ (40)	\$64,451
(In thousands)	Contractual Maturity (in years)	December 31, 2015			
		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term:					
Municipal bonds	Less than 1	\$108,402	\$ 15	\$ (81)	\$108,336
Corporate debt securities	Less than 1	53,759	2	(57)	53,704
Commercial paper	Less than 1	42,149	3	(1)	42,151
Securities of U.S. government-sponsored agencies	Less than 1	14,511	4	(4)	14,511
Asset-backed securities	Less than 1	2,175	—	—	2,175
Total short-term marketable securities		\$220,996	\$ 24	\$ (143)	\$220,877
Long-term:					
Municipal bonds	1-2	\$18,508	\$ —	\$ (25)	\$18,483
Corporate debt securities	1-2	12,033	—	(25)	12,008
Asset-backed securities	1-2	18,294	—	(23)	18,271
Total long-term marketable securities		\$48,835	\$ —	\$ (73)	\$48,762

NOTE 6. 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

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

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			
	September 30, 2016	Level 1	Level 2	Level 3
Assets				
Cash equivalents	\$ 11,947	\$4,247	\$7,700	\$ —
Municipal bonds	133,630	—	133,630	—
Corporate debt securities	65,231	—	65,231	—
Commercial paper	13,466	—	13,466	—
Asset-backed securities	14,853	—	14,853	—
Securities of U.S. government-sponsored agencies	4,998	—	4,998	—

Liabilities

Contingent consideration	19,678	—	—	19,678
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(In thousands)	Balance at			
	December 31, 2015	Level 1	Level 2	Level 3
Assets				
Cash equivalents	\$ 12,700	\$1,701	\$10,999	\$ —
Municipal bonds	126,819	—	126,819	—
Corporate debt securities	65,712	—	65,712	—
Commercial paper	42,151	—	42,151	—
Asset-backed securities	20,446	—	20,446	—
Securities of U.S. government-sponsored agencies	14,511	—	14,511	—

Liabilities

Contingent consideration	26,617	—	—	26,617
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Our marketable securities are classified as Level 2 within the fair value hierarchy, as we measure their fair value using market prices for similar instruments and inputs such as actual trade data, benchmark

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

yields, broker/dealer quotes and other similar data obtained from quoted market prices or independent pricing vendors. 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. The balances of the fair value of contingent consideration are recognized within business acquisition liabilities on our consolidated balance sheets, and the changes in the fair value of contingent consideration are recognized within research and development and selling, general and administrative expenses in the consolidated statements of income.

The recurring Level 3 fair value measurements of our contingent consideration liabilities include the following significant unobservable inputs:

(In thousands)	Fair Value at September 30, 2016	Valuation technique	Unobservable input	Range
Revenue-based payments	\$ 15,047	Discounted cash flow	Discount rate	3.1 % - 8.5 %
			Probability of payment	87.0 % - 97.5 %
			Projected year of payment	2017 - 2029
Milestone-based payments	\$ 4,631	Discounted cash flow	Discount rate	5.3 % - 13.5 %
			Probability of payment	80.0 % - 100.0 %
			Projected year of payment	2016 - 2020

The following table provides a reconciliation of the beginning and ending balances of contingent consideration:

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Beginning balance	\$22,531	\$ 25,534	\$26,617	\$ 24,335
Contingent payments	(2)	—	(5,003)	(3)
Non-cash settlement of certain contingent consideration	(3,110)	—	(4,632)	—
Changes in fair value of contingent consideration	259	1,422	2,696	2,624
Ending balance	\$19,678	\$ 26,956	\$19,678	\$ 26,956

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

NOTE 7. INVENTORIES

(In thousands)	September 30, 2016	December 31, 2015
Raw materials	\$ 14,593	\$ 12,308
Work in process	9,224	7,091
Finished goods	91,789	85,861
Total inventories	\$ 115,606	\$ 105,260

NOTE 8. ACCRUED EXPENSES

(In thousands)	September 30, 2016	December 31, 2015
Compensation and other employee-related costs	\$ 21,429	\$ 21,151
Legal and other settlements and expenses	1,927	13,617
Accrued non-income taxes	7,338	6,808
Royalties	4,099	6,787
Other	8,494	5,406
Total accrued expenses	\$ 43,287	\$ 53,769

NOTE 9. DEBT

Line of Credit

In May 2011, 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. As amended to date, the revolving credit facility expires in May 2017. 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 September 30, 2016, we were in compliance with all financial 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.

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

NOTE 10. 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
September 30, 2016	71,928,115	23,877,556	95,805,671
December 31, 2015	71,442,166	23,877,556	95,319,722

The following table summarizes changes in total equity:

(In thousands)	Nine Months Ended September 30, 2016
Total equity, beginning of period	\$ 715,324
Net income	80,043
Stock-based compensation cost	8,642
Exercise of stock options	4,428
Excess tax benefit of nonqualified stock options	1,484
Other comprehensive income	198
Total equity, end of period	\$ 810,119

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, 2015	\$ (119)	\$ (1,839)	\$ (1,958)
Other comprehensive income before reclassifications	95	79	174
Amounts reclassified from accumulated other comprehensive income, net of tax	24	—	24
Other comprehensive income, net of tax	119	79	198
Accumulated other comprehensive loss, net of tax, at September 30, 2016	\$ —	\$ (1,760)	\$ (1,760)

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

(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	100	(184)	(84)
Amounts reclassified from accumulated other comprehensive income, net of tax	3	—	3
Other comprehensive income/(loss), net of tax	103	(184)	(81)
Accumulated other comprehensive income/(loss), net of tax, at September 30, 2015	\$ 39	\$ (1,777)	\$ (1,738)

NOTE 11. 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 issuable under the 2012 Plan include authorized but unissued shares, treasury shares or shares of common stock purchased on the open market.

As of September 30, 2016, pursuant to the 2012 Plan, there were 12,008,266 shares of Class A Common stock reserved and 5,057,807 shares of Class A Common stock available for future grants.

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,	September 30,	September 30,	September 30,
	2016	2015	2016	2015
Weighted average grant date per share fair value	\$ 7.40	\$ 8.23	\$ 7.76	\$ 8.73

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

Stock option activity during the nine months ended September 30, 2016 is summarized as follows:

	Option Shares(Thousands)	Weighted average exercise price	Weighted average remaining life (years)	contractual	Aggregate intrinsic value (thousands)
Outstanding at December 31, 2015	6,677	\$ 19.14			
Granted	1,822	24.80			
Exercised	(486)	9.19			
Forfeited	(484)	22.79			
Outstanding at September 30, 2016	7,529	\$ 20.92	7.6		\$ 23,516
Exercisable at September 30, 2016	3,398	\$ 16.79	6.2		\$ 22,398
Expected to vest at September 30, 2016	4,131	\$ 24.31	8.8		\$ 1,118

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

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Intrinsic value of stock options exercised	\$2,760	\$ 2,757	\$7,386	\$ 8,696
Stock-based compensation expense	\$2,747	\$ 2,266	\$8,437	\$ 6,935
Net stock-based compensation capitalized into inventory	65	140	205	140
Total stock-based compensation cost	\$2,812	\$ 2,406	\$8,642	\$ 7,075

As of September 30, 2016, there was \$29.5 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 12. 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.

The following table provides a summary of our effective tax rate:

	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Effective income tax rate	32.5%	35.3%	33.7%	35.5%

The period over period change in the effective income tax rate for the three months and nine months ended is due primarily to ongoing benefits related to the reorganization of our domestic legal structure to better align our business operations. Additionally, for the nine months ended September 30, 2016, these

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

benefits are partially offset by a one-time impact to deferred tax assets as it relates to the domestic reorganization.

NOTE 13. 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.

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 sought injunctive relief and an unspecified amount in damages. This matter was one of the four patent infringement lawsuits concerning spinal implant technologies between Globus Medical, Inc. and DePuy Synthes settled on January 13, 2016 for \$7.9 million.

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. This matter was one of the four patent infringement lawsuits concerning spinal implant technologies between Globus Medical, Inc. and DePuy Synthes settled on January 13, 2016 for \$7.9 million.

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. This matter was one of the four patent infringement lawsuits concerning spinal implant technologies between Globus Medical, Inc. and DePuy Synthes settled on January 13, 2016 for \$7.9 million.

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

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.

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® 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. On October 19, 2015, the United States Federal Circuit Court of Appeals affirmed the judgment without opinion. On March 22, 2016, we filed a Petition for a Writ of Certiorari with the United States Supreme Court and on June 20, 2016 the Writ was denied.

We do not expect the judgment to impact our ability to conduct our business or to have any material impact on our future revenues.

Bonutti Skeletal Innovations, LLC Litigation

On November 19, 2014, Bonutti Skeletal Innovations, LLC ("Bonutti Skeletal") 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®,

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

FORGE[®], FORTIFY[®], INDEPENDENCE[®], INTERCONTINENTAL[®], MONUMENT[®], NIKO[®], RISE[®], SIGNATURE[®], SUSTAIN[®], and TRANSCONTINENTAL[®] products. Bonutti Skeletal sought an unspecified amount in damages and injunctive relief. This matter was stayed on June 26, 2015 pending the resolution of inter partes reviews on the asserted patents by the USPTO. Globus Medical, Inc. and Bonutti Skeletal settled this matter on June 9, 2016.

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. alleged that Globus willfully infringed one or more claims of five patents by making, using, offering for sale or selling the CALIBER[®], CALIBER[®]-L, and ALTERA[®] products. Flexuspine sought an unspecified amount in damages and injunctive relief. On August 19, 2016, the jury returned a verdict in our favor finding no infringement of the asserted patents by the CALIBER[®], CALIBER[®]-L, and ALTERA[®] products. On November 1, 2016, plaintiff filed a notice of appeal to the United States Court of Appeals for the Federal Circuit.

Stern Litigation

On February 17, 2016, Joseph D. Stern filed suit against us in the U.S. District Court for the District of Delaware for patent infringement. Stern alleges that Globus willfully infringes one or more claims of three patents by making, using, offering for sale or selling the Xtend[®] products. On October 10, 2016, Stern amended the accused products to further include our Providence[®], VIP[®], Unify[®], and Assure[®] products. Stern 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.

Silverstein Litigation

On September 28, 2015, a putative securities class action lawsuit was filed against us and certain of our officers in the U.S. District Court for the Eastern District of Pennsylvania. Plaintiff in the lawsuit purported to represent a class of our stockholders who purchased shares between February 26, 2014 and August 5, 2014. The complaint purported to assert claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and sought damages in an unspecified amount, attorney's fees and other relief. This matter was dismissed with prejudice on August 26, 2016. On September 9, 2016, plaintiff's motion for reconsideration was denied, and on September 13, 2016 plaintiff filed an appeal in the United States Court of Appeals for the Third Circuit.

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

NOTE 14. RELATED-PARTY TRANSACTIONS

Prior to March 11, 2015, we had contracted with BMG, which at the time was a related-party manufacturer. On March 11, 2015, BMG was acquired by Globus, and therefore as of March 31, 2015, there were no further purchases from nor amounts payable to BMG. For the period of January 1, 2015 through March 11, 2015, we purchased \$5.3 million from the related-party supplier. The amount payable to BMG on the date of acquisition of \$5.2 million was settled in connection with the acquisition.

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

NOTE 15. SEGMENT AND GEOGRAPHIC INFORMATION

Operating segments are defined as components of an enterprise for which separate discrete 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:

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
United States	\$ 120,473	\$ 125,670	\$ 372,749	\$ 367,140
International	15,178	11,322	39,655	35,026
Total sales	\$ 135,651	\$ 136,992	\$ 412,404	\$ 402,166

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, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Innovative Fusion	\$ 68,498	\$ 72,490	\$ 207,985	\$ 214,431
Disruptive Technology	67,153	64,502	204,419	187,735
Total sales	\$ 135,651	\$ 136,992	\$ 412,404	\$ 402,166

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 160 products and offer a comprehensive product portfolio of innovative and differentiated products addressing a broad array of spinal pathologies, anatomies and surgical approaches. We have also recently begun to develop a robotic surgical navigation device and products to treat patients who have experienced orthopedic traumas, although those development efforts are still ongoing and we currently have no robotic or orthopedic trauma products that are cleared by the U.S. Food and Drug Administration for sale.

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

Table of Contents

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 regenerative biologics 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 add additional direct and distributor sales representatives in the future.

During the nine months ended September 30, 2016, (which includes the results since the acquisition date of the international operations and distribution channel of Alphatec Holdings, Inc. (“Alphatec International,” see Recent Developments below)), our international sales accounted for approximately 10% of our total sales. We sell our products in 43 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.

Recent Developments

On September 1, 2016, we acquired the international operations and distribution channel of Alphatec Holdings, Inc., a publicly traded orthopedic company (Nasdaq: ATEC) for \$80.1 million in cash, subject to certain closing adjustments (see “Part I; Item 1. Financial Statements; Notes to Consolidated Financial Statements; Note 2. Acquisitions”).

On January 13, 2016, we entered into a settlement agreement providing for the settlement of four patent infringement lawsuits concerning spinal implant technologies between Globus Medical, Inc. and DePuy Synthes (the “Settlement Agreement”). Pursuant to the terms of the Settlement Agreement, we are required to make a \$7.9 million payment to DePuy Synthes. The Settlement Agreement also provides for covenants not to sue relating to certain of the products sold by each of the parties and cross-licenses of all of the patents asserted in each of the Settled Lawsuits and each of the patents in those respective patent families. The Company does not expect the Settlement Agreement to impact its ability to conduct its business or have any impact on its future revenues.

The settlement resulted in one-time financial benefits reflecting the difference from previously established provisions and the final settlement amount through a one-time net income benefit of approximately \$7.6 million, recognized during the fourth quarter of 2015, and a one-time transfer of approximately \$8.4

Table of Contents

million from restricted cash account into the cash account, which we recognized during the first quarter of 2016. The Consolidated Appropriations Act of 2016, which was signed into law in December 2015, includes a two-year suspension on the medical device excise tax, effective January 1, 2016. The 2.3% tax on sales in the United States of certain medical devices by a manufacturer, producer or importer was enacted as part of the Affordable Care Act in 2010 and applied to device sales beginning on January 1, 2013. Without further legislative action, the tax will be automatically reinstated for certain medical device sales in the United States starting on January 1, 2018. We incurred \$6.0 million for this medical device excise tax for the nine months ended September 30, 2015. We plan to redirect approximately 40% of this benefit into increased job creation initiatives in research and development and manufacturing in 2016.

Results of Operations

Three Months Ended September 30, 2016 Compared to the Three Months Ended September 30, 2015

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	
	September 2016	September 2015	\$	%
Innovative Fusion	\$68,498	\$ 72,490	\$(3,992)	(5.5)%
Disruptive Technology	67,153	64,502	2,651	4.1 %
Total sales	\$135,651	\$ 136,992	\$(1,341)	(1.0)%

The growth in Disruptive Technology of \$2.7 million was due primarily to sales of expandable interbody products, minimally invasive and regenerative biologics products launched during the past three years. Innovative Fusion sales decreased by \$4.0 million as a result of U.S. sales force recruitment timing and onboarding as well as pricing pressure.

(In thousands, except percentages)	Three Months Ended		Change	
	September 2016	September 2015	\$	%
United States	\$120,473	\$ 125,670	\$(5,197)	(4.1)%
International	15,178	11,322	3,856	34.1%
Total sales	\$135,651	\$ 136,992	\$(1,341)	(1.0)%

In the United States, the decrease in sales of \$5.2 million was due primarily to sales force recruitment timing and onboarding as well as pricing pressure.

Internationally, the increase in sales of \$3.9 million was due primarily to Alphatec International sales. On a constant currency basis, our international sales grew \$4.3 million, or by 38.0%, due to expansion into new international territories and higher sales of our expandable interbody products. Our worldwide sales decreased 0.7% on a constant currency basis.

Table of Contents

Cost of Goods Sold

(In thousands, except percentages)	Three Months Ended		Change	
	September 30, 2016	September 30, 2015	\$	%
Cost of goods sold	\$31,453	\$ 32,927	\$(1,474)	(4.5)%
Percentage of sales	23.2	% 24.0		%

The decrease in cost of goods sold was due primarily to the two year moratorium on the medical device excise tax (“MDET”), which began on January 1, 2016. The savings impact of MDET moratorium for the quarter was \$2.5 million. In addition, lower manufacturing costs were due to approximately \$1.1 million in savings realized from the impact of Branch Medical Group (“BMG”).

Research and Development Expenses

(In thousands, except percentages)	Three Months Ended		Change	
	September 30, 2016	September 30, 2015	\$	%
Research and development	\$10,265	\$ 9,250	\$1,015	11.0%
Percentage of sales	7.6	% 6.8		%

The increase in research and development expenses was due primarily to an increase in employee compensation costs from additional headcount, including our Emerging Technologies group, for furthering research activities and developing new innovative products. A portion of this increase was funded by the suspension of MDET.

Selling, General and Administrative Expenses

(In thousands, except percentages)	Three Months Ended		Change	
	September 30, 2016	September 30, 2015	\$	%
Selling, general and administrative	\$54,207	\$ 52,170	\$2,037	3.9%
Percentage of sales	40.0	% 38.1		%

The increase in selling, general and administrative expenses is due to increases related to the additional volume from Alphatec International acquisition along with increases in legal expenses, depreciation and other costs.

Provision for Litigation

(In thousands, except percentages)	Three Months Ended		Change	
	September 30, 2016	September 30, 2015	\$	%
Provision for litigation	\$ —	\$ 27	\$(27)	(100.0)%
Percentage of sales	—%	—		%

The decrease in the provision for litigation, which includes settlement and verdict costs, was nominal during the current quarter.

Table of Contents

Amortization of Intangibles

(In thousands, except percentages)	Three Months Ended		Change	
	September 30, 2016	September 30, 2015	\$	%
Amortization of intangibles	\$884	\$ 393	\$491	124.9%
Percentage of sales	0.7 %	0.3 %		

The increase in the amortization of intangibles is due primarily due to the customer relationships acquired as part of the Alphatec International acquisition.

Acquisition Related Costs

(In thousands, except percentages)	Three Months Ended		Change	
	September 30, 2016	September 30, 2015	\$	%
Acquisition related costs	\$1,192	\$ 1,550	\$(358)	(23.1)%
Percentage of sales	0.9 %	1.1 %		

The decrease in acquisition related costs is due primarily to the avoidance of current year quarter costs resulting from the non-cash settlement of certain business acquisition liabilities during the second quarter of this year.

Other Income, Net

(In thousands, except percentages)	Three Months Ended		Change	
	September 30, 2016	September 30, 2015	\$	%
Other income, net	\$1,205	\$ 253	\$952	376.3%
Percentage of sales	0.9 %	0.2 %		

The increase in other income, net, was due to increases in interest income along with decreases in foreign exchange transaction losses during the current quarter.

Income Tax Provision

(In thousands, except percentages)	Three Months Ended		Change	
	September 30, 2016	September 30, 2015	\$	%
Income tax provision	\$12,628	\$ 14,447	\$(1,819)	(12.6)%
Effective income tax rate	32.5 %	35.3 %		

The change in the effective income tax rate between the current year and prior year periods is due primarily to ongoing benefits related to the reorganization of our domestic legal structure to better align our business operations.

Nine Months Ended September 30, 2016 Compared to the Nine Months Ended September 30, 2015

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:

Table of Contents

(In thousands, except percentages)	Nine Months Ended		Change	
	September 30, 2016	September 30, 2015	\$	%
Innovative Fusion	\$207,985	\$ 214,431	\$(6,446)	(3.0)%
Disruptive Technology	204,419	187,735	16,684	8.9 %
Total sales	\$412,404	\$ 402,166	\$10,238	2.5 %

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 \$16.7 million was due primarily to sales of expandable interbody products, minimally invasive and regenerative biologics products launched during the past three years. Innovative Fusion sales decreased by \$6.4 million as a result of U.S. sales force recruitment timing and onboarding and pricing pressure.

(In thousands, except percentages)	Nine Months Ended		Change	
	September 30, 2016	September 30, 2015	\$	%
United States	\$372,749	\$ 367,140	\$5,609	1.5 %
International	39,655	35,026	4,629	13.2%
Total sales	\$412,404	\$ 402,166	\$10,238	2.5 %

In the United States, the increase in sales of \$5.6 million was due primarily to increased penetration in existing territories. We saw higher sales in Disruptive Technology and certain Innovative Fusion products, led by sales of expandable interbody products, regenerative biologics and pedicle screw systems.

Internationally, the increase in sales of \$4.6 million was due primarily to Alphatec International sales. On a constant currency basis, our international sales grew \$5.9 million, or by 16.8%. Our worldwide sales increased 2.9% on a constant currency basis.

Cost of Goods Sold

(In thousands, except percentages)	Nine Months Ended		Change	
	September 30, 2016	September 30, 2015	\$	%
Cost of goods sold	\$95,703	\$ 97,393	\$(1,690)	(1.7)%
Percentage of sales	23.2 %	24.2 %		

The decrease in cost of goods sold was due primarily to the two year moratorium on the MDET which began on January 1, 2016. The savings impact of MDET moratorium for the nine months ended September 30, 2016 was approximately \$6.5 million. In addition, we recognized approximately \$3.0 million in savings due to the impact of BMG. These variances were offset partially by increased sales volume and mix of approximately \$2.8 million and increased inventory reserves and write offs of \$2.2 million.

Research and Development Expenses

(In thousands, except percentages)	Nine Months Ended		Change	
	September 30, 2016	September 30, 2015	\$	%
Research and development	\$30,889	\$ 26,640	\$4,249	15.9%
Percentage of sales	7.5 %	6.6 %		

The increase in research and development expenses was due primarily to an increase in employee compensation costs from additional headcount, including our Emerging Technologies group and other costs,

Table of Contents

for furthering research activities and developing new innovative products. A portion of this increase was funded by the suspension of MDET.

Selling, General and Administrative Expenses

	Nine Months Ended		Change	
(In thousands, except percentages)	September 30, 2016	September 30, 2015	\$	%
Selling, general and administrative	\$161,317	\$157,439	\$3,878	2.5%
Percentage of sales	39.1	% 39.1	%	

The increase in selling, general and administrative expenses resulted primarily from an increase of \$2.4 million related to increased compensation and other costs to support increased sales volume and company growth, including the Alphatec International acquisition, along with an increase in depreciation of \$0.8 million.

Provision for Litigation

	Nine Months Ended		Change	
(In thousands, except percentages)	September 30, 2016	September 30, 2015	\$	%
Provision for litigation	\$3,056	\$433	\$2,623	605.8%
Percentage of sales	0.7	% 0.1	%	

The increase in the provision for litigation, which includes settlement and verdict costs, was due to the settlements of the Bonutti and other litigations during the nine months ended September 30, 2016.

Amortization of Intangibles

	Nine Months Ended		Change	
(In thousands, except percentages)	September 30, 2016	September 30, 2015	\$	%
Amortization of intangibles	\$1,673	\$1,172	\$501	42.7%
Percentage of sales	0.4	% 0.3	%	

The increase in the amortization of intangibles is due to primarily due to the customer relationships acquired as part of the Alphatec International acquisition.

Acquisition Related Costs

	Nine Months Ended		Change	
(In thousands, except percentages)	September 30, 2016	September 30, 2015	\$	%
Acquisition related costs	\$1,347	\$2,864	\$(1,517)	(53.0)%
Percentage of sales	0.3	% 0.7	%	

The decrease in acquisition related costs is due primarily to the non-cash settlement of certain business acquisition liabilities during the second quarter of this year.

Table of Contents

Other Income, Net

(In thousands, except percentages)	Nine Months Ended		Change	
	September 30, 2016	September 30, 2015	\$	%
Other income, net	\$2,383	\$ 347	\$2,036	586.7%
Percentage of sales	0.6	% 0.1		%

The increase in other income, net is due primarily to increases in interest income, along with decreases in foreign exchange transaction losses.

Income Tax Provision

(In thousands, except percentages)	Nine Months Ended		Change	
	September 30, 2016	September 30, 2015	\$	%
Income tax provision	\$40,759	\$ 41,389	\$(630)	(1.5)%
Effective income tax rate	33.7	% 35.5		%

The change in the effective income tax rate between the current year and prior year periods is due primarily to ongoing benefits related to the reorganization of our domestic legal structure to better align our business operations. These benefits for the period ending June 30, 2016 are partially offset by a one-time impact to deferred tax assets as it relates to the domestic reorganization.

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, non-GAAP 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 expense, provision for litigation, and acquisition related costs, 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 non-GAAP Adjusted EBITDA for planning purposes, including the preparation of our annual operating budget and financial projections. Provision for litigation represents costs incurred for litigation settlements or unfavorable verdicts when the loss is known or considered probable and the amount can be reasonably estimated, or in the case of a favorable settlement, when income is realized. Acquisition related costs represents the change in fair value of business acquisition related contingent consideration; costs related to integrating recently acquired businesses including but not limited to costs to exit or convert contractual obligations, severance, and information system conversion; and specific costs related to the consummation of the acquisition process such as banker fees, legal fees, and other acquisition related professional fees.

Table of Contents

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

(In thousands, except percentages)	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net Income	\$26,227	\$ 26,481	\$80,043	\$ 75,183
Interest income, net	(795)	(342)	(1,893)	(898)
Provision for income taxes	12,628	14,447	40,759	41,389
Depreciation and amortization	7,838	6,090	21,536	17,669
EBITDA	45,898	46,676	140,445	133,343
Stock-based compensation expense	2,747	2,266	8,437	6,935
Provision for litigation	—	27	3,056	433
Acquisition related costs, COGS	304	—	304	225
Acquisition related costs	1,192	1,550	1,347	2,864
Adjusted EBITDA	\$50,141	\$ 50,519	\$153,589	\$ 143,800

Net income as a percentage of sales	19.3	%	19.3	%	19.4	%	18.7	%
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Adjusted EBITDA as a percentage of sales	37.0	%	36.9	%	37.2	%	35.8	%
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In addition, for the period ended September 30, 2016 and for other comparative periods, we are presenting non-GAAP net income and non-GAAP Diluted Earnings Per Share, which represents net income and diluted earnings per share excluding the provision for litigation, amortization of intangibles, acquisition related costs, and adjusted for the tax effects of such adjustments. We believe these non-GAAP measures are also useful indicators of our operating performance, and particularly as additional measures of comparative operating performance from period to period as they remove the effects of litigation, amortization of intangibles, acquisition related costs, and the tax effects of such adjustments, which we believe is not reflective of underlying business trends.

The following is a reconciliation of net income computed in accordance with U.S. GAAP to non-GAAP net income for the periods presented.

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net income	\$26,227	\$ 26,481	\$80,043	\$ 75,183
Provision for litigation	—	27	3,056	433
Amortization of intangibles	884	393	1,673	1,172
Acquisition related costs	1,496	1,550	1,651	3,089
Tax effect of adjusting items	(776)	(784)	(2,112)	(1,676)
Non-GAAP net income	\$27,831	\$ 27,667	\$84,311	\$ 78,201

Table of Contents

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

(Per share amounts)	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Diluted earnings per share, as reported	\$0.27	\$ 0.28	\$0.83	\$ 0.78
Provision for litigation	—	—	0.03	—
Amortization of intangibles	0.01	—	0.02	0.01
Acquisition related costs	0.02	0.02	0.02	0.03
Tax effect of adjusting items	(0.01)	(0.01)	(0.02)	(0.02)
Non-GAAP diluted earnings per share*	\$0.29	\$ 0.29	\$0.87	\$ 0.81

* amounts might not add due to rounding

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 net cash provided by operating activities as computed in accordance with U.S. GAAP to Free Cash Flow for the periods presented.

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net cash provided by operating activities	\$41,934	\$ 30,046	\$119,997	\$ 77,877
Adjustment for impact of restricted cash	(10,758)	703	(25,642)	2,015
Purchases of property and equipment	(6,559)	(11,480)	(26,701)	(36,606)
Free cash flow	\$24,617	\$ 19,269	\$67,654	\$ 43,286

The adjustment for the impact of restricted cash is primarily related to the DePuy Synthes settlement on January 13, 2016, where we paid \$7.9 million and recovered approximately \$8.4 million previously set aside for the DePuy Synthes litigation obligation.

Furthermore, the non-GAAP measure of constant currency sales growth is calculated by translating current year sales at the same average exchange rates in effect during the applicable prior year period. We believe constant currency sales growth provides insight to the comparative increase or decrease in period sales, in dollar and percentage terms, excluding the effects of fluctuations in foreign currency exchange rates.

Below is a reconciliation of sales growth as reported in accordance with U.S. GAAP compared to constant currency sales growth for the periods presented.

(In thousands, except percentages)	Three Months Ended		Reported Sales Growth	Currency Impact on Current Period Sales	
	September 30, 2016	September 30, 2015		Constant Currency Sales Growth	
United States	\$120,473	\$ 125,670	(4.1)%	—	(4.1)%
International	15,178	11,322	34.1 %	\$ (445)	38.0 %
Total sales	\$135,651	\$ 136,992	(1.0)%	\$ (445)	(0.7)%

Table of Contents

(In thousands, except percentages)	Nine Months Ended		Reported Sales Growth	Currency Impact on Current Period Sales	Constant Currency Sales Growth
	September 2016	September 30, 2015			
United States	\$372,749	\$ 367,140	1.5 %	—	1.5 %
International	39,655	35,026	13.2 %	\$(1,268)	16.8 %
Total sales	\$412,404	\$ 402,166	2.5 %	\$(1,268)	2.9 %

Non-GAAP Adjusted EBITDA, non-GAAP net income, non-GAAP Diluted Earnings Per Share, Free Cash Flow and constant currency sales growth are not calculated in conformity with U.S. GAAP within the meaning of Item 10(e) 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 non-GAAP Adjusted EBITDA, non-GAAP net income, non-GAAP Diluted Earnings Per Share, Free Cash Flow and constant currency sales growth may differ from that of other companies and therefore may not be comparable. Additionally, we have recast prior periods for non-GAAP net income and non-GAAP Diluted Earnings Per Share to conform with current period presentation.

Cash Flows

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

(In thousands)	Nine Months Ended		Change
	September 2016	September 30, 2015	
Net cash provided by operating activities	\$119,997	\$ 77,877	\$42,120
Net cash used in investing activities	(93,145)	(115,144)	21,999
Net cash provided by financing activities	5,512	5,386	126
Effect of foreign exchange rate changes on cash	(2,324)	117	(2,441)
Increase/(decrease) in cash and cash equivalents	\$30,040	\$ (31,764)	\$61,804

Cash Provided by Operating Activities

The increase in net cash provided by operating activities was due primarily to the recovery of a portion of our restricted cash related to the DePuy Synthes settlement on January 13, 2016 and lower inventory purchases. Additionally, in the prior year period, we paid the related-party payable as part of the BMG acquisition.

Cash Used in Investing Activities

The decrease in net cash used in investing activities was due primarily to the current year period decreases in net cash invested in marketable securities, offset partially by the current year period issuance of the note receivable and the year over year increase in amounts paid for acquisition of businesses.

Cash Provided by Financing Activities

The increase in cash provided by financing activities was nominal when compared to the prior year period.

Table of Contents

Liquidity and Capital Resources

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

(In thousands)	September 30, December 31,	
	2016	2015
Cash and cash equivalents	\$ 90,192	\$ 60,152
Short-term marketable securities	167,727	220,877
Long-term marketable securities	64,451	48,762
Total cash, cash equivalents and marketable securities	\$ 322,370	\$ 329,791
Available borrowing capacity under revolving credit facility	50,000	50,000
Working capital	\$ 412,403	\$ 462,108

On September 1, 2016, we acquired the international operations and distribution channel of Alphatec Holdings, Inc., a publicly traded orthopedic company (Nasdaq: ATEC) for \$80.1 million in cash, subject to certain closing adjustments. 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. As amended to date, the revolving credit facility expires in May 2017. 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 September 30, 2016, we were in compliance with all financial 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.

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 September 30, 2016. 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 other 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.

Table of Contents

Contractual Obligations and Commitments

Our contractual obligations reflected in Part II, Item 7 of our 2015 Annual Report on Form 10-K for the fiscal year ended December 31, 2015 have materially changed as a result of Alphatec International acquisition. The additional undiscounted payment commitments are as follows:

(In thousands)	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Additional purchase obligations	\$2,213	\$2,213	\$ —	\$ —	\$ —
Additional lease obligations	\$2,228	\$882	\$ 880	\$ 334	\$ 132
Total additional obligations	\$4,441	\$3,095	\$ 880	\$ 334	\$ 132

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.

Recently Issued Accounting Pronouncements

For further details on recently issued accounting pronouncements, please refer to “Part I; Item 1. Financial Statements; Notes to Consolidated Financial Statements; Note 1. Background and Summary of Significant Accounting Policies; (i) Recently Issued Accounting Pronouncements” above.

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 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 successfully integrate the international operations acquired from Alphatec, both in general and on our anticipated timeline, our ability to transition Alphatec’s international customers to Globus Medical products, our ability to realize the expected benefits to our results from the Alphatec acquisition, our ability to comply with changes and applicable laws and regulations that are applicable to our businesses, our ability

Table of Contents

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, 2015 (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 Financial Officer (“CFO”), evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2016. 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 September 30, 2016, our CEO and CFO 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 September 30, 2016 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 CFO, 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

Table of Contents

errors and all fraud. A control system, no matter how well conceived and operated, can provide only 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.

Table of Contents

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 13. 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.”

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.

Table of Contents

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
2.1	Purchase and Sale Agreement, dated as of July 25, 2016, by and among Globus Medical Ireland, Ltd., and Alphatec Holdings, Inc. (incorporated by reference to Exhibit 2.1 of Globus Medical Inc.'s Current Report on Form 8-K filed on July 27, 2016)
2.2	First Amendment to Purchase and Sale Agreement, dated as of September 1, 2016, by and among Globus Medical Ireland, Ltd. and Alphatec Holdings, Inc. (incorporated by reference to Exhibit 2.1 of Globus Medical Inc.'s Current Report on Form 8-K filed on September 2, 2016)
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.

Table of Contents

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: November 9, 2016 /s/ DAVID C. PAUL

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

Dated: November 9, 2016 /s/ DANIEL T. SCAVILLA

Daniel T. Scavilla
Senior Vice President
Chief Financial Officer
(Principal Financial Officer)

Table of Contents

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